



## Three dimensions of formal and informal feedback in management accounting

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### ABSTRACT

In management accounting, feedback has been analysed mostly as a loop between measurable outputs and pre-set goals within cybernetic control theory. This article calls for a wider framing of feedback, one which includes both formal and informal feedback loops. Prior literature on formal and informal feedback offers many overly dichotomous and heterogeneous usages of these two notions. We argue that instead of treating formal and informal as a strict dichotomy, they should be analysed together. In this article, we develop an analytical framework of formal and informal feedback along three dimensions – source, time, and rule. Our exploratory and interpretive case study is used for combining, analysing, and putting flesh on these dimensions, as well as introducing typical examples of formal and informal feedback practices in management accounting. Our findings indicate that formal and informal feedback coexist in a multifaceted manner and have room for many interpretations in practice. Our central contribution is an analytical matrix for understanding and examining formal and informal feedback in an intertwined manner.

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### 1. Introduction

In management accounting, the discussion of feedback has its basis in systems thinking and more specifically, in the mechanistic cybernetic control theory (Tuomela, 2005; Otley, 1999; Lockett and Eggleton, 1991; Otley et al., 1995; Otley and Berry, 1980). The widely cited model of organisational control developed by Flamholtz (1996, p. 600; 1983, p. 155) is a good example of the cybernetic models used in management accounting. In this model, the flows of corrective and evaluative feedback are illustrated in a formal core control system between the planning system (predefined goals and objectives), operations, the measurement system, and the evaluation-reward system. Noteworthy in the model is that all explicit feedback flows pass through

the formal measurement system. In other words, all systematic feedback is viewed to be based on mechanistic and calculative practices. This kind of a simple linkage between the measurement of outputs and feedback has been typical of management accounting thinking for decades (e.g. Anthony, 1965; Emmanuel et al., 1990), yet remains visible in the most recent accounts of management accounting and control (Simons, 2000, 1995; Kaplan and Norton, 2001, 1996, 1992).

However, the wider management accounting literature has for long also provided examples of the incompleteness of formal control systems to produce adequate information, as they are considered untimely, unreliable, and too general or limited for managers (e.g. Burns and Vaivio, 2001; Preston, 1986; Clancy and Collins, 1979; Mintzberg, 1975). Above all, Preston (1986) was the one to argue that instead of the formally produced official documents, people in organisations do keep themselves and the others informed by informal interaction and socially produced routines. While the current literature in management accounting involves many studies on formal and informal control (see

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e.g. Lukka, 2007; Tuomela, 2005; Alvesson and Kärreman, 2004; Burns and Scapens, 2000; Vaivio, 1999; Simons, 2000, 1995),<sup>1</sup> the discussion focusing precisely on feedback in management accounting seems to have been largely left to one side since the 1990s and the rapidly increased understanding of the coexistence of the formal and the informal domains has not yet penetrated research on feedback in management accounting. This paper seeks to address this omission.

Our research seeks to refresh and extend the discussion of formal and informal feedback by analysing the existence, dimensions, and interplay of formal and informal feedback processes in management accounting. We underline our view that feedback in management accounting should not only be seen mechanistically as a formal control loop, but also as a set of formal and informal feedback practices mastered by managers in organisations, coexisting in an intertwined manner. Although formal feedback loops may be considered more objective, visible and easier to study (Langfield-Smith, 1997), and informal feedback loops more difficult to codify (Hall, 1977, p. 162), we agree with Otley, 1999 Otley (1999, p. 369) who states: “Nor should the less formal uses of information be neglected; organisational cultures form and are reproduced, at least in part, by the use of approving and disapproving feedback signals of many types.”

Despite the recently increased understanding of the collaboration between the formal and the informal domains in the research literature of management accounting, there are indications of trends that even add to the dominance of the formal in the management accounting mindset in general. Such dominance of the formal may be linked to the idea that we need to measure things in order to better control them, in the name of progress (Kearney, 1986; Smart, 1990). The domain of formal feedback in organisations has been developed with more transparent and comparable information and management systems, such as ERP-systems. The balanced scorecard (BSC) by Kaplan and Norton (1992), for instance, has been marketed as a comprehensive, holistic, and multidimensional measurement framework, which aims to quantify processes even further, thereby stressing the role of formal performance measures. In line with the notion of action at a distance (e.g. Roberts and Scapens, 1985; Robson, 1992; Cooper, 1992) based on accounting systems, the dissemination of managerial technologies and systems like the BSC can be viewed as squeezing the domain of informal feedback while it widens the domain of formal feedback with non-financial measures (Vaivio, 2001; Hopwood, 2008). Given this background we feel it is indeed timely to revisit the somewhat neglected research area of feedback in management accounting in order to clarify the relevance of the informal also in this field. Despite the rapid development of more efficient measurement systems, the relevance and

the role of the informal domain in the production and communication of feedback in organisations has hardly ceased to exist. The challenges of feedback practices are not just related to the functionality of systems, but also to how people interact with each other.

As the literature review will indicate, the concepts of formal and informal feedback are complex and ambiguous, having diverse interpretations. The research question we set out to explore is: *What kinds of formal and informal feedback practices are there in management accounting and how are they related to each other?* In order to address this research question, the concepts around formal and informal feedback need to be clarified. We will develop an analytical framework of formal and informal feedback along three dimensions. The dimensions are developed and named after first reviewing different definitions for formal and informal feedback from previous literature and then combining, analysing, and putting flesh on these dimensions with the help of empirical findings from an exploratory and interpretive case study centred on a business unit called Division Steelco. The interviews and observations offer a way to both validate and further develop the evolving analytical framework as they allow us to hear various interpretations of formal and informal feedback from managers. Our analysis is entirely based on the claim that formal and informal feedback should not be viewed as a dichotomy, but as things that coexist and collaborate. The paper concludes with an analytical matrix for understanding and examining formal and informal feedback in an intertwined manner.

The paper is structured as follows. In Section 2, the concepts and dimensions of formal and informal feedback are outlined. Division Steelco, our case organisation, and the research methods applied are introduced in Section 3. Section 4 provides the analysis of formal and informal feedback practices through three dimensions in Division Steelco. Analytical findings are discussed and summed up in Section 5. Finally, conclusions are provided in Section 6.

## 2. Conceptualising feedback

### 2.1. Feedback and its conceptual variations in different literatures

The discussion of feedback in management accounting has its basis in systems thinking and cybernetics (Tuomela, 2005; Otley, 1999; Luckett and Eggleton, 1991; Otley et al., 1995; Otley and Berry, 1980). Cybernetics considers feedback as a signal, mechanism and process, which controls the system within itself. It simplifies and mechanises the functioning of organisations, although it, in principle, can be used for the analysis of complex human systems as well. Feedback is a complex concept and this complexity may partly result from the difficulties of adapting concepts from mechanical systems to human systems.<sup>2</sup>

<sup>1</sup> The discussion of formal and informal controls is still heterogeneous as well (see e.g. Harrison and McKinnon, 2007; Pierce and Sweeney, 2005; Dekker, 2004; Hoque and Hopper, 2002; Burns and Scapens, 2000; Langfield-Smith, 1997; Modell, 1996; Chenhall and Morris, 1995; Euske et al., 1993; Anthony et al., 1989).

<sup>2</sup> For example, system and human perspectives may take opposing opinions on the very same concepts. Positive feedback in cybernetics gets the system moving in a new direction (maybe in an unwanted direction), while negative feedback as corrective feedback has a stabilising function

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