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Explanations for the gap between management accounting rules and routines: An institutional approach

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ABSTRACT

This is a longitudinal in-depth case study that was conducted within a Portuguese public sector organization, the National Postal Service of Portugal, where two management accounting innovations were implemented. The aim of one of the innovations – Income Statements – was to account for the financial results for the different areas within the organization, which could filter down to its basic elements. The aim of the other – Key Performance Indicators – was to provide indicators to monitor business performance. These innovations were not used in practice as planned, which afforded me the opportunity to explain the existing gap between their rules and routines. To do this, I based this study on the old institutional economics (OIE) inspired management accounting change literature.

Following a strategy of collating together issues from more than one theory, this study contributes to the OIE inspired management accounting change literature by providing evidence that trust and power issues should be analyzed simultaneously and not separately, in order to extend our understanding of how management accounting innovations are (or are not) used in practice, and it also provides evidence that external and internal pressures or the lack of them should be considered through time and not only in explaining the initial stage(s) of the management accounting change processes. The study also provides practical insights for those who intend to carry out changes in management accounting practices in an organizational setting.

Explicaciones para la brecha entre las normas de contabilidad de gestión y las rutinas: un planteamiento institucional

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RESUMEN

El presente estudio es un ensayo longitudinal en profundidad que se dirigió dentro de una organización pública de Portugal, el servicio de correos portugués, donde se pusieron en práctica dos novedades en la contabilidad de gestión. El objetivo de una de las innovaciones—los balances de resultados—fue justificar los resultados financieros de las múltiples áreas dentro de la organización, que pudieran traspasarse a sus elementos básicos. El objetivo de la segunda—los indicadores clave de rendimiento—fue proporcionar indicadores para realizar un seguimiento de la productividad empresarial. Estas novedades no se pusieron en práctica conforme a lo planeado, lo que me brindó la oportunidad de explicar la brecha existente entre sus normas y sus rutinas. Para hacerlo, basé este estudio en la literatura sobre los cambios en la contabilidad de gestión, inspirada en la economía institucional original (EIO).

Siguiendo una estrategia de recopilar asuntos de más de una teoría, el presente estudio contribuye a la literatura sobre los cambios en la contabilidad de gestión inspirada en la economía institucional original (EIO) con la demostración de que, si se quiere ampliar nuestro conocimiento acerca de cómo las innovaciones en contabilidad de gestión están (o no) siendo puestas en práctica, las cuestiones de confianza y poder deberían analizarse de manera conjunta y no por separado. Asimismo, se demuestra

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también que las presiones internas y externas, o la ausencia de las mismas, deben ser tenidas en cuenta durante el proceso y no solo para explicar las etapas iniciales de las innovaciones en contabilidad de gestión. El estudio arroja igualmente ideas prácticas para aquellos que quieran modificar las prácticas de contabilidad de gestión en el ámbito de una organización.

Introduction

The issue of management accounting change, why and how management accounting practices evolve through time and within specific organizational settings, has been addressed by an important body of literature (Liguori & Steccolini, 2012). The authors argue that researchers have tried to explain the different results and antecedents of change by considering institutional dimensions of organizations and their environment. In order to do so, they often draw on three institutional theories: new institutional economics (NIE), new institutional sociology (NIS), and old institutional economics (OIE). What these theories have in common is the assumption that economic behaviour is formed by institutions, and there is a forceful and persistent argument against the fundamental assumptions of neo-classical economics concerning profit-maximizing actors and economic equilibrium (Johansson & Siverbo, 2009). However, there are differences between these three institutional theories. In the management accounting context, NIE and NIS have been used to explain how the external pressures (economical and institutional) shape management accounting practices. Unlike NIE and NIS, which look at external pressures and limitations from a macro standpoint, OIE views them from an intra-organizational standpoint. The insights of OIE have been used to explain how management accounting practices within an organization evolve over time and why they evolve in that way.

Burns and Scapens (2000) applied OIE to conceptualize management accounting change. The authors proposed a framework to explain why management accounting practices change (or do not change) in organizations. Their framework is concerned with the importance of internal rules and routines in shaping processes of management accounting change. Since the publication of the Burns and Scapens (2000) framework, which was offered as a starting point for researchers interested in studying management accounting change processes, more researchers have drawn on insights from OIE in order to explain such processes (e.g. Borner & Verstegen, 2013; Burns & Baldvinsdottir, 2005; Burns, 2000b; Busco, Riccaboni, & Scapens, 2006; Nor-Aziah & Scapens, 2007; Van der Steen, 2009, 2011; Yazdifar, Zaman, Tsamenyi, & Askarany, 2008). Thus, insights from the OIE inspired management accounting change literature seem to be appropriate for explaining an existing gap between management accounting rules and routines within a specific organizational setting.

Closely associated with the change in management accounting practices is the implementation of management accounting innovations. These have been mostly associated with the so-called contemporary management accounting techniques such as activity-based costing and balanced scorecard (Chenhall & Langfield-Smith, 1998; Chenhall, 2008; Zawawi & Hoque, 2010), when implemented in a specific organization for the first time. In the same vein, Bourne, Melnyk, Bititci, Platts, and Andersen (2013) state that traditional accounting measures have been largely replaced by Key Performance Indicators that focus on non-financial as well as financial aspects. In this paper, management accounting practices are seen as innovations when they are implemented for the first time, and are thus recognized as new by the organizational members.

Two management accounting innovations were implemented in a very large Portuguese public sector organization (hereafter referred to as Post), which is the National Postal Service of Portugal. One of the innovations, known as Income Statements (IS), aimed to account for the financial results for the different areas within the organization, which could filter down to its basic elements. The other, known as Key Performance Indicators (KPI), aimed to provide indicators to monitor business performance. These innovations had not achieved an acceptable level of stability in order to guarantee the regular production of monthly information as planned and desired. According to the Burns and Scapens (2000) framework I have to say there was a gap between rules, which encompass the new desired management accounting practices, and routines, which represent the new management accounting practices in use. This afforded me the opportunity to explain the existing gap between rules and routines related to the IS and KPI from an institutional approach based on the Burns and Scapens (2000) framework, including its extensions, due to its potential to explain ongoing processes of management accounting change within organizations. To study the reasons behind this (ongoing) gap I carried out a longitudinal in-depth case study (Yin, 2003).

Furthermore, a number of researchers have noted that issues from other theories can enrich the Burns and Scapens (2000) framework in explaining ongoing processes of management accounting change. However, they have mainly added issues from a specific theory. Following a strategy of collating together issues from more than one theory, this study aims to contribute to the OIE inspired management accounting change literature by providing evidence that trust and power issues should be analyzed simultaneously and not separately, in order to extend our understanding of how management accounting innovations are (or are not) used in practice, and by providing evidence that external and internal pressures or the lack of them should be considered through time and not only in explaining the initial stage(s) of the management accounting change processes.

The remainder of the paper is organized as follows. The next section presents the theoretical framework that guides the study, and which precedes section "Theoretical framework", the description of the case setting and the management accounting practices. Following this, section "Research method" describes the research method and section "Results" presents the results of the study. The discussion of the results follows in section "Discussion" and the conclusions are to be found in section "Conclusion".

Theoretical framework

In recent years researchers have been applying different types of institutional theory in order to gain insights into management accounting change. As Liguori and Steccolini (2012) point out, three types of institutional theory have often been adopted within management accounting change literature: new institutional economics (NIE), new institutional sociology (NIS) and old institutional economics (OIE). It is important to point out here the main aspects of each of these in order to clarify why in this paper I adopted an institutional approach based on the Burns and Scapens (2000) framework, including its extensions.

Institutional approach

NIE is concerned with the structures used to govern economic transactions (Scapens, 2006), and encompasses a wide range of