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The role of accounting devices in performing corporate strategy

Peter Skærbæk [a,*], Kjell Tryggestad [b]

[a] Copenhagen Business School, Department of Accounting and Auditing, Solbjerg Plads 3, DK-2000 Frederiksberg, Denmark
[b] Copenhagen Business School, Department of Organization, Kilevej 14 A, DK-2000 Frederiksberg, Denmark

ABSTRACT

The paper's aim is to examine the role of accounting in shaping corporate strategy. Our inquiry is built on a case-based ethnography. Drawing on Michel Callon's generic notion of performativity, we show how accounting shapes the strategic options and the external economic conditions of the corporation. The analysis reveals how accounting devices rejects, defends, and changes corporate strategy by mobilizing lay people and concerned groups. We summarize our findings by emphasizing the active role of accounting in relation to strategy formulation, the configuration of the identity of the key strategic actor, and in constituting strategy and strategic change.

Introduction

Over the last 40 years or so, accounting research has enquired into the relationship between accounting and strategy. Chenhall (2003), for example points out that contingency-based research follows the more conventional view that perceives management accounting as a passive tool to assist management's strategic decision making. Hansen and Mouritsen (2005) point out that accounting research has often neglected to ask what strategy is, declaring that management accounting is for implementing rather than formulating strategy. Instead of following the more conventional view they question the allegedly passive subordinate role of accounting in relation to strategy and Mouritsen and Kreiner (2003) point out that a whole array of accounting devices can play an active part in realizing a successful strategy.

Our present work is inspired by such contributions and our aim is to provide answers to questions about possible roles that accounting devices[1] can assume in relation to strategy. We ask whether accounting devices can assume other roles, apart from subordinating themselves to strategy during the implementation of the latter. This question indicates the possibility that particular accounting devices may play an active part not only in promoting the efficient implementation of a strategy, but also in contributing to its structuring and (re)formulation. Closely related to this is the question about the identity of the strategic actor: who enacts and (re)formulates strategy? Who is the key strategic actor? Like Whittington (2004) and Chua (2007), we are interested in exploring the role that accounting devices can play as people become skilled strategists. The strategist may be a senior manager, but may also be people outside and below senior management, perhaps even lay people.

In our inquiry we draw upon actor-network theory (ANT) and the notions of (re)framing and overflowing (Callon, 1998b). The advantage of these notions is that they allow for the contingent nature of strategy. ANT alerts us to the possibility that various non-human entities such as reports, accounting systems, and other physical arrangements can play an active role in enacting and (re)formulating strategy. Callon (1998a, p. 6) points out that: "In order to become calculative, agencies do indeed need to be equipped." The coming-into-being of a particular strategy and strategic actor can be closely linked to a stream of calculative devices with which agencies are equipped. We suggest that the accounting devices can be

* Corresponding author.
E-mail addresses: ps.acc@cbs.dk (P. Skærbæk), kt.ioa@cbs.dk (K. Tryggestad).

[1] Latour (1987) has termed inscription device as: "...any set-up, no matter what its size, nature and cost, that provides a visual display of any sort" (p. 68). We use the term device in the same sense.

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active in (re)formulating strategy. The question of 'who' is the strategic actor can be extended to mean 'who *or what*' to allow more explicitly for the possibility that a stream of accounting devices can play a complex part in enacting and (re)formulating strategy. This means that the important question of what strategy is can be extended to include the very nature of the components of strategy and strategic change. We thus ask about what constitutes strategy and strategic change? Our proposition is that they both may be constituted by a whole array of accounting devices.

In this paper we use a case-based field study to consider our proposition regarding the active role of accounting devices in enacting and (re)formulating strategy. In addition to asking if this proposition is sound, we examine the timing and location of linkages between accounting devices and strategy and how they may also evolve and change. Our empirical focus is on a company that was facing major changes in its external environment and market. Thus, in our study we trace a chain of events connected with matters such as cost rationalizations, capital investments, and new competition. The company studied is the Ferry Division (since 1995 known as Scandlines) of the Danish government-owned railway company DSB. The paper is organized as follows. Section "accounting and strategy – a review of the literature" next discusses the relationship between accounting and strategy in light of previous research and presents the notions of (re)framing and overflowing that are used in analyzing the case. However, before applying these notions we describe our case-based method (Section "method and research site"). Then, in Sections "the main events of the case and the analysis", "the framing and overflowing of an adaptation strategy", "the emergence of concerned groups", and "reframing strategy" we present the analysis of the roles of accounting devices in connection with the strategy and strategic change in the Scandlines case. Finally, in Section "concluding discussion" we provide a summary of our findings and discuss the implications for theory and future research. In particular we emphasize the findings concerning the performative role of accounting in relation to: (1) strategy formulation, (2) the identity of the key strategic actor, and (3) the constitution of strategy and strategic change.

Accounting and strategy – A review of the literature

Since the contribution of Anthony (1965), the link between accounting and strategy has been on the accounting research agenda. This link has been conceptualized in various ways and perhaps the most enduring strand has been one that emphasizes accounting's role as a means for assisting strategy. For example, Wilson (1997) argues that the role of accounting is to serve the needs of strategic management. Recent contributions have emphasized the more complex dynamic role of accounting devices as they become a means for learning more about possible alternatives, and hence facilitate the effective implementation of strategic change (Abernethy & Brownell, 1999). Despite the emphasis on learning and strategic change, this strand of research tends to start from the assumption that accounting is subordinate to strategy, assisting in the efficient implementation of strategies already decided. When the accounting device's role is subordinated to strategy, the identity of who enacts and formulates strategy and implements strategic change seems to be given as well since: "the CEO is the key agent of strategic change…[and the] role for budgets [is as] intended by the CEO" (Abernethy & Brownell, 1999, p. 195). Similarly, Quattrone and Hopper (2005, p. 760) referring to another accounting device, conclude that: "the adoption of different strategies will lead to different configurations, implementations, and usages." Adopting a particular strategy, as these authors put it, seems to imply that it is accounting that has to adapt.

However, several authors have suggested that the link between accounting and strategy has not been fully understood (Ahrens & Chapman, 2005; Briers & Chua, 2001; Chapman, 2005; Miller & O'Leary, 2005; Smith, 2003; Whittington, 2004; Skærbæk and Melander, 2004). Chua (2007) questions the assumption that strategy is an activity reserved for senior management and calls for further investigations of strategists at lower levels. Hansen and Mouritsen (2005) question the subordinate (and neutral) role of accounting. Drawing upon the notion of 'problematization', which: "describes a system of alliances, or associations, between entities, thereby defining the identity and what they 'want'" (Callon, 1986, p. 206), they argue that strategic management accounting is more actively involved in: "mobilizing objects and logic that seek to encapsulate what strategy is" (p. 125). Their work raises the possibility that accounting devices can have an active role in enacting strategy and, following ANT, whether or not such devices can be actors. This 'alternative research' (Baxter & Chua, 2003) – perhaps better designated as the socio-technological approach (mainly inspired by ANT and/or Foucault) – has come to emphasize the actively constitutive role of accounting in relation to strategy.

Such research can be said to embrace two main strands: governance and economic.[2] The focus on governance looks for the active strategic role of accounting in the governance of the firm, and at the life and identities of its members. For example, Miller and O'Leary (1987) describe the constitutive role of discourses and techniques such as standard costing, and Miller (1991) and (Miller & O'Leary, 2002) identify how the customer-driven company comes to govern an enterprise and the humans that compose it. Equipped with the accounting tools and metrics, the corporate centre can act at a distance (Robson, 1992; Rose & Miller, 1992) by establishing 'self-governance' for instance, or highly coordinated identities such as the 'self-governable' person. Skærbæk and Thorbjørnsen (2007) show how organizational and professional identities are shaped by accounting devices, several writers have demonstrated how accounting is involved in producing new strategic orders inside the firm (Dent, 1991; Mouritsen, 1999; Ogden, 1997; Preston, Cooper, & Coombs, 1992; Radcliffe, 1999).

[2] This is of course a simplification, but it does highlight a difference between writings that focus on the governance of the firm and its members, and those that focus on economic conditions, such as a firm's links with economic markets.