



# Organisational change, outsourcing and the impact on management accounting

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Received 19 February 2004; revised 4 July 2005; accepted 6 July 2005

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## Abstract

New empirical evidence is presented on organisational change, outsourcing and the impact on management accounting in three types of organisations: private sector companies, the National Health Service and Local Authorities. Spearman rank correlations are used to examine three propositions: that (i) change in organisational form exists and may be related to an increased use of outsourcing or subcontracting; (ii) outsourcing is expected to improve organisational flexibility and/or the service of an activity, to lead to cost savings, or to allow the organisation to focus more clearly on its core business; and (iii) outsourcing promotes change in management accounting. Statistical support is found for each of our three propositions. This is further supported by reference to three illustrative case studies. Overall, we conclude that organisational change, as effected by the use of outsourcing, is related to specific changes in the organisations' management accounting systems.

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*Keywords:* Organisational change; Outsourcing; Management accounting; Nonparametric correlation

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## 1. Introduction

The dawn of the new century brought with it a proliferation of new organisational forms, designed to cope with changing macroeconomic circumstances (Covaleski et al., 2003; Rittenberg and Covaleski, 2001). Now, more than ever, there is a need for organisations to be more responsive, more flexible and more adaptable, if they are to remain competitive. This is

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true whether we consider public or private sectors, service or manufacturing companies, or old or new technology sectors. In part, the changes emerged because of a general trend towards a disassociation of ownership from the production of goods and/or the provision of services. New terminologies have developed to describe such change. Some talk of ‘externalisation’ (Pfeffer and Baron, 1988), others the ‘flexibilisation’ of employee relations (Atkinson and Meager, 1991) or ‘cascading’ subcontracting (Appay, 1998).

Here, we are particularly interested in the extent to which outsourcing or subcontracting have been employed as devices to assist organisations in meeting the demands of the new economy. Further, and as a corollary of this, we wish to examine the impact, or otherwise, that this has had on management accounting (Bromwich and Hong, 1999; Chalos, 1995; Chenhall and Langfield-Smith, 1998; Roodhooft and Warlop, 1999; Seal et al., 2004; Tomkins, 2001). For example, as planner or decision-maker, the management accountant should play a key role in deciding when, and to whom, the organisation should contract. Further, in his role as controller, he can help to manage the dynamic and complex buyer–supplier relationships that result from subcontracting and/or outsourcing (Drury, 2004).

Our first aim, therefore, is to establish that organisational transformation and/or new forms do exist (Covaleski et al., 2003). Much of the academic research in this area remains either largely anecdotal or based on casual empiricism. Certainly, we can say with some conviction that transformation exists in ‘leading edge’ or high technology sectors (Kanter, 1989; Reid and Smith, 2003). However, while these may well presage a wider diffusion of new organisational forms, and there may be an ‘emulation’ effect from non-leading organisations in both private and public sectors, by the same token, they may just be different due to their differing business environments. Further, the motivations for organisational restructuring may differ across sectors (cf. Caplan and Kirschenheiter, 2000; Carmona and Gutiérrez, 2005; Farrell and Morris, 2003; Switser, 1997; Widener and Selto, 1999).

Having established that there is evidence of organisational change, we wish then to see to what extent this change has been brought about by the use of outsourcing or subcontracting. Motivations for employing such practices might include flexibility, cost savings, or a wish to focus more on the core business of the organisation while improving the service through outsourcing. The management accountant should play a core role in implementing, monitoring and evaluating any new initiatives (cf. Drury, 2004). To summarise the aim of our research, therefore, we state that:

change in management accounting =  $f$ (outsourcing and/or subcontracting)

where outsourcing is itself a function of organisational change. Further, the extent of outsourcing or subcontracting, we propose, depends upon the enhanced anticipated ability of the organisation to compete more effectively in the modern business environment.

## **2. Theoretical background and propositions**

### *2.1. Relating organisational change to the use of outsourcing*

As we imply above, the context for understanding new organisational forms stems from the widely reported breakdown of hierarchy (cf. Marlow and Wilson, 1997). Words such

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