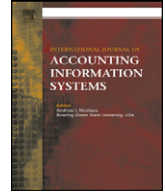




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ERP in action – Challenges and benefits for management control in SME context[☆]

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ABSTRACT

ERP systems have fundamentally re-shaped the way business data is collected, stored, disseminated and used throughout the world. However, the existing research in accounting has provided only relatively few empirical findings on the implications for management control when companies implement ERP systems as the technological platform. Especially scarce are the findings concerning the production phase, after implementation, when the information processes, related work practices and the new information contents can be seen as established. In this paper we explored and theorized the benefits, challenges and problems for management control when an ERP system is in use, four years after the implementation. Our findings also illustrate why and under what circumstances these challenges and benefits may exist. For a holistic view of the organization our findings, based on a qualitative case study, are constructed from the viewpoints of people at different levels and functions of the organization. Top management expected a new strategic control system, but due to the many challenges it ended up with merely financial accounting based control. At the operational level, serious challenges lead to inadequate usage of the ERP system. Management control produces the financial basic data and must contend with many practical problems caused by ERP implementation.

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1. Introduction

Widespread use of enterprise resource planning (ERP) systems has fundamentally re-shaped the way business data is collected, stored, disseminated and used throughout the world. This change in information processing orientation fundamentally affects many areas of accounting and control. However, the existing research in accounting has provided only relatively few useful empirical findings. (Sutton, 2006; Granlund, 2011) Research in accounting information systems has been mainly confined to decision-making and issues of management control have gained only little attention (Granlund, 2011). As earlier studies have focused mainly on the ERP implementation phase (see e.g. Poston and Grabski, 2001; Granlund and Malmi, 2002; Bradford and Florin, 2003; Caglio, 2003; Lodh and Gaffikin, 2003; Newell et al., 2003; Scapens and Jazayeri, 2003; Scott and Wagner, 2003) it is difficult to estimate how lasting the consequences of this technology shift for management control will be. Even though management control and ERP systems are becoming inseparable as some kind of new business standards or systemic entities, we have only little empirical evidence on the ways in which ERP systems are involved in management control practices (see also Granlund and Mouritsen, 2003). This gap has been noted in recent management control studies calling for more research examining the everyday use of ERP systems (see e.g. Dechow and Mouritsen, 2005; Grabski et al., 2009; Granlund, 2011) by asking what we really know of the effects of ERP systems on organizations, and especially on management control.

2. Literature review on ERP in management control

2.1. Management control

Management control systems have been defined in various ways in the accounting and management literature. The prevailing view is that control systems in organizations consist of a set of different forms of control that are in systemic interaction with each other. There are different typologies conceptualizing the main elements of the overall control system, differing by number of elements and conceptualization (Otley, 1980; Simons, 1995; Alvesson and Kärreman, 2004; Malmi and Brown, 2008).

Malmi and Brown (2008) analyzed and synthesized nearly four decades of management control system research. They formed a typology of management control systems consisting of seven elements: planning, cybernetic control, reward and compensation, administrative and cultural controls. When setting objectives for different parts of the organization, planning creates feed-forward control. Cybernetic controls are based on the effects of feedback information and comparison on the goals. Rewards and compensation controls are operated when the decisions on financial and other benefits are based on goal achievement. Administrative controls use organization structure, policies and procedures to get people in the organization to behave in desired ways. As shared values, beliefs and social norms create behavioral and control effects, this type of control is called cultural control.

Anthony's (1965) classical definition of management control focuses on formal information processes where management accounting is central, and also distinguishes between strategic planning, management control and task control. Strategic planning is the process of setting the goals of the organization, whereas task control is the process of ensuring that specific tasks are carried out effectively and efficiently (see also Anthony and Govindarajan, 1998). Strategic control focuses on how the strategy is planned and implemented in the long-term, whereas task control focuses on annual or short-term performance. The function of management control is thus to support managers in monitoring the financial consequences in the short term, but at the same time keep an eye on the emerging longer-term strategic issues related to successful change management (see also Merchant, 1998; Chenhall and Euske, 2007; Merchant and Van der Stede, 2012). Later in this study we will use the term operative control instead of task control, which we believe describes more aptly the controlling activities at operational level.

In this paper our purpose is to explore the use and implications of ERP technology for management control mainly in the light of Anthony (1965) and Merchant and Van der Stede (2012), while they analytically distinguish management control from strategic and operative control. We focus on the formal information processes where management accounting is seen to be a central element. These different functions of control are also usually located in different functional parts or levels of organization hierarchy.

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