

Strategic management accounting and sense-making in a multinational company

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Abstract

This paper investigates strategic management accounting in a large multinational company in Germany. Much of the prior research in SMA has concentrated on which accounting techniques are used and in what circumstances. This paper is more concerned with how SMA is perceived and used in practice. The principal research findings relate to the core phenomenon of sense-making. The paper explores just what is meant by sense-making and how management accounting is used to assist the process. A substantive grounded theory of strategic management accounting and sense-making is developed. Sense-making is a basic social process that revolves around organisational actors' attempts to understand their past, present and future situations. Management accountants consciously and unconsciously undertake 'sense-making' activities through the strategies of structuring and harmonising; bridging and contextualising and compromising and balancing. Sense-making is also carried out within both external and internal contexts. In addition, the intervening conditions that have an impact on the sense-making activities were 'sets of information', 'professional know-how' and 'a feel for the game'. Two sets of consequences of sense-making were discovered; consequences for making strategy and consequences for management accountants. All these phenomena and their interrelationships are discussed in the paper and a nascent formal theory of SMA is proposed by discussing the substantive theory in relation to broader theoretical frameworks.

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1. Introduction

This paper investigates strategic management accounting in an organisational setting. Its motivation is to obtain an in-depth understanding of strategic management accounting (SMA) as it is lived and perceived by actors in organisations. The paper aims to contribute to this emergent understanding by providing insights from a multinational company in Germany. SMA can broadly be defined as being the use of management accounting systems in supporting strategic decision-making. The survival of companies in today's highly competitive global markets may depend partly on a management accounting function that allows for the successful assessment of strategic situations. SMA can provide such a function.

The research does not aim to investigate SMA techniques as such, but seeks to understand what strategic management accounting means to organisational actors. Scapens and Bromwich (2001) note that the papers published in the previous ten years in 'Management Accounting Research' demonstrate that the complexities of management accounting in practice transcend the simple economic decision-making approaches portrayed in most textbooks. They further note that a large number of publications seek to understand the organisational setting of management accounting, and that in doing so such studies do not take the nature of management accounting for granted, thus opening its organisational

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role for debate. This research attempts to address such issues by investigating the complexities of strategic management accounting in an organisational setting.

Much of the prior research in SMA has concentrated on which accounting techniques are used and in what circumstances. This paper is more concerned with how SMA is perceived and used in practice. Indeed, the main contribution of this research is to understand that from the participants' perspectives the way in which accounting is used to make sense of complex strategic decisions is at least as important as the specific techniques used. It was found that to achieve this sense-making, a very diverse set of accounting information is used, dependent on the context of the decision. This would suggest that concentrating on one or two specific accounting techniques to assist strategic decision-making may reduce the relevant information available and result in less effective decision-making. Rather, accountants should be providing as broad a range of accounting information as possible. Moreover, it is hoped that by achieving a better understanding of how accounting information is used in a strategic context, it may enable more useful accounting systems to be developed. The paper provides this understanding by exploring just what is meant by sense-making and how management accounting is used to assist the process.

The paper commences with an outline of the prior literature in SMA and organisational sense-making. In keeping with the grounded theory methodology this literature review is intended to provide a background and context to the research rather than develop specific theory and hypothesis testing. A short discussion of the grounded theory methodology, the methods used and background details of the research case study are next provided. The main part of the paper is a presentation of the grounded theory itself. This is presented using a simplified version of Strauss and Corbin's (1998) paradigm model. The grounded theory is also discussed in relation to a broader theoretical literature in this section. The paper concludes with a discussion of the main contributions of the research and possible consequences for SMA and for future research.

2. Prior literature

2.1. Strategic management accounting

Recent years have seen a great deal of interest in SMA in the academic community. This interest was characterised by an initial emphasis on normative research which has been followed by more empirical research. Major normative contributions to SMA often suggest templates for SMA practices such as competitor accounting and competitive position monitoring (Simmonds, 1981; Ward, 1992; Moon and Bates, 1993; Jones, 1988; Rangone, 1997); strategic cost management (Porter, 1980, 1985; Shank and Govindarajan, 1988, 1989, 1992, 1993a,b; Govindarajan and Shank, 1992; Shank, 1996); strategic investment appraisal (Shank and Govindarajan, 1992; Tomkins and Carr, 1996; Barwise et al., 1989; Grundy, 1990a,b, 1992) and contemporary accounting developments with a strategic component such as activity-based costing (Cooper and Kaplan, 1988, 1991) and the balanced scorecard (Kaplan and Norton, 1992).

Although this normative work has made a contribution to SMA it does suffer from one serious drawback in that it is often disconnected from what actually happens in organisations. A number of surveys of SMA practice have been carried out (Carr et al., 1991, 1994; Carr and Tomkins, 1996, 1998; Guilding et al., 2000; Cravens and Guilding, 2001). These surveys have found that competitor accounting and strategic pricing are the most widely used techniques but some also suggest that the term SMA is not widely used in companies, and its meaning is not always clear to managers.

Other researchers have used a contingency theory approach to studying SMA practice (Simons, 1987; Chenhall and Langfield-Smith, 1998; Guilding, 1999; Anderson and Lanen, 1999; Abernethy and Brownell, 1999). Again, this research has contributed to our understanding of SMA but does suffer from the usual drawbacks of contingency theory in that variable selection and specification have been eclectic, sample selection not always comprehensive and some conflicting results have been produced. More importantly perhaps these studies throw little light on how SMA practices are implemented and used in practice and provide no theoretical explanation of such practices.

A number of case studies of SMA have been carried out which do provide some interesting insights into SMA practices. Rickwood et al. (1990) findings suggest that the accounting function gathers, both routinely and specifically, data concerning the external environment of the company's operations, including information on competitors' performance and plans. Lord (1996) draws on a case study in New Zealand to show that the techniques of SMA may in many cases already be found in companies, but that the information may not be quantified in accounting figures, and may not be collected and used by management accountants. Dixon (1998) had similar findings in a UK case study. However, these case studies are largely descriptive and provide little theoretical insight.

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