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Management accounting change and stability: Loosely coupled rules and routines in action☆

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Abstract

A problematic practical situation, which had remained unsolved for a long period, was encountered in a case research project. The apparent problem of the case firm was the modest standardisation of its information systems and management accounting reporting. Though problems linked with standardisation seemed to chronically look for solutions in the firm, only few attempts to change the situation emerged. The immediate purpose of the paper is to explain why there appeared to be problems without solutions in the case firm, and, in particular, how it managed to cope with such a situation. The paper contributes to recent literature on management accounting change and stability, primarily by drawing on the framework, based on institutional theory, by Burns and Scapens [Burns, J., Scapens, R.W., 2000. Conceptualizing management accounting change: an institutional framework. Manage. Acc. Res. 11, 3–25]. The notion of loose coupling is mobilised and integrated with the framework, and thereby the many-sided relation between two of its central notions, rules and routines, is refined. Loose coupling between rules and routines was characteristic of the everyday management accounting life in the case firm: well-developed and flexible informal routines and knowledgeable actions by the organisation's participants had the capacity to smooth the frictions of the formal rule systems related to management accounting, saving them from pressure for major change. The findings support the argument of the possible coexistence of change and stability in management accounting, however pointing to the need of keeping clear what aspect of management accounting – formal or informal – we refer to in each instance. They also suggest that the legitimising relation between the formal and the informal domains of an organisation can be an inverse of that typically claimed in the new institutionalist theory.

Keywords: Management accounting change and stability; Rules and routines; Loose coupling; Standardisation

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Prologue

Southlake, a fairly profitable firm in the heavy processing equipment business has grown rapidly and has spread its operations all over the world.[1] It has grown particularly through large international acquisitions. Management accounting is generally regarded as an important control system of the firm. The information system architecture is based on local solutions, differing from one country and unit to another. Day-to-day communication between units, both vertical and horizontal, as well as regular reporting is primarily based on e-mail, Lotus Notes information system, and the circulation of reports created by Lotus spreadsheet software. But the dispersed information system environment has drawbacks. Information on items in stock in different parts of the world, for instance, is difficult to access, unreliable, and slow to achieve. The firm admits it continuously operates with too massive an inventory. Running the management accounting is tiresome due to several manual operations, needed since differing softwares are in use in the various units. The controller's manual of the firm is partly out-of-date and there is no uniform chart of accounts. There is room for several differing interpretations within the firm regarding what certain accounting notions mean and how they should be reported. In this context, it is regarded as a tough exercise to develop a new management accounting reporting procedure on product margin over all units contributing to it. However, paradoxically, the general feeling within the firm is that its management accounting works sufficiently well.

1. Introduction

The starting point of this study was a confusing situation, encountered in a case study project, outlined in a stylised manner in the Prologue above. It was a situation where management accounting change (especially related to standardisation, one form of setting organisational rules) could have been expected, but where it was not much encountered. The immediate purpose of this paper is to make sense of what was going on in the case firm. Hence, *why* does it appear that there were problems without solutions? And, in particular, *how* did the firm cope with the situation?

From the theoretical viewpoint, this paper integrates some of the ideas in the literature of organisational decision-making and the recent literature on management accounting change, drawing primarily on the institutional framework suggested by Burns and Scapens (2000). Accordingly, management accounting systems and practices are regarded as constituting relatively stable organisational rules and routines, which encode the 'taken-for-granted' issues at the institutional level and become enacted in the realm of action. The paper focuses on the *relation* between formal rules and informal routines in particular and on the role of this relation regarding management accounting change and stability.

This paper contributes to the recent literature on management accounting change and stability, such as Granlund (1998, 2001). The starting point of the analysis is the central thesis of Burns and Scapens (2000): while management accounting systems and practices tend to constitute relatively stable rules and routines, there is always a possibility for change. In a more striking form, they argue that "stability and

[1] In order to protect the case firm from being identified, all names linked to the same are fictitious.