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On the convergence of management accounting and financial accounting – the role of information technology in accounting change

Jani Taipaleenmäki [a], Seppo Ikäheimo [b,*]

[a] Turku School of Economics, University of Turku, Department of Accounting and Finance, Rehtorinpellonkatu 3, FI-20500 Turku, Finland
[b] Aalto University, School of Business, P.O. Box 21210, FI-00076 Aalto, Finland

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ABSTRACT

In this article we theorize and conceptualize the recent convergence of management accounting (MA) and financial accounting (FA) with the advancements in information technology (IT), and explicate not only how this convergence is manifested in the technical and technological domain, but also how it is reflected in their convergence at the behavioral and organizational level.

Drawing on the analytical model by Hemmer and Labro (2008), in which the forward-looking perspective of FA leads to forward-looking MA, we build a conceptual framing to analyze this convergence. According to this framing, information technology (IT) serves as a facilitator, catalyst, motivator, or even an enabler for the convergence of MA and FA. We further argue that convergence is a much broader phenomenon than claimed by Hemmer and Labro. It firstly covers the technical and technological domain, including the intentional integration of information systems and software, as well as the intentional combination of methods or standards, extending thereafter to the behavioral and organizational domain with the (un)intentional alignment regarding both functions and processes as well as the (un)intentional convergence regarding both work and roles. The applicability of this conceptual framing is illustrated with a set of examples.

We present illustrations of the manifestations and outcomes of convergence in both the technical and technological domain (related to accounting standards, discretionary reporting, performance measurement, transfer pricing, competitor, customer and contractor analysis, due diligence in M&As), and the behavioral and organizational manifestation domain (related to accounting processes, work and the role of accountants, incentive systems, accounting and control in

* Corresponding author. Tel.: +358 50 505 4990; fax: +358 9 431 38 678.
E-mail addresses: jani.taipaleenmaki@tse.fi (J. Taipaleenmäki), seppo.ikaheimo@aalto.fi (S. Ikäheimo)

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multinational companies, the control of business networks, the board of directors and venture capitalists). Based on our observations, we conclude that the forward-looking FA elements are often intertwined with MA, and vice versa, and that convergence in the technical and technological domain appears to precede convergence in the behavioral and organizational domain. In most of our observations, IT plays an important or even crucial role in this convergence process. In the light of these convergence observations, we open several avenues for further research.

1. Introduction

Accounting is a changing phenomenon, where both management accounting (MA) and financial accounting (FA) activities, technologies and concepts are continuously evolving and redefining themselves, and are becoming increasingly intertwined, converging realities.[1]

In their analytical study, Hemmer and Labro (2008) suggested that the development of FA towards a forward-looking perspective will lead to forward-looking MA. They expressed concerns over the divided nature of accounting as a field of research, in which MA and FA are perceived as separate realities. In their paper, they showed with a theoretical model that MA and FA are not independent, and argued that the properties of financial reporting influence the quality of MA. To substantiate this, they modeled convergence in the technical and technological domain, without raising the question of how this convergence is manifested in practice, or whether this convergence has any relation to the behavioral and organizational domain (see Orlikowski, 1991, 1992). Recently, Weißenberger and Angelkort (2011) provided the first evidence for how the convergence of MA and FA has behavioral and organizational effects. According to their findings, this convergence has led to increasing consistency in financial language, resulting in greater effectiveness of control from the perspective of management and in co-operation between controllers and financial accountants.

Information technology (IT) has played and will play a major role in the development of accounting information systems (AIS) by providing “the push that drives accounting activities” (Vaassen and Hunton, 2009). For example, the adoption of enterprise resource planning (ERP) systems has improved the quality, accessibility and timing of accounting information for managers (O'Leary, 2000; Granlund and Malmi, 2002), as well as improving transaction processes and allowing firms to have more flexibility in earnings management and the timing of earnings releases (Brazel and Dang, 2008). Although the role of IT within MA and FA is acknowledged with the clear message that accounting and control cannot be studied apart from IT (Dechow and Mouritsen, 2005; Granlund, 2011), no studies have yet analyzed the role of IT in the relationship between MA and FA. Similarly, academic research focusing on the integration of information systems has not placed major emphasis on how accounting itself is changing (Rom and Rohde, 2007). In addition, attempts that highlight the plurality of inputs and outputs of accounting change are trapped within a modernist dichotomy, which defines boundaries such as in versus out, external versus internal, and organization versus context (Quattrone and Hopper, 2001), leaving the interaction between MA and FA unexplored.

The main purpose of this study is to initiate discussion on the multifaceted nature of the current relationship between MA and FA. Hence, the objectives of the paper are to:

- theorize and conceptualize the relationship between MA and FA, particularly their convergence; and
- explicate not only how this convergence of MA and FA is manifested in the technical and technological domain, but also how it is reflected as a convergence of MA and FA in the behavioral and organizational domain.

[1] Historically, the development starting in 19th century from the solid concept of accounting was followed by accounting divergence, which started during the industrial era of mechanization. The diverging MA and FA followed their own logic of development. In FA, the development has been driven by crises and the regaining of trust; in contrast, within MA, the development of business, mechanization and digitalization, and the need to control and make rational and rapid operational decisions has defined its change path (Ikäheimo and Taipaleenmäki, 2010). The divergence is not discussed further in this paper, which focuses on accounting convergence during the era of digitalization.

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