FACTORS IMPACTING ON ACCOUNTING LAG: AN EXPLORATORY STUDY OF RESPONDING TO TQM

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The academic literature is critical of management accountants for their failure to initiate change and their inability to promote changed accounting information systems and performance measurement. The motivation for this study is provided by Kaplan (1986) who suggests that 'when manufacturing operations change, the last and most difficult component to change is the accounting system', and by Dunk (1989) who finds that accounting innovations lag operational innovations and that there are benefits arising from minimizing the time taken to adopt new accounting measures.

The introduction of new management accounting systems to support management initiatives, provides the opportunity to investigate those factors contributing to accounting lag, and to determine those strategies which might usefully be employed to reduce accounting lag. This study examines the responses of accounting systems to TQM implementations at six diverse manufacturing sites in Adelaide, South Australia.

Wolfe (1994), Rogers (1995), Gosselin (1997) and Bjornenak (1997) provide a theoretical framework for the investigation of the diffusion of accounting innovation and suggestions of the contextual factors which will influence its impact. This study suggests that industry sector, management commitment, organizational structure, participation and financial performance are all influential in the diffusion process, but in an inconsistent manner.

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INTRODUCTION

Management accounting systems should both reflect organizational changes as well as leading directions in the organization. There are clearly areas where the lack of response of management accounting system can hold back the improving performance of the organization. One of these is quality. The implementation of a quality programme may be negated in terms of an accounting and performance measurement system based on cost. In the midst of conflicting signals, the measures from the accounting system will prevail. In such cases the gap should be minimized between the technical change and the improvement in the management accounting system (e.g. Dunk, 1989; Green and Amenkhienan, 1992). This gap is called ‘accounting lag’.

The concept of lag comes from management where it is the difference in adjustment of administrative systems (new policies) to changes in technical systems (new products, processes or services) (Evan, 1966). Kaplan (1986) and Dunk (1989) have considered lag in an accounting context, by referring to the lag in making changes to accounting systems (administrative) subsequent to changes in products and processes (technical).

Most of the recent accounting literature (e.g. Cooper et al., 1992; Foster and Ward, 1994; Gosselin, 1997; Bjornenak, 1997) has been concerned with the implementation of activity based costing (ABC) to illustrate the diffusion of accounting change, using ‘activity analysis’ as the initial technical innovation, followed by fully documented ABC as the administrative innovation. In this study, the technical innovation is a quality programme and the administrative innovation the change to the performance measurement systems to reflect the quality focus. Remaining with a conventional accounting system can be a hindrance to the quality programme. For example, Shank and Govindarajan (1993: 216) suggest that traditional cost accounting systems can be a great hindrance to implementing TQM, because they fail to reward non-financial performance and because standard costs institutionalize waste.

This study makes no attempt to measure accounting lag in any quantitative sense; the definitional problems identified by Ross (1993) make this a rather pointless exercise. The focus is on those factors that either encourage or inhibit accounting lag following an innovation.

Some studies (e.g. Damanpour and Evan, 1984; Kaplan, 1986; Innes and Mitchell, 1990) have focused on particular industries and organizations that appeared to be innovative. The focus here is different, in that a cross-section of firms has been selected that are not necessarily highly innovative. Much of the previous research has relied on data from one industry, one organization, or one group of firms with similar characteristics. This study differs from previous ones by exploring lag among a small group of companies, selected from across a number of industries. This series of single-organizational type studies of one well-specified innovation follows
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