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The role of management control systems in planned organizational change: An analysis of two organizations

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Abstract

In the management control literature there is growing interest in the role of management control systems (MCS) in planned organizational change. The existing literature is concerned with either rational, technical change principles or more social and political interpretations of MCS facilitated change. This paper aims to extend this literature by combining technical approaches to MCS facilitated change with a behavioral approach in the study of two similar organizations. Moreover, the paper employs a holistic approach to change to develop a comprehensive understanding of the role of MCS in planned organizational change. A framework by Huy [Huy, Q. N. (2001). Time, temporal capacity, and planned change. *Academy of Management Review* 26(4), 601–623] is used to provide an integrative approach that focuses on both rational, systematic practices and the behavioral processes involved in their implementation. This is achieved by identifying four idealized intervention types: commanding, engineering, teaching and socializing. Understanding the application of these four intervention types requires analysis of the way they interact through time.

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Introduction

The role of management control systems (MCS) within organizational change has become an

important concern for practitioners and researchers in management accounting (Burns & Vaivio, 2001). This paper describes the changes involved in implementing an Activity Based Cost Management (ABCM) program and associated change initiatives in an Australian and a US military organization over comparable time periods from the initial design in 1993 for the Australian

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organization and from 1995 for the US organization until 2004 for both organizations.¹ Until the early 1990s, both organizations followed traditional, operationally focused management with few formal management controls to integrate processes; accounting was used primarily for budgeting, on a cash basis. Planning and control by operational units was guided by military doctrine and evaluated on the effectiveness in achieving military targets. Efficiency, although not totally disregarded, was not a major focus. Decisions on resources were taken at senior levels with resource allocation determined by government; operational management focused on execution.

The opportunity to have access to two organizations similar in mission, size, and management focus that were attempting to implement the same change to their MCS was, in our view, a relatively unique opportunity. The similarities of the organizations created a research environment in which there was a possibility to begin to understand the impact of alternative implementation decisions made during the change process. Comparative case study data could provide the opportunity to compare and contrast experiences, to identify the impact of potential differences in reactions based on differences in internal structures, individual dispositions and processes. Comparative case study data supports a relatively rich analysis of the empirical phenomena (Yin, 1989). Comparing and contrasting experiences would provide a means to evaluate our expectation, drawn from the extant literature, that there is likely to be no one best way to use MCS to facilitate change.

¹ In this paper we use the term ABCM to refer to the specific practice of ABCM which focuses on identifying cost and value drivers within work processes. These practices are embedded within broader MCS that incorporate formal and informal controls. We define MCS broadly to incorporate both financial and non-financial controls, formal and informal controls including subjective data, personal and clan type controls (Chenhall, 2003). While the organizations studied initially identified their change initiatives with ABCM, the scope and implications of the initiatives broadened to incorporate other controls, such as risk management, performance measurement and more informal personal controls. Following the language used in the organizations, in the main, we refer to the change initiative as involving ABCM.

Moreover, the data from the two organizations provided the opportunity to address the extent to which change management problems which appear to be similar when described in terms of the language and processes of an accounting practice, may in fact be different when consideration is given to the different roots, causes and consequence of the change situation. The potential to gain insights from comparing and contrasting the experiences of two similar organizations addressing similar issues concerning MCS facilitated change is illustrated in the studies by Ezzamel, Lilley, and Willmott (2004) and Ezzamel, Willmott, and Worthington (2004). In the former study, MCS were seen as helpful in developing an empowered workforce and relatively harmonious industrial relations, while in contrast, the second study shows how MCS lead to employee hostility and the eventual failure of the MCS.

The direct access to decision makers at multiple levels in the organizations while the changes were being implemented also helped to strengthen the study. For instance, in some cases we were able to observe directly the reactions of managers to the demands of the change initiative. Being present during the everyday activities of managers on and off for a period of about two years helped managers become more relaxed with our presence. This assisted in managers providing us with their candid feelings and actions towards the change initiatives. The direct observation complemented archival and interview data. Given the opportunity offered by the two organizations, positioning our study within the MCS and change theory literature was a critical issue to enable a meaningful investigation of the relatively unique research setting.

Organizational change theory has long been central to studying how organizations transform themselves through time (Colville, Dalton, & Tomkins, 1993; Greiner, 1972; Lewin, 1951; Mintzberg & Westley, 1992). Planned change has been of particular interest to those who are concerned with creating and managing change in ways that enhance organizational performance (Hofer & Schendel, 1978; Kotter & Heskett, 1992; Porras & Robertson, 1992). Recently there has been considerable interest in the relationship between the use of MCS and planned organizational change (see

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