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Strategic Management Accounting and Sense Making

A Grounded Theory Study

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ABSTRACT

FACULTY OF SOCIAL SCIENCES
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**STRATEGIC MANAGEMENT ACCOUNTING AND SENSE MAKING:
A GROUNDED THEORY STUDY**

by Katja Tillmann

This research investigates the phenomenon of strategic management accounting in multinational companies. It seeks to understand strategic management accounting processes in use in a particular organisational context. Multinational companies are an important phenomenon of our time and researching strategic management accounting in such a setting promises rich insights into its use in a complex environment. Little is known to date on how strategic management accounting is undertaken in organisations and this research contributes to that field of knowledge. Premised on an interpretive theoretical orientation, this research involves a grounded theory study (Strauss and Corbin, 1990, 1998) based on data collected in a large multinational company in Germany.

The research establishes the importance of management accounting for the assessment of strategic situations. It was found that sense making was the main activity underlying strategic management accounting processes. Sense making was defined as involving the understanding of diverse situations, thereby finding and demonstrating their meaning to the company and individuals inside the company. The importance of sense making arose from the presence of a multiplicity of relevant aspects in the organisation's internal and external contexts, all of which had to be taken into account for the assessment of strategic situations. This put a premium on information, professional management accounting and interdisciplinary know-how, and a feel for the game, which intervened in sense making activities. As a consequence, there was found to be a need for an enhanced management accounting skills profile.

This research contributes to interpretive accounting research by providing incremental evidence of a particular phenomenon, strategic management accounting, in a particular setting. It presents rich insights into the use of management accounting in the case site, while also analysing the particular environment of its use, thereby contributing to an emergent understanding of accounting in organisational contexts. Strategic management accounting was found to be a complex activity that goes beyond purely technical skills. The research also makes methodological contributions by systematically documenting the undertaking of a grounded theory study. It demonstrates the use of grounded theory procedures and provides reflections on the different methods employed.

DEDICATION

I dedicate this work to the memory of my late grandfather, *Franz Leifeld*, who, from early childhood, taught me the importance of knowledge and education.

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CHAPTER 1: INTRODUCTION

1.1 Setting the scene

This research investigates strategic management accounting practices in an organisational setting. A lack of in-depth understanding of management accounting processes generally, and in a strategic context more specifically, has motivated this research project. To date, relatively little is known about management accounting and strategic management accounting as it is lived and perceived by actors in organisations. The present thesis aims to contribute to this emergent understanding by providing in-depth insights into such practices in a particular setting, a multinational company in Germany. Multinational companies are an interesting phenomenon of our time and this research has sought access to such a firm in order to explore its uses of strategic management accounting.

The research has to be set in its current context. Today's business environment is characterised by globalisation and complexity. Mergers and acquisitions are at an all time high, reflecting current market forces. Multinational companies such as the case company are subject to these market pressures and provide an interesting setting to investigate strategic management accounting (SMA). SMA can broadly be defined as being about the use of management accounting systems in supporting strategic decision-making. The survival of companies in highly competitive global markets may depend partly on a management accounting function that allows for the successful assessment of strategic situations. SMA can provide such a function.

This research does not aim to investigate SMA techniques as such, but seeks to understand what strategic management accounting really means to organisational actors. Scapens and Bromwich (2001) note that the articles published in the past 10 years in the journal 'Management Accounting Research' demonstrate that the complexities of management accounting in practice transcend the simple economic decision making approaches portrayed in most textbooks. They further note that a large number of publications seek to understand the organisational setting of management accounting, and that in doing so such studies do not take the nature of management accounting for granted, thus opening its organisational role for debate. Hopper et al. (2001, p. 274) argue along similar lines, noting that from 1975 "*concerns over the limitations of economic analysis, coupled with calls to abandon normative research in favour of close observations of practice became commonplace.*" This research attempts to address such issues by investigating the complexities of strategic

management accounting in an organisational setting. The following two sections address the significance of the research in this field, and also outline its theoretical foundations.

1.2 Significance of the research

The research aims to contribute to the growing body of accounting and management accounting knowledge in academic terms, but also to our understanding of accounting practices in organisations in practical terms. Morgan and Willmott (1993, p. 6) argue that a researcher's engagement with the empirical world is of importance not only to demonstrate the relevance of social theory in the conduct of accounting research, but also as a basis for establishing a dialogue with those outside the academic community. The research thereby draws on and contributes to a growing body of accounting research investigating its practice in organisations.

Section 1.1 set out the context of this research in today's competitive business environment. Accounting and management accounting practices have recently been described as being insufficiently adapted to this context. Management accounting as 'traditionally' perceived has been heavily criticised in recent years. It has been noted that most management accounting techniques used or referred to in leading cost accounting textbooks in the 1980s dated from the mid 1920s, thus no longer being appropriate to the current business environment (Kaplan, 1984). The contributions by Kaplan (1983, 1984, 1986) and Johnson and Kaplan (1991) appear to have subsequently motivated management accounting researchers around the globe to review their techniques and adopt more case study research.¹ The development of strategic management accounting has to be seen as one response to such criticism. It has been argued, however, that a well-defined framework for SMA has not yet been developed (Tomkins and Carr, 1996), as will be discussed further in the literature review in Chapter 4. However, very little research has sought to investigate the use of SMA in organisations. As indicated above, this thesis aims to fill that gap.

¹ Kaplan's discussion has certainly provided the accounting community with some food for thought, thereby causing some interesting debates. For a discussion, see for instance Ashton et al. (1995) and Loft (1995). However, his approaches have been criticised, and even though I agree with his call for more empirical research (Kaplan, 1986), I do not agree with his rather technical approach to research. See also Tomkins (1986); Hopper et al. (2001, p. 278).

Numerous accounting researchers have called for case studies of accounting in practice (e.g. Hopwood, 1983, 1990; Humphrey and Scapens, 1996a; Llewellyn, 1996; Parker, 2001a)². It has been argued that investigating phenomena in depth is particularly useful if very little is known about them and if they are particularly complex and contextually contingent (Ferreira and Merchant, 1992; Greenhalgh, 2000). This appears to be the case for SMA. Furthermore, the decision to carry out a case study has been motivated by a certain theoretical foundation, which is outlined in the next section.

1.3 The theoretical foundation of the thesis

Otley and Berry (1994) contend that it is every case researcher's duty to clarify their initial theoretical position. This stance is shared and considerable effort has been dedicated to investigate and explain the theoretical foundation of the research. These efforts are outlined in Chapters 2 and 3. As indicated above, the research aims to investigate SMA in depth, thus contributing to the emergent knowledge of interpretive accounting research. Interpretive research seeks to understand the social world at the level of subjective experience (Burrell and Morgan, 1979). Various accounting researchers have called for more interpretive research into accounting, while noting an interest in the study of accounting as a social practice and aiming to discover its meanings in a social setting (e.g. Burchell et al., 1980; Colville, 1981; Hopwood, 1983). Hopwood (1983, p. 302), for instance, notes that accounting research has "*tended to isolate itself from accounting in practice, if not accounting practice*". Other accounting researchers argue along similar lines, while calling for reconnection with accounting as a practice. Llewellyn (1996, p. 112) contends that accounting researchers should be prepared to present "*theories for practice rather than restricting their research to theories about practice*" (emphasis in original). Tomkins (1999) suggests that the basic purpose of accounting research is functional and that its ultimate value lies in whether researchers are in a better position to improve practice as a result of their research. He further calls for an increased focus on organisational actors' own perceptions of what they are trying to do.

² See also Young and Preston (1996) and Humphrey and Scapens (1996b).

Ashton et al. (1995, p. 8) note that current management accounting research is more directed to understanding practice, whereas previous research was more concerned with prescribing managerial behaviour and developing normative models. Interpretive accounting research over the past 20 years has provided rich insights into accounting in an organisational context. Humphrey and Scapens (1996a), for instance, note how accounting is not a neutral technical activity, but is both a constituent and constitutive element of organisational practice. Rahaman and Lawrence (2001, p. 158) indicate further convincing theoretical arguments to go beyond the technical façade of procedures as depicted by organisational actors, to gain a deeper understanding of how these procedures arise and what purposes they serve.

Whatever the approach to research, the theoretical stance underpinning it should be stated. Humphrey and Scapens (1996a) argue that the potential of case study research can be enhanced if conversations about theory are more explicitly brought into the research process. The rationale underlying the choice for an interpretive case study has already been suggested, but will be further explained in subsequent chapters. The research is informed by grounded theory (Glaser and Strauss, 1967; Strauss and Corbin, 1990, 1998). As its name indicates, grounded theory provides a methodology that directs social scientists towards developing theory that is grounded in data. It thereby allows issues of relevance to respondents to emerge, while at the same time providing the tools to analyse their words in order to include the scientists' interpretations, as opposed to simply reporting the data. Grounded theory thus captures the knowledge of actors in the field in a theoretical way, while making it understandable to different audiences and transferable. Various accounting and management researchers (e.g. Parker and Roffey, 1997; Locke, 2001) and organisational scientists (e.g. Turner, 1983; 1988) have called for the use of grounded theory in such fields. Very little accounting research has been informed by grounded theory and this research aims to fill that gap.

1.4 Thesis layout

The present thesis includes ten substantive chapters in addition to this introduction. The first three chapters, Chapters 2, 3 and 4, review the relevant literature. Chapter 2 sets out to explore research paradigms in social science and accounting research. It is the output of some reflection on assumptions underlying research. Paradigms in social science research are addressed first, drawing on the writings of Burrell and Morgan (1979). They propose a framework for the classification of social science research, which is explained in some

detail. Chapter 2 then goes on to outline the three main paradigms that can be distinguished in accounting research. These are the functionalist, interpretive and radical paradigms. The chapter also outlines other framework propositions in accounting research. Finally, the case for interpretive accounting research is made.

Chapter 3 continues the discussion around interpretive research by providing the story of interpretive accounting research over the past 20 years. Its main aim is to substantiate the claim that interpretive research into accounting practices is worth pursuing. While Chapter 2 made the case for interpretive accounting research from a theoretical point of view, i.e. by drawing on methodological advocacy, Chapter 3 makes the case for it on the basis of interpretive studies of accounting in organisations. These draw a rich picture of accounting in all its complexity in organisations. Chapter 3 outlines interpretive accounting research spanning topics as different as budgeting, management control and accountability, communication and information, accounting change, accounting and culture, and strategic issues and planning. The latter links with the main topic of this thesis, strategic management accounting, which is further developed in Chapter 4.

Chapter 4 provides an overview of the strategic management accounting literature since the 1980s. As indicated above, SMA is defined broadly as being about the use of management accounting practices in supporting strategic decision-making. Numerous management accounting contributions that show this link are outlined in Chapter 4, while attempting to identify the different practices associated with it, but also providing empirical findings. Chapter 4 addresses these two aspects in turn. It focuses on normative SMA advocacy and techniques first, before outlining findings of empirical (functional and interpretive) research. A gap in knowledge of SMA is recognised as a result and the case for interpretive SMA research is made. Chapter 4 concludes by stating two main research questions.

While Chapters 2 to 4 outline the literature and are of a theoretical nature, delineating the motivation of this research from a theoretical point of view, Chapter 5 provides a *mélange* of theoretical and more practical aspects and marks as such the transition between those two distinct parts of the thesis. It outlines the methodology and methods that have informed the present thesis. After a short section on the interpretive research process, it discusses issues of data analysis and data collection. The theoretical basis of data analysis, informed by grounded theory, is outlined first, while also delving into some detailed procedures. Details

of data collection rationales are addressed next, together with some information on the actual information gathered.

Chapters 6 to 9 are post-fieldwork chapters that address the empirical findings. Chapter 6 outlines the case study, i.e. it provides some detail on the case company. A few introductory aspects of the German business environment are outlined first, before giving some detail on the case company itself. Chapter 6 then goes on to describe the management accounting and strategic management accounting practices that were observed in the company. Furthermore, the roles and images of management accountants are outlined. While Chapter 6 addresses the empirical findings in a descriptive manner in order to give some background information on the case company, Chapters 7 to 9 provide details on the grounded theory results, which are recorded with increasing theoretical abstraction. There are three stages to grounded theory, namely open, axial and selective coding, which are addressed in turn, even though no strict distinction can be made between them during the analytical stages.

Chapter 7 outlines the result of the first analytical stage. It provides a list of 23 open categories that were developed through open coding. These can be considered the building blocks of the grounded theory. At the open coding stage, the categories are not yet linked and integrated. Categories are increasingly linked and integrated through the axial and selective coding stages. Chapter 8 provides the results of the axial coding stage. Ten axial categories are outlined in turn, while also showing their constituent parts, i.e. the underlying open categories. Chapter 9 then moves on to describe the emergent theory, the output of the selective coding stage. During selective coding, all categories are unified around a core category and thus integrated in one conceptual scheme. Sense making has been found to be the core category, as this activity represents the central phenomenon of the study, i.e. the main issue with which respondents appear to be grappling in relation to strategic management accounting. It is discussed in detail, while also addressing its main underlying strategies and its context.

Chapter 10 provides a focus on the most relevant findings of the emergent theory, while linking them back to the extant literature. Carrying this out is important for theory building, as it allows the researcher to extend, validate and refine existing knowledge. The issues of sense making, information, professional know-how and 'a feel for the game' are addressed in turn, as they relate to the most important findings of management accounting in a strategic

context. Contributions from various social science researchers, including accounting researchers are outlined and compared with the emergent theory.

Chapter 11, the final chapter, draws conclusions and outlines the contributions of the research. Starting with a summary of the principal research findings, Chapter 11 sets out to discuss the theoretical and methodological conclusions and contributions of the research. Numerous theoretical contributions are addressed in terms of interpretive accounting research generally, but also strategic management accounting research more specifically. The main theoretical contributions relate to the development of a grounded theory of strategic management accounting and sense making, which provides interesting extensions to the current SMA literature. Furthermore, the research contributes to the accounting field more generally by addressing issues such as accounting and organisational visibility, and roles of management accountants in organisations. In addition to those theoretical findings, methodological contributions to interpretive and grounded theory research are discussed in Chapter 11. It will be argued there that the research notably contributes to grounded theory by providing detailed insights into how grounded theory was employed. As indicated above, the grounded theory process and the output of its different stages are addressed in considerable detail in Chapters 7 to 9, thereby providing the reader with the means to follow that process to a certain extent. This and related issues are the main methodological contributions. Suggestions for future research are also provided in this chapter.

CHAPTER 2: RESEARCH PARADIGMS

2.1 Introduction

When commencing research in social science, including accounting, new researchers are faced with a bewildering choice of methodological approaches. The same applies to accounting research. Researchers must be aware of the different approaches available and take an informed decision about which approach to choose to inform their study and recognise the underlying assumptions. Researchers should be prepared to debate and defend their assumptions (Otley and Berry, 1994; Humphrey and Scapens, 1996a). This chapter outlines the different methodological approaches that have informed research in social sciences and accounting, and its various assumptions. Burrell and Morgan's (1979) framework for the classification of social sciences research is a good starting point and is discussed in section 2.2. Section 2.3 moves on to discuss paradigms used in accounting research, namely the functionalist, interpretive and radical paradigms. Other frameworks and ways of classifying research have been proposed by accounting researchers, as will be briefly discussed in section 2.4. The last section, 2.5 then tracks the 'paradigmatic debate' between proponents of the different paradigms, and makes the case for interpretive accounting research.

2.2 Paradigms in social sciences research

The issue of paradigms in social sciences was raised by Burrell and Morgan (1979). They proposed a framework composed of four mutually exclusive paradigms.³ It is derived from the idea that 'all theories of organisation are based upon a philosophy of science and a theory of society' (p. 1). Burrell and Morgan (1979, p. III) stress the fact that the researcher's frame of reference plays a crucial role in the generation of social theory and research. They argue that "*all social scientists approach their subject via explicit or implicit assumptions about the nature of the social world and the way in which it may be investigated.*" (Burrell and Morgan, 1979, p. 1) Their discussion focuses on these assumptions, contending that they may have an impact on research, and should be recognised and acknowledged.

³ A paradigm can be defined as being "... the basic belief system or worldview that guides the investigator, not only in choices of method, but in ontologically and epistemologically fundamental ways." (Guba and Lincoln, 1994, p. 105)

Burrell and Morgan (1979) devised their framework in order to facilitate this task of recognition, and also to help in classifying social research. It is now addressed in some detail to allow its use for the classification of accounting research in Section 2.3. The framework is based on two dimensions, which Burrell and Morgan (1979) labelled 'assumptions about the nature of social science' on the one hand, and 'assumptions about the nature of society' on the other. These two dimensions are now discussed in turn.

2.2.1 Assumptions about the nature of social science

Burrell and Morgan's first dimension examines some of the philosophical assumptions that underlie different approaches to social science. It is conceptualised in terms of four sets of assumptions related to ontology, epistemology, human nature and methodology. Assumptions related to ontology concern the very essence of the phenomena under investigation. The question facing social scientists is whether the 'reality' to be investigated is seen as being external to the individual or whether it is seen as being the product of individual consciousness. Or to put it differently: is the reality a 'given out there' or is it a product of people's own minds? (Burrell and Morgan, 1979, p. 1)

The second set of assumptions relates to epistemology. These are assumptions about the grounds of knowledge, i.e. about how one might begin to understand the world and communicate this as knowledge to fellow human beings. The question is for example whether it is possible to identify and communicate the nature of knowledge as being hard, real and capable of being transmitted in tangible form, or whether 'knowledge' is of a softer, more subjective kind, based on experience and insight of a unique and essentially personal nature (Burrell and Morgan, 1979, p. 1).

The third set of assumptions, related to human nature is associated with the ontological and epistemological issues, but is conceptually separate from them. It concerns particularly the relationship between human beings and their environment. Human beings might be seen as responding in a mechanistic or even deterministic way to the situations encountered in their external world, or as having a more creative role and free will (Burrell and Morgan, 1979, p. 2).

The three sets of assumptions have direct implications of a methodological nature. Each one has important consequences for the way in which one attempts to investigate and obtain 'knowledge' about the social world. If one views the social world like the natural world, i.e. as being hard, real and external to the individual, then the research is likely to focus upon an

analysis of relationships and regularities between the various elements included. This approach is characterised by a search for universal laws. If, on the other hand, one views the social world in the alternative way, and stresses the importance of subjective experience, the concern is different. It may even focus on explaining and understanding what is unique and particular to the individual rather than what is general and universal (Burrell and Morgan, 1979, pp. 2/3).

These different views on ontology, epistemology, human nature and methodology can be classified according to their adherence to two broad perspectives: the subjective and the objective. The subjective-objective dimension is the first in the Burrell and Morgan framework, as depicted in Figure 1.

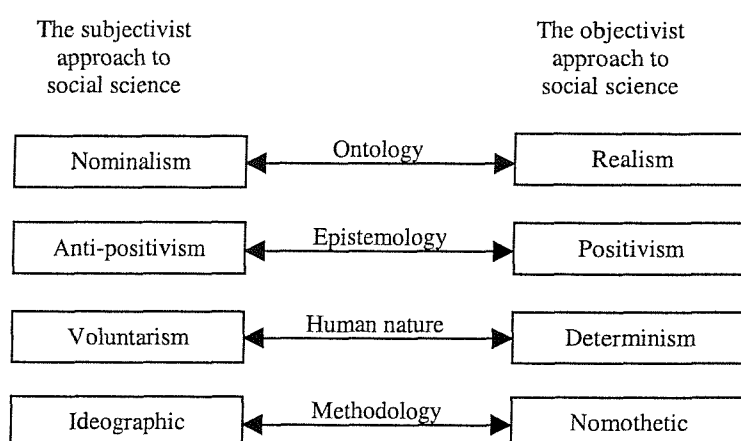


Figure 1: The subjective - objective dimension (adapted from Burrell and Morgan, 1979, p. 3)

The terms in the boxes stand for the debates over these issues in the field of social philosophy. The ontological debate revolves around the terms Nominalism and Realism. Nominalism does not admit any 'real' structure to the world. It assumes that the social world external to individual cognition is made up of nothing more than names, concepts and labels that are used to structure reality. Realism, on the other hand, assumes that the social world external to individual cognition is a real world, made up of hard, tangible and relatively immutable structures. Reality is said to exist 'out there' (Burrell and Morgan, 1979, p. 4).

The epistemological debate concerns the terms Anti-positivism and Positivism. Anti-Positivism sees the world as being essentially relativistic. It can only be understood from the point of view of the individuals who are directly involved. As opposed to Positivism, Anti-Positivism firmly rejects the search for laws or underlying regularities in the social world. From a positivist point of view, however, this is essential. Positivism draws on natural

sciences, and seeks to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements (Burrell and Morgan, 1979, p. 5).

The human nature debate revolves around the terms Voluntarism and Determinism. Voluntarism views human beings as having complete autonomy and free will. Determinism on the other hand regards human beings and their activities as being completely determined by the environment in which they are located. These assumptions are said to be essential elements in social science theories, since they define the nature of the relationships between human beings and the world in which they live (Burrell and Morgan, 1979, p. 6).

The methodological debate focuses on ideographic and nomothetic theory. The ideographic approach is based on the view that one can only understand the social world by obtaining first-hand knowledge of an entity under investigation. It emphasises the analysis of subjective accounts that are generated by getting inside the situation. The nomothetic approach on the other hand underlines the importance of basing research on systematic protocol and technique. It is preoccupied with the construction of scientific tests and the use of quantitative techniques for the analysis of data (Burrell and Morgan, 1979, p. 6).

Burrell and Morgan (1979) propose the four sets of assumptions as a tool for the analysis of social theory. They further note that the extreme positions on each of the four sets are reflected in the two major intellectual traditions that are said to have dominated social science over the last two hundred years. These are 'sociological positivism' and 'German idealism', the one on the objective extreme, and the other on the subjective extreme (Burrell and Morgan, 1979, p. 7). However, interaction between these two traditions appears to have increased, with intermediate positions emerging as a consequence. This point will be further discussed in later sections of this chapter. The second dimension of the Burrell and Morgan framework will now be described briefly.

2.2.2 Assumptions about the nature of society

Burrell and Morgan (1979, p. 10) note that all approaches to the study of society are located in a frame of reference of one kind or another. The second part of their framework reflects this assumption. It revolves around the 'order-conflict debate', where two models of society are said to exist: one of order, characterised by commitment, cohesion, solidarity, consensus, reciprocity, co-operation, integration and stability, and one of conflict, characterised by coercion, division, hostility, dissensus, malintegration and change (Burrell and Morgan,

1979, pp. 10/11). This discussion is reflected in the second dimension of the Burrell and Morgan framework. It is characterised by a dichotomy between the ‘sociology of regulation’ on the one hand and the ‘sociology of radical change’ on the other.

The sociology of regulation refers to research that is primarily concerned with providing explanations of society in terms that emphasise its underlying unity and cohesiveness. It attempts to explain why society holds together rather than falling apart. The sociology of radical change on the other hand is concerned with finding explanations for radical change, deep-seated structural conflict, modes of domination and structural contradiction, which its theorists see as characterising modern society. It is interested in people’s emancipation from the structures that limit their potential for development (Burrell and Morgan, 1979, p. 17).

Burrell and Morgan (1979) combine the two dimensions to distinguish four mutually exclusive paradigms.

2.2.3 The four paradigms

The four paradigms, labelled ‘Radical Humanist’, ‘Radical Structuralist’, ‘Functionalist’ and ‘Interpretive’, are depicted in Figure 2.

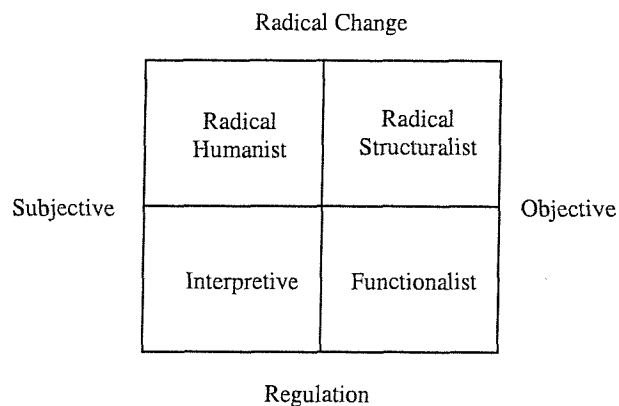


Figure 2: The four paradigms (adapted from Burrell and Morgan, 1979, p. 22)

The functionalist paradigm is rooted in the sociology of regulation and approaches its subject matter from an objectivist point of view. It is characterised by a concern for providing rational explanations of the status quo and approaches this concern from a standpoint that tends to be realist, positivist, determinist and nomothetic. Functionalism is proposed as being highly pragmatic in nature, seeking to understand society in a way that generates knowledge that can be put to use. It reflects the attempt to apply the models of the natural sciences to the study of social settings (Burrell and Morgan, 1979, pp. 25/26).

The interpretive paradigm is similarly characterised by its affiliation with the sociology of regulation, while taking a subjectivist approach. Its main concern is to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the frame of reference of the participant as opposed to the observer of action. The social world is seen as an emergent social process, which is created by the individuals concerned. The problems of conflict play no part in this paradigm. It is oriented towards understanding the subjectively created world 'as it is', with no interest in change (Burrell and Morgan, 1979, pp. 28/31).

The radical humanist paradigm is characterised by its concern to develop a sociology of radical change from a subjectivist standpoint. Research in this paradigm focuses on modes of domination, emancipation, deprivation and potentiality, while placing emphasis upon human consciousness. The central notion is that the consciousness of human beings is dominated by the ideological superstructures with which they interact. The major concern then is with release from these constraints and a critique of the status quo (Burrell and Morgan, 1979, pp. 32/33).

The radical structuralist paradigm is concerned with radical change as well, but from an objectivist standpoint. As with the radical humanist paradigm, it is committed to emancipation and potentiality, but in a way that emphasises structural conflict, modes of domination, contradiction and deprivation. Radical structuralists concentrate upon structural relationships within a realist social world (Burrell and Morgan, 1979, pp. 33/34).

Burrell and Morgan (1979, p.23) stress the fact that they regard their four paradigms as being defined by very basic meta-theoretical assumptions. The terms are said to be "*intended to emphasise the commonality of perspective which binds the work of a group of theorists together in such a way that they can be usefully regarded as approaching social theory within the bounds of the same problematic*" (Burrell and Morgan, 1979, p. 23). They further suggest that this definition does not imply complete unity of thought. As mentioned above, these paradigms can provide a map to classify research, which can be utilised for the analysis of social theories. It provides a convenient way to identify not only other researchers' frames of reference, but also to locate one's own.

Burrell and Morgan (1979) focus on social science research in general. It will now be discussed how this issue was treated in accounting and management accounting as a social science.

2.3 Paradigms in accounting and management accounting research

Several researchers have raised the issue of paradigms in accounting and management accounting research, some of them drawing on Burrell and Morgan (see e.g. Cooper, 1983; Hopper and Powell, 1985; Laughlin, 1995). In accounting, it has been suggested that three paradigms be distinguished: the functionalist, the interpretive and the radical paradigms (e.g. Hopper and Powell, 1985). As opposed to the discussion in sociology mentioned above, radical humanism and radical structuralism have been combined to form one paradigm in the field of accounting.⁴ The following sections discuss the three paradigms and their different schools of thought in respect to accounting research, while also briefly addressing their theoretical origins.

2.3.1 Functionalism

The functionalist paradigm is, in Burrell and Morgan's terms, located in the 'objective' and 'regulation' part of the framework. It is said to have provided the dominant framework for the conduct of academic sociology and the study of organisations in the past (Burrell and Morgan, 1979, p. 25). According to Burrell and Morgan (1979, p. 26), the functionalist approach to social science stems from the tradition of sociological positivism, which originated in France in the early decades of the nineteenth century. Associated with this is the name of Auguste Comte. Comte strived to merge rationalism and empiricism in a balanced way in a new method, which he called positivism. This was a tightly defined rational deductive process, where subjectivity, values and bias played no part. Critique and desire for change was seen as being value-driven and could not be integrated (Laughlin, 1995).

Hopper and Powell (1985) proposed a classification of management accounting research according to its underlying assumptions. In doing so, they drew on the framework devised by Burrell and Morgan (1979), while defining the dimension related to assumptions about the nature of social science as a continuum. Interpretive and radical approaches are seen as straddling the mutually exclusive frames of reference devised by Burrell and Morgan (Hopper and Powell, 1985, p. 432). This does not apply to the functional field. According to Hopper and Powell (1985), three main functional schools can be distinguished in accounting. These are depicted in Figure 3 below.

⁴ It has been argued that the subjective-objective dimension has rather to be seen as a continuum. The author agrees with this argument. However, for classification purpose, the three-paradigm model is perceived as more appropriate. Further discussion of this issue will follow in later sections.

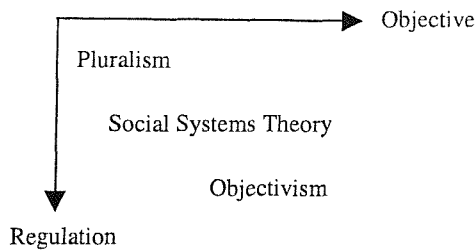


Figure 3: Functional accounting schools (adapted from Hopper and Powell, 1985, p. 432)

Objectivism is placed in the most ‘objective’ and ‘regulatory’ region of the paradigm. Classical management theories can be located in this area. They form the basis of much ‘conventional’ management accounting, such as work on standard costing and budgetary control, closed systems theory and neo-classical economics. ‘Conventional’ management accounting has been criticised by behavioural scientists in particular, because of its failure to consider behavioural aspects. However, such approaches persist. Similarly, much ‘conventional’ accounting can be found in this part of the framework. It treats organisations as stable empirical phenomena with unitary goals (Hopper and Powell, 1985, pp. 433/434).

Social systems theory has similarly informed much management accounting research. Its development might be linked to the acknowledgement of the limitations of objectivism, namely with respect to its view on the social nature of human beings, but also because of its abstraction of extra-organisational factors. Social systems theory incorporates more complex models of motivation and organisational design (Hopper and Powell, 1985, p. 434). Its constituent parts can be seen in Figure 4.

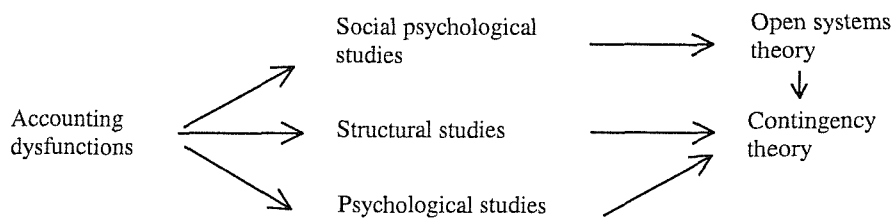


Figure 4: Social systems theory (adapted from Hopper and Powell, 1985, p. 434)

‘Accounting dysfunctions’ refers to early behavioural studies of accounting systems that realised the unintended and undesirable consequences of ‘conventional’ methods. According to Hopper and Powell (1985, p. 435), not many accounting researchers had explored this aspect. Dysfunctional consequences can also occur through messages being misinterpreted or interpreted differently, as explored in psychological studies. The so-called Human

Information Processes approaches to accounting look at these issues and try to determine what factors affect the quality of individual decision-making. They seek to reduce the dysfunctional consequences of accounting systems by improving their design (Hopper and Powell, 1985, p. 435). Social psychological studies are complementary to the former ones. However, they concentrate on motivation rather than information processing. This approach is said to be very similar to the objectivist one, even though it has a more complex view of human beings (Hopper and Powell, 1985, p. 436). Structural theories include studies that examine the impact of organisation structures on the processes under scrutiny. This was not included in the psychological approaches (Hopper and Powell, 1985, p. 437).

Most of the research discussed so far as being part of 'social systems theory' has adopted a closed systems approach, seeing control as achievable by regulating internal organisational variables. Open systems theories, on the other hand, have an ecological orientation and regard organisations as organisms interacting with the environment. Central to this scheme is cybernetics (Hopper and Powell, 1985, pp. 438/439). Contingency theories are also characterised by an open system approach. Contingency theorists advocate that different organisational principles are appropriate under different environmental circumstances, and within different parts of the organisation. Effective operation of enterprises is seen as dependent upon there being a suitable match between internal organisation and the nature of the demands placed upon it by its tasks, size, environment and members (Hopper and Powell, 1985, p. 439).

The last of the three schools to be mentioned within functionalism is pluralism. As opposed to the other schools, pluralism recognises the existence of sectional groups within companies, who may have divergent and mutually inconsistent goals. The tendency further towards subjectivism and radical approaches shows the school's increased interest in 'change'. Pluralist researchers may focus their interest on issues such as financial reporting, industrial relations and the processes of bargaining between various managerial interests (Hopper and Powell, 1985, pp. 443-445).

2.3.2 Interpretivism

The interpretive paradigm stems from the German idealist tradition of social thought, whose foundations were laid by the work of Kant. It reflects a social philosophy that highlights the essentially spiritual nature of the social world. Being of limited interest to the social sciences at first, it was revived by the so-called neo-idealist movement, and associated with theorists

such as Dilthey, Weber, Husserl and Schutz, and schools such as ethnomethodology and symbolic interactionism (Burrell and Morgan, 1979, p. 31). Burrell and Morgan (1979, p.32) state that, at the time of writing, not much organisation theory as such had been generated by this paradigm.

The same applies to accounting theory. Hopper and Powell (1985) provide an overview of interpretive accounting theories that is rather general. They underline that the focus is on meaning and other persons' perceptions of reality. The aim of interpretive approaches is to analyse social realities and the ways in which they are socially constructed and negotiated (Hopper and Powell, 1985, p. 446). Hopper and Powell (1985) refer to some interpretive articles published, without however further sub-classifying interpretive theory as was the case for functionalist theory. They stress that little empirical accounting research has been carried out in this mode. One exception that Hopper and Powell (1985) refer to is Rosenberg et al. (1982), who provide evidence of how accounting meanings and purposes vary according to the occasions of their use in local government service departments. Hopper and Powell refer to several other interpretive studies. They state that "*several interrelated insights into accounting have already been made from an interpretive perspective which are worthy of further research. These include seeing accounting as a language, as myth and ritual, as a means to negotiation, as learning, and as assisting change under conditions of uncertainty*" (Hopper and Powell, 1985, p. 448). Other contributors have further divided the interpretive paradigm into different schools.⁵ Accounting and management accounting research has notably referred to symbolic interactionism, ethnomethodology and cognitive anthropology.⁶ Other terms often encountered in interpretive research are ethnography and grounded theory. These five terms are now briefly addressed in turn.

According to Silverman (1985), interactionism is concerned with providing rich descriptions of the way in which the actors in a culture create, reproduce, and at times change the culture's symbolic order by way of social interaction. The focus is on capturing the process by which the actors construct meaning, since social reality is taken to be continually established symbolically during interaction (Jönsson and Macintosh, 1997, p. 372). Chua

⁵ Note that not all contributors refer to the term 'interpretive'. Other terms are the 'naturalistic' perspective (e.g. Tomkins and Groves, 1983a) and 'microsociology' (e.g. Puxty, 1993).

⁶ Tomkins and Groves (1983a, p. 372) further refer to existentialism and phenomenology as schools situated at the 'subjectivist' extreme of their framework (cf. part 2.4 for more detail on their framework). Existentialism suggests that no rational theory can completely capture the complexity of social life. Phenomenology considers reality as only existing in the consciousness of people. These stances seem to be less present in accounting research.

(1988, p. 63) stresses that meaning and symbols are of major interest here. The 'naturalistic' approach to symbolic interactionism, as advocated by Blumer, stresses the need to gain an understanding of the research participants' subjective perspectives by immersion in the 'phenomenon', and has to be distinguished from a more 'objectivist' approach to it, as notably used by the Iowa school (Tomkins and Groves, 1983a, p. 369; Laughlin, 1995, p. 75).⁷

The 'interpretive' approach to symbolic interactionism, together with ethnomethodology, has been discussed by Chua (1988), who used the term 'interpretive sociology'. According to her, these are the two main branches that have been referred to by management accounting researchers (p. 60). Chua (1988, p. 65) argues, however, that only limited empirical work in management accounting has been based on interpretive sociology and that the borrowing has only been eclectic, based on a few key tenets. As far as symbolic interactionism is concerned, she states that, in seeking to illustrate the situated nature of accounting meanings and roles, management accounting researchers have adopted one of the key assumptions of interactionism, although little or no reference is made to this underlying sociological approach (Chua, 1988, p. 67).

Ethnomethodology is similar to symbolic interactionism, in that both assume a socially constructed reality and ask 'how' rather than 'why' questions. The distinguishing feature is that symbolic interactionism is interested in meanings and symbols, whereas ethnomethodology focuses on social rules (Chua, 1988, p. 63). Also, ethnomethodologists are more interested in describing what actors are doing socially than what they are thinking (the interactionist stance) (Jönsson and Macintosh, 1997, p. 373). The focus is on the study of "*how people go about doing what they do in their everyday life*" (Chua, 1988, p. 62). The main concern is to discover the ways actors make assertions that there are rules which guide their behaviour and how these appear coherent to themselves as part of their social scene (Tomkins and Groves, 1983a, p. 371). Ethnomethodologists thus make rules 'topical' (Holstein and Gubrium, 1994). For an example of a short ethnomethodological study in accounting, see Jönsson (1998).

⁷ Laughlin (1995, p.75) further refers to structuration theory (Giddens) and pragmatism (Mead, James and Pierce) as being located in this area "*with its apparent belief in both subjective and objective dimensions to knowledge*".

Cognitive anthropology has been described by Jönsson and Macintosh (1997) as one of the three main types of 'ethnographic or interpretive accounting research studies' (the other two being symbolic interactionism and ethnomethodology). According to them, cognitive anthropologists aim to describe everything an actor needs to know and believe in order to communicate in a way that is acceptable to the other actors in the culture. Their narrative tries to capture what one has to know about language in order to communicate, speak and write effectively in a certain culture (Jönsson and Macintosh, 1997, p. 370).

As indicated above, Jönsson and Macintosh (1997) equate the term interpretive with ethnographic research. However, the definition of the term ethnography has been subject to controversy. Atkinson and Hammersley (1994, p. 248) argue that "*for some it refers to a philosophical paradigm to which one makes a total commitment, for others it designates a method that one uses as and when appropriate*". In this thesis, ethnography is rather seen as a method, but it cannot be equated to 'interpretive' research, which is seen as being more comprehensive. Ethnographic research involves intensive, face-to-face participant observation in natural settings over long time periods (Jönsson and Macintosh, 1997, p. 370). This means a first hand involvement in the social setting, with the aim to provide a rich and deep portrayal of a way of life. Specific research goals thereby emerge in the field as the study progresses. This is the most general definition of the term ethnography, as a method of research. It can be argued that it also includes most interpretive research, but probably not all. For example, not every interpretive investigation involves participant observation, which can be considered one of the central features of ethnography (Jönsson and Macintosh, 1997; Atkinson and Hammersley, 1994; Gill and Johnson, 1997, p. 97).

Grounded theory is the methodology that informs the present thesis. Grounded theory is a methodology that is characterised by "*the grounding of theory upon data through data-theory interplay, the making of constant comparisons, the asking of theoretically oriented questions, theoretical coding and the development of theory*" (Strauss and Corbin, 1994, p. 283). Strauss and Corbin (1998, p. 8) stress that their methodology provides a sense of vision, the techniques and procedures furnishing the means for bringing that vision into reality. Parker and Roffey (1997, p. 213) note that "*few grounded theory generating studies have as yet emerged in the published accounting and management research literature*". These will be outlined in Chapter 3, which will serve to relate the story of interpretive research in accounting.

2.3.3 Radicalism

The intellectual foundations of the radical paradigm can also be traced to the German idealist tradition, particularly to Kant and Hegel, and to the writings of Marx and Nietzsche (Laughlin, 1995). Radical theorists focus on conflict, modes of domination and change. They see human potentiality as restricted by prevailing systems of domination which alienate people from self-realisation. They further claim that the view of accounting information as social control and as a mediator of conflict has often been obscured by ideological ideas embedded in functionalist accounting thought. It is argued that accounting is not to be seen as neutral, but that in fact the goals of the owners of capital are implicitly given priority. Detailed historical explanations and in-depth ethnographic studies of organisational structures and processes that show their societal linkages mainly inform their research (Chua, 1986, pp. 619-625). Laughlin (1999) argues that few researchers have dared to define the boundaries of critical accounting. His tentative definition refers to “*a critical understanding of the role of accounting processes and practices and the accounting profession in the functioning of society and organisations with an intention to use that understanding to engage (where appropriate) in changing these processes, practices and the profession*” (Laughlin, 1999, p. 73). He stresses a further key characteristic, namely the ‘intellectual borrowings’ from other disciplines.

Burrell and Morgan (1979) made a distinction between the ‘radical structuralist’ and the ‘radical humanist’ paradigms, the former being based on an ‘objectivist’ standpoint and the latter on a ‘subjectivist’ standpoint. Radical structuralism can be traced to the work of the mature Marx, whereas radical humanism is informed by the early work of Marx (Burrell and Morgan, 1979, pp. 32-34). However, the distinction is not clear. Hopper and Powell (1985, p. 451) argue that both methods of analysis have rather to be seen as dialectical aspects of the same reality. As for the functionalist and interpretive paradigms, different perspectives exist. Roslender (1995a, p. 69) distinguishes between Marxist and postmodern perspectives in critical management accounting. These are now briefly addressed in turn.

The Marxist perspective includes political economy, labour process perspectives and critical theory. Roslender (1995a, pp. 69/70) notes that the ‘political economy’ perspective is most evident in the work of Cooper and Tinker and a number of their associates, who, inter alia, offer three imperatives for anyone wishing to adopt this perspective: being normative, descriptive and critical. The ‘labour process perspective’ focuses on one specific element of social order, the labour process. It views organisational goals as the goals of vested interests,

namely capital. Management accounting techniques are seen to exist to institutionalise the subordination of labour and to ensure that management's control strategies are realised (Roslender, 1995a, p. 72). 'Critical theory', the third Marxist approach, is often closely identified with the work of Jürgen Habermas. It is said to exhibit three key characteristics. First, it focuses on the dynamic link between theory and practice and is committed to change. Secondly, emphasis is placed upon developing a critique of the status quo, and the need for transformation to a better life with its ethical implications. And thirdly, it views organisations in their historical and social context and seeks to identify hidden meanings. Furthermore, the role of language is stressed (Roslender, 1995a, pp. 75/76).

Postmodernism is different from Marxism in that it rejects all notions of higher states, better worlds and progress. The individual human being is not in the centre of interest, but the process is and discourse, information, knowledge and communication, are of particular importance. Postmodern thought is a feature of contemporary French philosophers, for example Foucault and Derrida (Roslender, 1995a, pp. 78/79). 'Historian of the present', Foucault has developed a distinct approach to historical analysis, characterised by two analytical techniques known as the 'archaeological' and the 'genealogical' methods. The archaeological method focuses on discourse, aiming to establish discursive series and to determine when these begin and end. The objective of the genealogical method is to locate the present in the past, instead of seeking to reconstruct the past as in traditional history (Roslender, 1995a, pp. 79/80). Management accounting research has mainly drawn on Foucault for his work on the interdependence between power and knowledge. Derrida also looks at discourse, but does not concern himself with history. He focuses his attention on language, meaning, texts, writing and communication. Discourse is seen as having been constructed, in order to introduce meaning and structure. It is thus necessary to deconstruct discourses in order to reveal their ambivalence (Roslender, 1995a, p. 82).

Other more 'marginal' influences on radical accounting research exist, as is the case for functionalist and interpretive research. This overview did not intend to be exhaustive, but to show the major perspectives and influences.⁸ The issue of paradigms in accounting will now give way in order to look at other ways to classify research in accounting.

⁸ See Roslender (1990, 1995a) and Puxty (1993) for more detail.

2.4 Other framework propositions in accounting research

Burrell and Morgan (1979) have been highly influential in the area of accounting research. Their framework has the power of simplicity, which is an important point in such a complex field. It certainly helps in finding a way through the jungle of social research paradigms. On the other hand, it may be considered too simplistic. The polarisation of the paradigms into mutually exclusive sets can be, and is, challenged.⁹ Hopper and Powell (1985, pp. 430/431) consider it foolhardy to maintain that all social science could be uniquely and meaningfully classified with respect simply to two dimensions. They still use the Burrell and Morgan framework for their classification purposes, even if slightly modified. Researchers in accounting and management accounting have developed other models. Most of those discussed below at least see the social science dimension as being a continuum, without any border separating the completely objective from the completely subjective approaches. Some researchers have suggested their own frameworks. The discussion of such frameworks has been extensive in accounting journals and merits consideration. Three such propositions are now discussed in turn, namely Tomkins and Groves (1983a), Chua (1986) and Laughlin (1995).

Tomkins and Groves (1983a) draw on the framework suggested by Morgan and Smircich (1980). Morgan and Smircich (1980) propose a 'network of basic assumptions characterising the subjective – objective debate within social science'. They focus on what Burrell and Morgan have called the functionalist and the interpretive paradigm. However, they construct the social science dimension as a continuum, distinguishing six different approaches, according to assumptions about ontology, epistemology, human nature and methodology. As far as ontological assumptions are concerned, there is a distinction between reality as a projection of human imagination (subjectivist extreme), reality as a social construction, reality as a realm of symbolic discourse, reality as a contextual field of information, reality as a concrete process, and reality as a concrete structure (objectivist extreme) (Morgan and Smircich, 1980, p. 492). Tomkins and Groves (1983a) apply the scheme to accounting research. Examples of research range from phenomenology (subjectivist extreme), through ethnomethodology and symbolic interactionism to cybernetics, open systems theories and scientific approaches (objectivist extreme). Tomkins and Groves (1983a) stress that the appropriateness of a particular research approach is contingent on the nature of the phenomena to be studied. They further discuss the case for qualitative research. Their article

⁹ See for example the discussion by Willmott (1993a,b) and Jackson and Carter (1993).

was subsequently heavily discussed and partly criticised, for example for their statement that ontological assumptions should determine the research style used (cf. Morgan, 1983; Abdel-Khalik and Ajinkya, 1983).¹⁰ However, their call for a greater diversity of research approaches and notably naturalistic approaches, has generally been welcomed (cf. also Willmott, 1983).

Chua (1986) developed a framework for the classification of assumptions, which consists of three parts: Beliefs about Knowledge (Epistemological and Methodological assumptions), Beliefs About Physical and Social Reality (Ontological, Human Intention and Rationality and Societal Order/Conflict), and Relationship between Theory and Practice (What is the purpose of knowledge in the world of practice?) (Chua, 1986, p. 605). The elements of her framework are not mutually exclusive and it is much less rigid than Burrell and Morgan's (1979), although less easily useable. Chua criticises the Burrell and Morgan framework because it presents the assumptions as strict dichotomies and separates the radical structuralist from the radical humanist paradigm. She argues that this separation is not well supported within sociology itself (Chua, 1986, p. 626). She distinguishes three approaches: 'mainstream accounting', the 'interpretive alternative' and the 'radical alternative', similar to Hopper and Powell (1985).

A framework worth discussing in detail was proposed by Laughlin (1995). It is the most useful of the three frameworks proposed by accounting researchers. Laughlin (1995) takes the Burrell and Morgan framework as a starting point, even though he judges it to be simplistic. He still considers Burrell and Morgan as having done the most to help design an abstracted classification scheme for understanding broad streams of social science approaches to empirical research (Laughlin, 1995, p. 65). Laughlin (1995), however, makes use of three, continuous dimensions. They are linked to the level of prior theorisation (theory), the level of the theoretical nature of the research methods (methodology), and the level of emphasis on the critique of the status quo and the need for change. Note that 'theory' includes Burrell and Morgan's ontological and epistemological assumptions, 'methodology' includes human nature and methodology assumptions, and 'change' relates to the nature of society (Laughlin, 1995, p. 66). As far as 'theory' is concerned, Laughlin argues that high levels of prior theorisation are indicative of an assumed material world which, despite empirical variety, has high levels of generality and has been well researched through previous studies. Low levels of prior theorisation, on the other hand, are said to assume that

¹⁰ For a further discussion of these points, see also Tomkins and Groves (1983b).

the world is not material – it is a projection of our mind – and, as such projections differ, generalities are impossible. Thus, as opposed to the previous extreme, empirical details become important in their own right, without being transferable to other settings. They become the theory for the particular phenomenon observed (Laughlin, 1995, pp. 66/67).

For ‘methodology’, Laughlin suggests the following: at one extreme, there is a high theoretical definition for the resulting methods. This means that there also is an implicit assumption that the observer is largely irrelevant to the process and that his or her subjectivity and bias, which at the far extreme are assumed not to exist, play no part in the process. At the other extreme of this continuum, the assumption is that the observer is free-thinking. He or she is encouraged to be free to be involved in the observation process relatively uncluttered by theoretical rules and regulations. The assumption of a free-thinking observer is not seen as a problem but built on as a strength (Laughlin, 1995, p. 67).

As for the ‘change’ dimension, its definition is quite close to Burrell and Morgan’s order/change dimension, although it is constructed as a continuum. At one extreme of the continuum, the view is that everything is bound to be inadequate and incomplete and in need of change. At the other extreme, maintaining the status quo is seen as being unproblematic (Laughlin, 1995, p. 68).

All three dimensions can be conceptualised on scalars ranging from high to low, but it is stressed that the descriptors ‘high’, ‘medium’ and ‘low’ are not precise, definable or measurable. Laughlin presents his framework in the form of a cube, to show that all three dimensions are closely interrelated. His framework, depicted in Figure 5 below, can be used to classify research. It will be used for this purpose in a later section of this chapter.

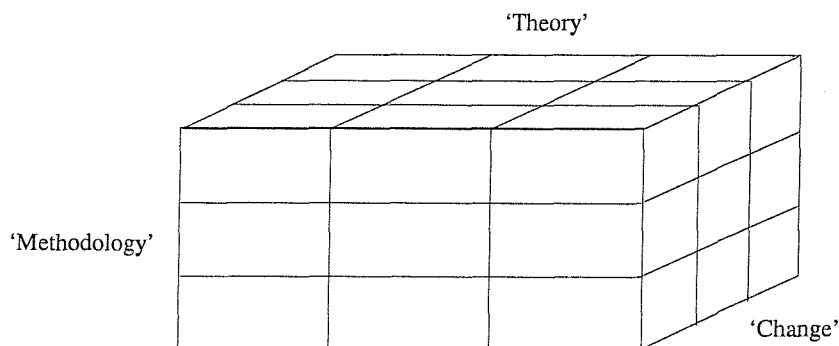


Figure 5: Laughlin’s classification scheme (adapted from Laughlin, 1995, p. 68)

Different attempts at paradigmatic schemes have been discussed but no single approach seems perfect. Burrell and Morgan have been criticised, but the question is whether the other schemes are better. The whole issue of paradigms in social science research is so complex that it would be most helpful to have a classification that is at the same time comprehensive and comprehensible, but that might be wishful thinking. A simple framework is needed, which can then be expanded according to the interests of the individual researcher. It is helpful to represent paradigms in the shape of a map, as it helps to obtain a clear picture, even if some details are excluded. One has to be aware that it cannot be seen as a completely rigid structure or demarcation. This results in a trade-off between detail and an overall view. It is possible to be very detailed and describe different assumptions, but this might lead to a lack of conceptualisation. In this sense it seems that approaches such as the Burrell and Morgan framework are acceptable even if they have to be read with a certain awareness of their limitations.

To conclude this section, it seems appropriate to note that Burrell and Morgan have done great work by raising the issue of paradigms in social science research. Their writing is very influential and provides a good overview. At the same time it raises an important issue: the hegemony of functionalism. This issue is discussed next.

2.5 The paradigmatic debate and the case for interpretive accounting research

The 'paradigmatic debate' is well established and involves not only the discussion of frameworks, but also the need to have an equal spread of research across all paradigms. Research in the social sciences has been identified as having predominantly been informed by the functionalist paradigm. However, since the 1970s, there has been a growing disaffection with this dominant paradigm (Willmott, 1993a). The work by Burrell and Morgan (1979) has been a major contribution to opening up alternative forms of analysis. Various other researchers, some of which have already been referred to in the context of framework propositions, have had their say on this issue. Morgan and Smircich (1980, p. 491), for instance, have explicitly stated growing concern that in particular methods derived from the natural sciences have come to be seen as increasingly unsatisfactory as a basis for social research. Tomkins and Groves (1983a, p. 361) note that accounting research has similarly been dominated by methods inspired by the natural sciences. They forward the case for a bigger spread of research styles, including notably 'naturalistic' or 'interpretive'

approaches.¹¹ Hopper and Powell (1985) similarly criticise the reign of functionalism in accounting research and implicitly call for more interpretive research. The issue has also been raised by Chua (1986, 1988) and Laughlin (1995).

Chua (1986, p. 601) forwards some strong arguments in favour of interpretive and radical approaches. She states that there have been signs of unease since the late 1970s among academics about the state and development of accounting research, and that, even though 'mainstream accounting', which emphasises hypothetico-deductivism and technical control, possesses certain strengths, it has restricted the range of problems studied and the use of research methods (Chua, 1986, p. 601). She then expands on interpretive and radical approaches, which she advocates if some of the limitations of the above mentioned approach can be overcome. In a later article, Chua (1988) makes the case for management accounting research informed by interpretive sociology, while focusing on symbolic interactionism and ethnomethodology.

Laughlin (1995) gives a very focused view on this. He forwards arguments in favour of what he calls 'middle-range thinking'.¹² It is located in the middle of his framework, with respect to all three dimensions and characterised by the following views. Reality is recognised as being distinct from people's interpretations. At the same time, the perceptive bias in understanding is not dismissed. Generalisations about reality are possible, but these will always be 'skeletal', requiring empirical detail. Empirical detail is seen as being important for making skeletal theories complete in particular contexts. The metaphor of the skeleton is meant to signify incompleteness, and yet reasonable stability. This is said to bring together the strengths of both high and low positions, without involving their weaknesses. A similar view exists on methodology. Here, some skeletal rules exist, but these can be extended according to the specific circumstances of the situation. As for change, the medium position allows a certain flexibility as well. The possibility is that critique and change are important in some cases, but not in others. As far as current approaches to social science are concerned, only some parts of German Critical Theory are said to match this location. One example of such a match is Habermas.¹³

¹¹ A word of caution has to be raised here as to the use of these terms. Here, 'naturalistic' is used in the sense of 'interpretive', i.e. approaches characterised by fairly 'subjective' assumptions about the nature of social science, if the terms of Burrell and Morgan (1979) are to be used.

¹² This should not be confused with what Robert Merton has called 'middle-range' thinking.

¹³ Broadbent and Laughlin (1997) show how a methodology informed by a Habermasian approach can be an example of 'middle range' thinking.

The interpretive paradigm was identified as stemming from German Critical Theory. However, according to Laughlin (1995, p. 70), most interpretive strands could be classified as 'low/low/low'. Laughlin classifies symbolic interactionism, as advocated by Kuhn, as 'low/medium/low'. It was argued previously that this was a more 'scientific' approach to research than the more interpretive strand advocated by Blumer. Parker and Roffey (1997, p. 216), while leaving aside the discussion around change, contend that grounded theory should be located in the 'low/low' position for the other two dimensions. However, it is here felt that, compared to symbolic interactionism and ethnomethodology, grounded theory has a higher level of methodological definition and should thus be located in the 'low/medium' position. Parker (2001b, p. 323) similarly argues that grounded theory is characteristic of Laughlin's 'low/medium' quadrant.

The next interesting issue to address is the analysis of the reasons for the persistent 'hegemony' of functionalism and to then forward the case for alternative approaches, namely interpretive approaches. The hegemony of functionalism may in the first place be explained by its characteristics. Generally speaking, functionalist approaches rely heavily on quantitative measures. They are characterised by scientific methods that can be easily replicated and verified, and generalised across settings. These characteristics have to be seen in the historical context of what is to count as knowledge. According to Usher (1997), epistemology evolved as part of the struggle against the medieval Church. Experiment and observation are said to have replaced tradition and the divine text, validation became a function of measurement and intersubjective testability, and experience mediated by rationality, the source of knowledge (Usher, 1997, p. 2). This is how scientific methods came to be seen as a set of universal rules for conducting research. Chua (1986, p. 617) similarly states that "*numbers are often perceived as being more precise and 'scientific' than qualitative evidence.*" Laughlin (1995, p. 77), in the same context, notes that the continuing esteem of functionalist approaches may well be connected with the human desire for certainty and a fascination with whatever makes claims to absolute truth. It is probably true that functionalist approaches might at first sight be more appealing, for these reasons.

The functionalist paradigm has come to be seen as the 'natural' choice of research. This is how students come to learn about the world, in textbooks etc. And it is a difficult task to challenge such taken-for-granted assumptions. Revision, however, reveals a considerable amount of missing detail. Numbers, as for example in accounting data, are obviously summaries of different aspects that neglect some others. Morgan (1988, p. 480) argues that

“accountants have long recognised the limitations of numerical modes of representation, but have been hamstrung in their attempts to overcome them because the numerical view has been equated with an objective view.” Also, it has to be seen that even though numbers might look impartial and objective, they include some kind of value judgement. Survey data, even though being statistically valid and generalisable may hide the information needed. Experiments do not take into account the context of the situation, but these negative aspects are often neglected and not reflected upon.

For the research undertaken in this thesis, the assumptions underlying the functionalist and radical approaches are rejected. The research is informed by an interpretive approach. This is mainly based on the assumptions underlying this approach in terms of ontology, epistemology and human nature and as regards the nature of society. Reality is not seen as a ‘given out there’, but as being to a great extent the product of people’s minds. Knowledge is seen as being of a soft kind, based on experience and as possibly being understood only from the point of view of the individuals involved. And human beings are seen as predominantly autonomous and free-willed, even though their environment does have an impact on this to a certain extent. The position is less clear as regards the nature of society. Basically, society is potentially seen as being in conflict, with inherent structures of power and domination. However, this is not to be the main concern of the research to be undertaken. The position is rather that issues of power, for example, might be encountered during the research, but that these are not focused upon in the first place, and not looked for especially. If such issues emerge, they will be considered, but probably only as one issue out of many. This is fairly close to the position taken by Laughlin (1995) as regards the medium position for change in his argument for ‘middle-range thinking’.

The case for interpretive accounting research, which has been made by many of the above-mentioned authors, is adopted. The work advocating the use of the interpretive approach and previous successful affiliations of it make a very convincing case for adopting it (see for example Nahapiet, 1988 and Dent, 1991).¹⁴ The choice is personal and well considered. It is based not only on the named assumptions underlying research, but also reflects thoughts on other issues such as those raised by Tomkins and Groves (1983a) concerning the link between theory and practice. They argue that the fact that very little research has been published in the ‘naturalistic’ style, i.e. research in the natural setting, may be a reason why

¹⁴ This view is to a certain extent also shared by a minority of accounting researchers in the US (see Baker and Bettner, 1997).

practitioners often claim that accounting research is of little relevance to accounting practice (Tomkins and Groves, 1983a, p. 364). Other accounting researchers have similarly called for greater practical relevance in accounting research (Llewellyn, 1996; Tomkins, 1999) and for management accounting research to progress towards managerial relevance by using interpretive approaches (Jönsson, 1998).

The above discussion raises the issue of research limitations. Interpretive approaches have often been criticised, notably for the drawbacks linked to issues such as generalisability, subjectivity, replicability. Obviously, the kind of in-depth studies required for interpretive approaches preclude any wide-range coverage of organisations as may apply in surveys. Further, research settings may be chosen for their uniqueness. It is felt that interpretive research can still contribute to accounting knowledge, if the researcher is aware of and reflects on such limitations. These particular points will be further reflected on in subsequent chapters.

2.6 Summary

This chapter has traced the paradigmatic debate in the social sciences, starting from Burrell and Morgan (1979). Their framework for the classification of social sciences research has been the subject of many debates. It is described in detail, not only because it is often referred to, but also because of its usefulness for the classification of research. It is used, in slightly modified form, to give an overview of the three main paradigms in accounting, namely the functionalist, interpretive and radical paradigms. Accounting researchers, specifically Tomkins and Groves (1983a), Chua (1986) and Laughlin (1995) have proposed other frameworks. All of them have their advantages and their limitations. The paradigmatic debate has further raised another main issue: the hegemony of functionalism in accounting research. It is argued that other paradigms are of value for accounting research, namely the interpretive paradigm, which has informed the present research project. This issue is further pursued in the next chapter, which traces the story of interpretive research in accounting.

CHAPTER 3: INTERPRETIVE ACCOUNTING RESEARCH

3.1 Introduction

The case for interpretive research has been made in Chapter 2. It was based on a review of theoretical work that argues for a broader view on research, also encompassing subjectivist approaches (e.g. Morgan and Smircich, 1980; Tomkins and Groves, 1983a; Chua, 1986, 1988). The present chapter develops that argument further, whilst drawing on the published interpretive accounting research of the past twenty years and elaborating on the main topics investigated. Before presenting the empirical research that has been undertaken, a first general overview is given, structured around six main themes: budgeting, management control and accountability, communication and information, accounting change, accounting and culture, and strategic issues and planning.

3.2 The story of interpretive accounting research

It was not long after Burrell and Morgan (1979) published their influential work on sociological paradigms and organisational analysis that accounting researchers had the idea to call for more non-functional and notably more interpretive accounting research. Early proponents for interpretive accounting research include Burchell et al. (1980), Colville (1981) and Hopwood (1983), who opened up the traditional view of accounting in order to include new roles and perspectives. They also called for the study of accounting as an organisational and social practice, located in an organisational context with specific meanings attached to it. Burchell et al. (1980) contrasted the roles that had been claimed on behalf of accounting with the ways in which accounting functions in practice. Inter alia, they referred to accounting as an 'ammunition machine' and a 'rationalisation machine', indicating the potential political processes involved, and accounting's role in the rationalisation of decisions that had already been made (pp. 17/18). Roberts and Scapens (1985) similarly called for understanding accounting practice in organisational contexts. Added to these were the calls for 'interpretive', 'naturalistic' and 'qualitative' research made by Tomkins and Groves (1983a), Chua (1986, 1988), and Laughlin (1995), as discussed in Chapter 2. Parker (1994) called for field studies in management and accounting in general, while Parker and Roffey (1997) made the case for the use of grounded theory in particular.

The different schools informing interpretive accounting research have been identified before as including symbolic interactionism, grounded theory, ethnomethodology, cognitive anthropology and ethnography. However, the review of empirical research has shown that very few researchers explicitly mention their adherence to a certain school. Most appear to be informed by what they call 'interpretive' or 'naturalistic' research, without a further distinction being possible or wished for. Some publications that are informed by grounded theory, on the other hand, often make reference to this specific methodology, without however apparently or consistently using it (e.g. Covaleski and Dirsmith, 1983, 1986, 1988). There does not, therefore, appear to be an overriding interest in these distinctions and these are not considered any further. The chapter now proceeds to analysing the examples of interpretive accounting research.

3.3 Examples of interpretive research in accounting

The research reviewed in this chapter has been informed by the interpretive perspective. This perspective is characterised by deep immersion in the field, a focus on meaning and understanding, and the study of phenomena from the viewpoint of the organisational actors, while attempting to preserve some of the complexity and integrity of the phenomenon under study. Often focusing in depth on one or few organisations, the research is very rich in detail, such that any literature review can hardly do justice to the amount of illustrations provided. It is an overview, and interested readers are encouraged to read the original documents for further detail. Six main research themes were identified at the start of this chapter. However, as the aim of interpretive research is to do justice to the complexity underlying organisational life, many of the articles that are explored below consider other aspects apart from the main themes.

3.3.1 Budgeting

Budgeting was the main concern of numerous early interpretive accounting publications, such as Jönsson (1982), Boland and Pondy (1983, 1986) and Covaleski and Dirsmith (1983, 1986, 1988). Some of these early studies appear to take first steps towards an interpretive investigation of accounting in organisational settings, without however developing the richness of the later enquiries. In more recent contributions, Jacobs (1995) has investigated budgets as a medium of organisational transformation and Collier and Berry (2002) outline the issue of risk in the process of budgeting (Collier and Berry, 2002). The earlier research is detailed below.

Boland and Pondy (1983) call for the union of natural and rational perspectives in organisational accounting studies. According to them, rational models assume that management is confronted with an objectively knowable, empirically verifiable reality, which demands action, whereas natural models see management as responsible agents who interact symbolically, and, in so doing, create their social reality and give meaning to their ongoing stream of experience (Boland and Pondy, 1983, p. 223). Boland and Pondy (1983, p. 225) argue that organisations and their accounting systems are not to be understood as either natural or rational but as both, simultaneously, in a mutual context. They illustrate their argument with two short case studies, one looking at a university budget, the other at a school closing decision. These are mere illustrations with little information on the context to give weight to their rather theoretical argument. Boland and Pondy (1986) draw on the same argument. Their data set is a transcript of a high school district's budget meeting that again appears to be lacking important contextual information and a deep immersion into the organisation.

While the above-mentioned research certainly contributes to our growing understanding of budgeting in organisational settings, they fall short of providing rich insights that can be considered of prime relevance. The three articles by Covalleski and Dirsmith (1983, 1986, 1988), on the other hand, provide richer insights. Covalleski and Dirsmith (1983) show how budgeting can be an agent of negotiation and political advocacy in a nursing care service environment. Drawing on a quantitative test first to then further our understanding through a qualitative study based on interviews, it certainly enriches the traditional view of budgeting. In the studied setting, budgets were used as a negotiating tool with which middle level managers advocate the needs of the subunit to upper-level organisational members, thus emphasising an upward flow of information. While this article is entitled 'Budgeting as a means for control and loose coupling', the subsequent articles on budgeting explicitly and increasingly focus on political issues. Covalleski and Dirsmith's (1986) article is entitled 'The budgetary process of power and politics' and investigates the use of budgeting in hospital nursing services units. Here, they focus explicitly on political theories of budgeting which, according to them, suggest that budgeting serves to establish, distribute and maintain power within organisations. It is this theory based on an emergent view of budgeting as constitutive of reality that they want to examine, as opposed to the traditional perspective which views budgeting as facilitating and enabling technically rational decision making. They conclude that a political view of budgeting definitely appears to be useful to an understanding of the budgeting process in the six hospitals they investigated. Covalleski and

Dirsmith (1988) examine the usefulness of an emergent perspective, i.e. whether budgeting is complicit in the creation of a social reality, in a different setting, the budgetary process between a major state university and the state government. They conclude that, again, there is considerable merit in the emergent perspective of budgeting in the setting studied.

To conclude, the interpretive accounting work that investigates issues related to budgeting draws a rich picture of these practices in use in diverse organisational settings, including the public sector and private corporations. Budgeting is presented as an agent of negotiation and political advocacy which serves to establish, distribute and maintain power within organisations (Covaleski and Dirsmith, 1983, 1986, 1988), thus adding a political perspective to rational models. Closely related to the issue of budgeting is the issue of management control.

3.3.2 Management control and accountability

The issue of control was hinted at in the above-mentioned research, but it was seldom the key focus. It is the key issue in work by Berry et al. (1985), Dent (1987), Dermer and Lucas (1986), Dermer (1988), Ansari and Bell (1991), Goddard (1992), Hoque and Hopper (1994), Dirsmith et al. (1997) and Rahaman and Lawrence (2001). Closely related are issues revolving around the notion of accountability. Accountability issues have been at the core of studies by Roberts and Scapens (1985), Laughlin (1990), Goddard and Powell (1994), Ahrens (1996), Chew and Greer (1997) and Ahrens and Chapman (2002). Some of the most relevant contributions are briefly discussed below.

Berry et al. (1985) provide a detailed study of an area of the National Coal Board, based on in-depth observation and the study of the organisation's history and environment. They focus on the rationales for the accounting practices offered by the participants, while focusing on accounting and management control practices. They argue that accounting and information may be managed to enhance ambiguity or to provide legitimacy in the organisation. Their analysis further shows the significance of tradition and culture for an understanding of management control in the chosen research setting. These issues are further developed in Section 3.3.5.

Ansari and Bell (1991) provide an interesting account of organisational control in a Pakistani company, called International Foods, which is a tightly managed family business. They trace the company from its early beginnings twenty-two years ago, focusing their attention on the evolving nature of accounting and control systems. The roles that accounting and control

play have shifted over time. Accounting and control were important, but unobtrusive in the early years, mainly serving the technical-rational demands of the environment, with no apparent internal use. They then shifted from rational concerns to becoming implicated in power distribution, and finally, almost at the dissolution of the company, there appeared to be a complete disregard for accounting and control, discussions turning around establishing who had violated the norms of the culture rather than whose accounting was right. Ansari and Bell (1991) conclude that traditional theories of control did not fully explain or capture the existence of certain practices and the dynamics of some events, while culture did (cf. below).

Hoque and Hopper (1994), approaching their investigation rather from a macro level of analysis, come to similar conclusions. Their study of management control in a Bangladeshi jute mill shows the influence of the wider social, economic, political and institutional contexts on the ways in which management control operates. They conclude that management control in the organisation was ultimately a social and political phenomenon rather than a computational strategy of rational decision-making processes. Managers used social or informal control mechanisms to cope with the complex and varied situations confronting them. Further to that, the financial reporting systems appeared primarily to legitimise the organisation in the face of external demands.

Ahrens (1996) provides an interesting account of styles of accountability in British and German breweries. He notes that management accountants appear to be dominated by differently constructed realities in the two countries. While British management accountants appeared to privilege the reality of accounting information in judging action proposals, the German management accountants often did not regard accounting information as capable of capturing the reality of proposals, but as only one of a number of possible and credible perspectives (Ahrens, 1996, p. 169). Processes of accountability here appear to rely more heavily on separately conceptualised functional expertise.

The above-mentioned research draws a rich picture of control practices and accountability styles in diverse organisational settings. Control has been described as a social and political phenomenon, which is influenced by the specific organisational context and closely related to cultural issues (Hoque and Hopper, 1994; Berry et al., 1985; Ansari and Bell, 1991; Goddard, 1999). The issue of culture is further developed below, but first, a short overview

of interpretive accounting research investigating issues of communication and information is provided.

3.3.3 Communication and information

The issues of communication and information form the predominant concern of publications by Dirsmith and Covaleski (1985), Preston (1986), Ansari and Euske (1987), Jönsson and Grönlund (1988) and Ahrens (1997a). Dirsmith and Covaleski (1985) aim to examine the non-formalised, non-rule oriented approaches employed in the 'Big 8' public accounting firms to effect control, focusing on understanding the possible roles of informal communications, nonformal communications and mentoring in the management of these firms. Non-bureaucratic, non-regulated forms of management, such as mentoring, appear to be the principal means of effecting co-ordination and control in the case companies. Informal, nonformal and formal communications are argued to be located on the same continuum. Whereas formal communications might be used to convey organisational rules and laws, nonformal communications might convey and enculture people to conform to organisational norms, while informal communications instruct as to organisational and group mores. Accounting is not further mentioned.

Preston (1986) investigates the process of informing in an industrial company over one year, focusing on the mechanisms and media involved in the various information processes and the meaning that these have for the managers who develop and use them. Adopting a symbolic interactionist perspective, he defines the way managers are informed as a 'process of informing' in which managers construct and maintain arrangements to inform each other and themselves. His findings suggest that so-called informal sources of information are used in spite of the existence of formally or officially documented sources. These 'processes of informing' preceded the computerised production of information. Interactions, observations and keeping personal records were found to be intrinsic to the construction of reality and making sense of the social and physical world. Preston (1986) emphasises that managers continue these processes, despite all attempts to design more timely, detailed and accurate information systems. Again, accounting is not explicitly mentioned, but is part of the information sought after.

Ansari and Euske (1987) on the other hand focus explicitly on accounting data. Their contribution reports a longitudinal field study of the use of information in a public sector organisation. They focus on the extent to which the use of cost accounting data fits one of

three conceptual models of information use, namely the technical-rational, socio-political and institutional perspectives. Their findings suggest that there is little use of cost data consistent with the technical-rational perspective, but most uses of data appear to be consistent with either the socio-political or the institutional perspectives. Accounting systems and accountants appear to be perceived as symbols of rationality by external groups, thereby playing an important role in reifying the abstract qualities of efficiency, productivity and accountability that are valued by the organisation's external constituencies. While this publication uses positivistic language, it still sheds light on the use of accounting data in an interpretive way, thereby providing illustrations of the limitations of technical-rational perspectives.

Ahrens (1997a), drawing on the same research setting as Ahrens (1996), provides instances in which the functioning of management accounting crucially depends on talk and in which, through talk, accounting information becomes implicated in business decisions in an interactive, dynamic way. Focusing on comparative cases of British and German brewers he concludes that, *"through an analytical focus on accounting talk, the mobilisation of accounting in processes of organisational ordering can be related to the ways in which it is combined with other bodies of organisational knowledge"* (Ahrens, 1997a, p. 635). The situation was markedly different in the German breweries, as compared to the British ones. British management accountants appeared to employ a rhetoric of 'pro-activeness', meaning their early involvement in emergent operational proposals, thereby closely combining their accounting expertise with operational knowledge. Accounting was thus enacted as a kind of expertise, which was seen to be immediately relevant for the day-to-day ordering of organisational action. In the German breweries, on the other hand, accounting was enacted as an instrument of 'objective' evaluation and tended to be combined with administrative expertise. Its role was characterised by formalisations, which served mainly to rationalise and legitimise completed operational proposals. Accounting expertise was not combined with expertise that was seen to be immediately related to the detailed ordering of organisational action.

To conclude, similarly to the research looking at budgeting and control that were discussed above, the publications investigating issues of communication and information shed more light on the importance of these issues in organisational settings, thereby providing rich pictures of the roles they play in everyday organisational life. They show the importance of informal processes of informing (Preston, 1986) and how, through talk, accounting becomes

implicated in business decisions (Ahrens, 1997a). The studies discussed cover mostly private corporations, but also public sector organisations. At times, they hint at issues of culture. The same relates to studies of accounting change. These are now considered more closely, before outlining interpretive study of accounting and culture.

3.3.4 Accounting change

The issue of accounting change has been investigated by Hopwood (1987), Nahapiet (1988), Dent (1991), Chua (1995), Cobb et al. (1995), Vaivio (1999), Burns and Vaivio (2001), Collier (2001), Kasurinen (2002), and Helliari et al. (2002). Closely related to this is the issue of organisational culture, which will be addressed in the next subsection, even though cultural elements are also referred to here in relation to change (e.g. Dent, 1991).

A distinction can be made between work that focuses explicitly on change and those researchers who come across it as a by-product of their investigation into accounting generally. The latter include Helliari et al.'s (2002) longitudinal case study of profitability reporting in a bank. The former encompass investigations into accounting change in organisations in relation to the emergence of non-financial measures (Vaivio, 1999), budgeting (Collier, 2001), and the implementation of a balanced scorecard (Kasurinen, 2002). Burns and Vaivio (2001) provide some comments on management accounting change more specifically. Two key interpretive contributions (Nahapiet, 1988; Dent, 1991) are now considered in more detail.

Nahapiet (1988) presents a case study of health service resource allocation as a basis for exploring how organisational members come to understand the meanings and implications of accounting change within this specific context. She analyses the implementation of a new calculative process of resource allocation in one regional health authority and its four area health authorities. Her findings suggest that the relationship between accounting and organisations is a complex and intricate web of multiple connections and mutual influence evolving over time. She further discusses the interplay between the rhetoric and reality of accounting, concluding that accounting may provide a language for discourse, rules for guiding action and a way of establishing legitimacy in an institutionalised organisation. In this case, accounting both shapes and is in turn shaped by organisational reality. Accounting shapes organisational reality by redefining the resource position of the region and by shaping the views of organisational actors of what is important. And it is shaped by organisational

reality, in that the elements of the resource allocation formula were restricted by the need to include variables for which information was readily available at different levels.

Dent (1991) observed organisational change in a major British railway company, focusing on 'organisations as cultures'. He reveals how this company's culture slowly changed from a 'railway culture' to a 'business culture', as perceived by the senior management elite. While the dominant culture was centred on engineering and production concerns prior to the study, during the course of the four-year study, a new culture emerged that was focusing on economic and accounting concerns. In this process, accounting actively shaped the dominant meanings given to organisational life and ultimately obtained a remarkable significance in the senior management culture. Dent (1991) argues that the appreciation of organisations as cultures provides a rich insight into organisational life. He further proposes that cultural knowledge in organisations vests organisational activities, including accounting with symbolic meanings. A cultural analysis of accounting seeks to uncover these particular meanings, and to locate them in underlying local knowledge, values and beliefs.

To conclude, studies investigating the change of accounting practices over time appear to provide powerful explanations and illustrations of accounting in organisational contexts, while showing the influence of power, but also culture on accounting practices (cf. below). The above-mentioned research has investigated accounting change in organisational settings as diverse as banks, the police force, manufacturing companies and hospitals, that is in both the public and private sectors. Particularly, studies of accounting change show how accounting both shapes and is in turn shaped by organisational reality (Nahapiet, 1988). The next subsection addresses the related issue of accounting and organisational culture in more detail.

3.3.5 Accounting and culture

The issue of accounting and culture has been explored by Chew and Greer (1997), Abdul-Rahman and Goddard (1998), Granlund and Lukka (1998), and Goddard (1999) (but also Ansari and Bell, 1991) (cf. before). They have a similar interest in cultural issues, whether focusing at a national culture (Granlund and Lukka, 1998) or the Aboriginal culture (Chew and Greer, 1997). Two key contributions focusing on organisational culture are now outlined in more detail.

Abdul-Rahman and Goddard (1998) propose 'An interpretive inquiry of accounting practices in religious organisations', a study that aims at developing a grounded theory from the data collected in two State Religious Councils in Malaysia. They take a particular interest in organisational culture, while considering 'culture as formal and informal organisation' and assuming that culture somehow resides only in informal or expressive activities in organisations (Smircich, 1983). Further, culture is considered public and as located in the minds and hearts of people. The findings of this preliminary study suggest that broader social, historical and religious contexts within which the organisations were located, together with their internal power structures and processes, emerged as being most important in understanding the cultures and the relationship with accounting practice (p. 195). Two different situations appeared to exist. Where the organisational power source was an identifiable elite with its own values and beliefs, and did not consider accounting information to be useful, accounting practices were found to have little meaning to the organisational participants. In this case, accounting processes were considered routine and the accountant was perceived as not important. Where no such power elite existed, but other external influences were important, accounting did have meaning in terms of organisational processes, but not in terms of accountability. In both cases, and closely related to the particular religious context, accountability is to God only, and accounting can contribute little in this relationship. Similarly to Ansari and Bell's (1991) conclusions, cultural elements appear to provide a powerful explanation of certain accounting practices, together with power.

Goddard (1999) investigated the interrelationship between organisational culture and financial control systems in three local government organisations. He draws on Whipp et al. (1989) who viewed culture in terms of a set of core beliefs and four modes of expression of these beliefs. Goddard (1999) suggests that organisational culture, with reference to the financial control system, comprised a corporate culture and a number of departmental cultures that were influenced by the corporate culture. The financial control system was found to be both constitutive and reflective of culture. These roles appear to change over time, with the system at times being seen as an agent of organisational change, and at others as an agent of organisational order. Both roles are argued to result in managerial action appropriate to corporate values.

Overall, studies investigating accounting and cultural issues note how culture impacts on accounting, and how accounting is constitutive and reflective of culture. Furthermore, it has been shown how a new culture centred on accounting and business can arise (Dent, 1991). Again, diverse organisational settings have been studied, showing the importance of those issues in the public sector and also in religious organisations. A last main concern of interpretive accounting research relates to aspects of strategy and planning.

3.3.6 Strategic issues and planning

The investigation of strategic issues and planning with regard to accounting and management accounting have been rather scarce as far as interpretive approaches are concerned. Relevant contributions include Roberts (1990), Ahrens (1997b), Slagmulder (1997) and Parker (2001b, 2002). Roberts (1990) investigated the acquisition and subsequent integration of a company called 'ELB Ltd' into a UK conglomerate, called 'Conglom'. His main concerns were twofold. The first concern relates to what accounting makes visible and what it conceals. His analysis suggests that Conglom, through the medium of accounting information is able to present an external image of success which, however, fails to reveal the organisational processes whereby this success is realised, and thus conceals the potentially damaging strategic consequences within individual business units of Conglom's exclusive preoccupation with financial returns. The second concern relates to exploring and making sense of an apparent tension between strategic management and the use of accounting as an instrument of internal control. This is to be further explored in the next chapter. Similarly to Dent (1991), Roberts (1990) mentions that, shortly after the acquisition of ELB by Conglom, the traditional dominance of a production culture was instantly supplanted by the dominance of a purely financial logic (cf. accounting change).

Ahrens (1997b), drawing on the same set of case studies as Ahrens (1996, 1997a), explores how management accountants in Britain and Germany perceive their relationship with processes of strategic formulation and how they seek to mobilise strategic arguments in their day-to-day contacts with operational management. While some of the conclusions are similar to the ones mentioned above with respect to Ahrens (1997a), Ahrens (1997b) attempts to shed light on the differences, while drawing on Bourdieu's theorising of the relationship between objectification in representations and strategy. Some of the findings are potentially very interesting, as they share the focus of this thesis on strategic issues and are to be considered in more depth in the next chapter.

Slagmulder (1997) investigates the use of management control systems to achieve alignment between strategic investment decisions and strategy. She proposes a grounded theory, based on field studies in ten different research sites, but does not explore the phenomenon in an interpretive manner. The emergent theory is one of dynamic adaptation of management control systems triggered by changes in environmental conditions in order to help achieve strategic alignment of strategic investment decisions.

Parker (2001b, 2002) provides an interesting account informed by grounded theory of a field-based case study of planning and control in a not-for-profit Christian organisation in Australia. While the 2001b article focuses on 'reactive planning', the 2002 article adds the focus on 'budgetary incrementalism', both of which processes are included in one theoretical framework. Parker (2001b) notes that reactive planning is driven by four main external and internal drivers: a community oriented culture, a consultative bureaucracy, a compliance oriented accounting system and increasing pressures upon organisational resources. These are found to produce a reactive planning style, with a marked short term and resource orientation. There was thus a 'strategic planning vacuum'. Parker (2002) goes on to explore how the reactive planning style produces an 'incremental budgetary mélange' that ultimately results in a form of control by compromise. According to Parker (2001b), the significance of his study's findings resides in its identification of a complex set of internal and external factors conditioning planning in a religious organisation. Furthermore, Parker (2002) notes how his study presents insights into the role of budgetary systems in organisational approaches to coping with a complex and dynamic environment. His work is certainly a welcome contribution to accounting research informed by grounded theory.

To conclude, interpretive accounting studies that investigate strategic and planning issues have been a rather rare phenomenon. There does appear to be a gap in research studying these aspects of importance to organisations, as much as a paucity of interpretive accounting research in general. The issue of strategic aspects and more specifically strategic management accounting will be further discussed in Chapter four.

3.4 Summary

A large number of interpretive accounting articles have been discussed, covering a broad range of different themes and research sites. The research is characterised by a shared interest in interpretive issues, but is nonetheless very different. Seeking to preserve some of the complexity and integrity of the phenomenon investigated, it often discusses several research themes at once, while presenting a rich picture of the organisational setting researched. Summarising and analysing these contributions in one chapter can never fully capture the richness they represent. However some of the main issues that were investigated in the past twenty years were raised to make the case for interpretive accounting research. Interpretive accounting research appears to be able to more fully explain accounting as a phenomenon encountered in most organisations. It adds perspectives to the research of accounting that have so far often been neglected. There appears to be scope for further interpretive accounting research into any of the themes discussed, and especially into the strategic issues related to accounting, a theme that will be further discussed in the next chapter.

CHAPTER 4: STRATEGIC MANAGEMENT ACCOUNTING

4.1 Introduction

The two previous chapters discussed research paradigms and the history of interpretive accounting research, without mentioning strategic management accounting. SMA is the main topic of the research and the literature covering it is outlined in this chapter. The introductory chapter addressed the background and motivation of the current research project, drawing partly on the criticism that 'traditional' management accounting has recently faced, and outlining the situation that companies face in today's business environment. The development of strategic management accounting, or SMA, has to be seen in this context. SMA can broadly be defined as being about the use of management accounting systems in supporting strategic decision-making.

Since 1981, a growing number of research articles have emerged, particularly in the 1990s. The techniques that are proposed in an often rather normative way are discussed in section 4.2 of this chapter. Empirical studies, mainly drawing on questionnaires or case-studies, attempt to investigate whether different forms of strategic management accounting, defined broadly, are found to be in use in companies. These studies and their findings will be reviewed in section 4.3. However, even though there has been growing interest in empirical research and case studies, little evidence has been drawn from in-depth studies, and hardly any from interpretive research. This issue is raised in section 4.4, where the case for interpretive research in this field is made and where the main research questions are stated.

4.2 Normative advocacy and techniques proposed

Very different approaches to strategic management accounting have been advocated in the last 20 years, under the label 'SMA' or under differing labels. Tomkins and Carr (1996) comment on the state of SMA over that period and argue that an agreed and well-specified overall framework has not yet been worked out. They attribute this to the way that corporate strategy literature has developed and shifted. This chapter considers all the possible links between management accounting and strategy. The widest possible definition of strategic management accounting is adopted, because it is not clear to date what managers and accountants in companies understand by SMA. It can be said that SMA is about the use of management accounting systems in supporting strategic decision-making. It has a broad external focus, not only on competitors, but also on the whole competitive environment

(present and future). It links explicitly to strategy, and is forward-looking. Strategy is concerned with long-term developments that are complex in nature and have major resource implications. SMA as a support function to decision making, here strategic decision making, has to adapt to this.

Major normative contributions to SMA have focused on three main concepts. These link to competitor accounting and competitive position monitoring, strategic cost management, strategic investment appraisal, or to all of them together. It is often difficult to assign contributions to any of the themes, as most contributions would refer to different concepts at once, these being linked. Some of the more general articles focusing on strategic management accounting often include one or more of the elements described above, or refer to management accounting practice that has been developed with reference to some strategy concepts. The different points will be discussed in turn, starting with Simmonds, the first key contributor to this field.

4.2.1 A focus on competitors and competitive position

Simmonds (1981, 1982, 1986, 1987, 1988) first referred to strategic management accounting in the context of competitor accounting. He defines SMA as *“the provision and analysis of management accounting data about a business and its competitors for the use in developing and monitoring the business strategy; particularly relative levels and trends in real costs and prices, volume, market share, cash flow and the proportion demanded of a firm’s total resources”* (Simmonds, 1981b, p. 1). His main point is thus that relative levels of costs, prices etc. are important, i.e. the company’s position in relation to its competitors. Already in an earlier contribution, Simmonds (1972) had stressed the importance of having an ‘information orientation’ as opposed to a ‘data orientation’, which is typical for accounting. An ‘information orientation’ approach sets the problem in the first place and then looks at the information needed to make an appropriate decision. In the context of SMA, this refers to management accounting systems that are dominated by strategic needs.¹⁵

¹⁵ Note that Simmonds distinguishes between three distinct levels of strategy: corporate strategy, business strategy and functional strategy. Like many other researchers to be discussed later, he only refers to business strategy, which he says to dominate the other two levels. (Simmonds, 1988)

Simmonds (1981a) argued, without however presenting any empirical evidence, that SMA was a rapidly spreading field in practice, without being acknowledged. He attributes this to the development in strategic thinking. Here, profit is seen as stemming from the pattern of competition over time, and the firm's position in the competitive configuration. In order to be able to elaborate on this, companies need to know their position, and not just in static terms. Data on sales and market share, profits and return on sales, volume and unit cost, unit prices, cash flow, liquidity and resource availability, and future demand need to be collected continuously, and this with reference to different sorts of competitors in the marketplace: preferably the leader, close competitors and laggards (Simmonds, 1987). All this can then be drawn together to evaluate the competitive position of the company over time.

One possible application is pricing. Simmonds (1982) gives an example of how strategic management accounting can have a positive impact on pricing decisions. He works through a case study showing how the analysis would look under application of 'internal management accounting' as opposed to 'strategic management accounting'. Another proposition is to look at return on competitive position measures, rather than focusing on return on investment (Simmonds, 1988). He argues that, after all, it is not the investment which produces returns, but the competitive position. Simmonds' contributions have been very influential for the further development of strategic management accounting. Even though not all research in the field refers to SMA, many refer to Simmonds.

Bromwich (1990, 1992) similarly focuses on competitors. He proposes a working definition of strategic management accounting as "*the provision and analysis of financial information on the firm's product markets and competitors' costs and cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods*" (Bromwich, 1990, p. 28). Bromwich approaches the whole issue more from an economist's point of view, mainly based on two economic theories, which he believes open a new perspective on cost behaviour. The first emphasises the attributes of a product, such as lower maintenance costs and greater reliability, which actually make the product desirable for customers. He argues that competition extends across a wide range of strategic product variables, not just price.

For management accounting, this means that information about a number of demand and cost factors with regard to strategic attributes is needed, for the company and its actual and potential competitors. Strategic product attributes become cost objects. In the same context,

Bromwich (1992) refers to the Japanese way of management. Accounting in Japan reflects an 'overriding commitment to market-driven management' (Hiromoto, 1988). One example relevant here is 'target costing'. Japanese companies design and build products that will meet the price required for market success. They look to the market in order to determine a target selling price, which is based on the price the market is believed to accept for the given product and its characteristics. After deduction of the target profit margin, an 'allowable cost' is stated, which is usually below what realistically can be attained. The focus then is on continuous cost reduction to achieve this cost (Hiromoto, 1988).

The second theory that Bromwich (1990, 1992) refers to is the contestable market theory. It focuses on the company's cost structure relative to its actual and potential competitors, which is seen to be essential in assuring the sustainability of the firm's market strategy. Here, information is needed about the cost structures of all companies in the market and those likely to enter. One important aspect to this is related to barriers to entry. Bromwich (1990) argues that barriers to entry, such as sunk costs, only arise where a potential entrant cannot match, by purchases on the market, the advantages of existing firms (p. 43).¹⁶ Bromwich (1990) argues that accountants should provide information on sunk costs because of the strategic advantages they may bring to the firm that possesses them. According to Bromwich (1990), the two theories and their implications for companies give very strong theoretical reasons for urging the greater adoption of strategic management accounting. His conclusion is thus very similar to Simmonds', but his advocacy derives from a different and more rigorously worked out theoretical background.

An influential strategy researcher in the field of strategic management accounting is Porter (1980, 1985). He focuses on competitive strategy and competitive advantage. According to him, two central questions underlie the choice of competitive strategy (Porter, 1985, p. 1). The first refers to the attractiveness of industries for long-term profitability. This is determined by five competitive forces.¹⁷ The second refers to the determinants of relative competitive position within an industry. Companies can achieve competitive advantage by following either of three generic strategies: cost leadership (low-cost producer with a broad scope), differentiation (uniqueness rewarded by a premium price), and focus (choice of a

¹⁶ Note that Bromwich refers to the term 'sunk costs' as an economic concept, which is different from the way this term is used by management accountants. He defines them as "... those costs which cannot be recouped in the market, that is where the factors or resources to which sunk costs relate have little or no opportunity cost in the market" (Bromwich, 1990, p. 43).

¹⁷ These are: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry amongst existing competitors. (Porter, 1985, p. 4)

narrow competitive segment within an industry). Porter advocates the value chain as the basic tool for diagnosing competitive advantage and finding ways to enhance it. The value chain is the analysis of a firm according to its strategically relevant activities in order to understand the behaviour of costs and potential sources of differentiation (Porter, 1985, p. 33). Every firm's or business unit's value chain is composed of nine interrelated generic categories of activity, as shown in Figure 6.

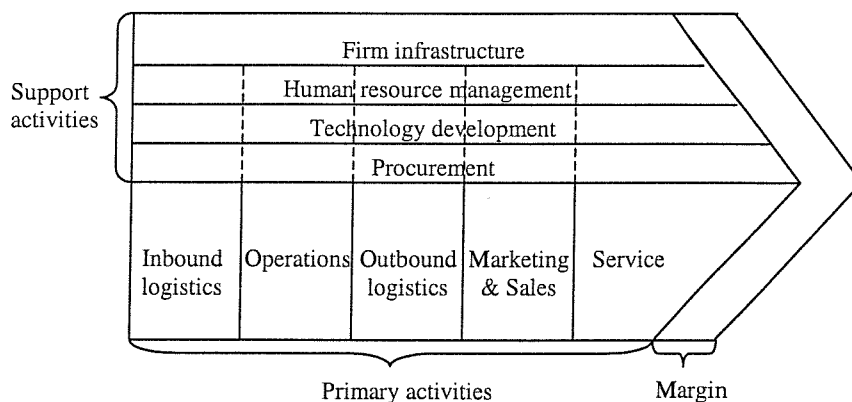


Figure 6: The Generic Value Chain (adapted from Porter, 1985, p. 37)

The value chain provides a measure of total value, including both value activities and margin, which is the difference between total value and the collective cost of performing value activities. The value chain is a system of interdependent activities, with numerous linkages. Activities and linkages are the building blocks of competitive advantage. Linkages also exist between a firm's value chain and the value chains of suppliers (upstream value) and distribution channels. A firm's value chain is embedded in a larger stream of activities called a value system, which includes supplier value chains, channel value chains and buyer value chains. It is important to know how a firm fits into the overall value system.

Porter (1985) argues that value chain analysis is a more appropriate way to examine competitive advantage than value added analysis.¹⁸ Competitors' value chains need to be examined as well. Differences between competitor value chains are a key source of competitive advantage. Porter's ideas and concepts were subsequently developed further by two management accounting researchers, Shank and Govindarajan, who coined the term strategic cost management, a term discussed in section 4.2.2.

¹⁸ The selling price minus the cost of purchased raw materials equals value added, as it has been used for cost analysis. Porter argues that value added is not a sound basis for cost analysis, because it incorrectly distinguishes raw materials from the many other purchased inputs used in a firm's activities and it fails to highlight the linkages between a firm and its suppliers (Porter, 1985, p. 39).

Ward (1992a) was another advocate of the use of competitor analysis. He proposes numerous possible sources of information, including published financial statements, trade and financial media coverage, mutual customers and suppliers, physical analysis of competitive products, industrial experts and consultants, and banks and financial markets (p. 166). Reflecting a marketing perspective, he further discusses the use of customer account profitability and product profitability analyses. These issues will be discussed in Section 4.2.4.

Moon and Bates (1993) provide an example of how one of the sources of information advocated by Ward (1992a) can be used. They present a comprehensive framework for the interpretation of financial statements, called CORE, set in a strategic management accounting context. CORE stands for the four stages: 'Context', 'Overview', 'Ratios', and 'Evaluation'. 'Context' refers to first enquiring the external profile of the company and its business environment, and then understanding the internal profile. The internal profile includes for example the strategic positioning of the company in its sector, and its critical success factors. 'Overview' focuses on financial statements and performance. Stage three serves to calculate ratios from the information, which are then evaluated in stage four. Moon and Bates (1993) illustrate the use of their framework in case studies of two retailing companies.

Jones (1988) gave a detailed description of competitor cost analysis at a company called Caterpillar in the USA. He advocated the use of an intensive information-gathering approach that uses multi-functional teams and guides the reader through the process. The complexity of the task is acknowledged, difficulties being added if the competitor is located outside the country. Further, as the costing is done on the basis of information generated, assumptions, and estimating techniques, it is important to test the reasonableness of the cost estimates to be used with the help of several different approaches. Jones (1988) describes the changes that resulted from the use of this approach in his company, which would not have been carried out without its use, and thus stresses the importance of competitor cost analysis.

Rangone (1997) contributes to the SMA literature by providing an analytical framework for linking organisational effectiveness, key success factors and performance measures. He notes how the assessment of organisational effectiveness in today's competitive environments is not simply a matter of narrow quantitative performance measures, but must also include intangible factors. The integration of these diverse issues can be carried out

through a 'fuzzy linguistic framework', which is described in detail in the article. According to Rangone (1997, p. 217) this framework may be an effective tool to support managers in comparing the competitive position of their company in relation to its competitors, but also in choosing a strategy among a given set of alternatives, a statement to be proven.

Guiding (1999) published an article that explicitly reflects competitor issues. His exploratory study focuses on what he calls competitor-focused accounting (CFA) and investigates the techniques advocated by different researchers. It is included in this part of the literature review, because it provides a good overview of what he calls "*the most pertinent literature*" in the field (p. 583). Competitor focused accounting is said to include five approaches: competitor cost assessment (cf. Simmonds, Bromwich, Porter, Ward, Jones), which he defines as "*the provision of a regularly updated estimate of a competitor's unit cost*" (p. 584), competitive position monitoring (cf. Simmonds), which he defines as "*the analysis of competitor positions within the industry by assessing and monitoring trends in competitor sales, market share, volume, unit costs, and return on sales*" (p. 584), strategic costing (cf. Shank and Govindarajan, 4.2.2), which he defines as "*the use of cost data based on strategic and marketing information to develop and identify superior strategies that will produce a sustainable competitive advantage*" (p. 585), strategic pricing (cf. Simmonds, Jones), which he defines as "*the analysis of strategic factors in the pricing decision process*" (p. 585), and competitor appraisal based on published financial statements (cf. Moon and Bates, 1993). Strategic costing is considered next.

4.2.2 The issues of strategic costing and strategic cost management

Strategic costing and strategic cost management have mainly been attributed to Shank and Govindarajan (1988, 1989, 1992a/b/c, 1993a/b; Govindarajan and Shank, 1992; Shank, 1996). They have developed some of Porter's concepts further, while focusing on management accounting. In their 1989 book entitled "*Strategic Cost Analysis – The Evolution from Managerial to Strategic Accounting*", they make the case for strategic cost analysis, and show its advantages in a number of case studies. According to them, it is about cost analysis in a broader context, and used to develop superior strategies to gain a sustainable competitive advantage. Wilson (1990, p. 42) contrasts strategic cost analysis and conventional cost analysis. Conventional cost analysis is said to have the following characteristics: it concentrates on manufacturing activities and ignores the impact of other activities, it overlooks linkages among activities, it fails to assess the cost positions of competitors in relative ways, and it relies too heavily on existing accounting systems.

Strategic cost analysis on the other hand focuses on the determinants of relative cost position; the ways in which a firm might secure a sustainable competitive advantage; and the costs of differentiation.

Shank and Govindarajan focus on strategic cost management (SCM) and the value chain. They stress that the question as to whether or not a company can develop and sustain cost leadership or differentiation depends fundamentally on how the firm manages its own value chain relative to those of its competitors. They further argue, like Porter, that the important issues are interaction and interrelationships, inside the company and also between companies.

The SCM framework as advocated by Shank and Govindarajan (1992b) consists of more than value chain analysis. To be added are cost driver analysis and competitive advantage analysis. All three are said to be necessary to carry out a sufficient SCM analysis. Competitive advantage analysis refers to the three generic strategies discussed above. Cost driver analysis includes the following categories of cost drivers: 'structural' and 'executional' cost drivers (Shank and Govindarajan, 1993a). Structural cost drivers refer to those strategic choices regarding the firm's underlying economic structure that drive the cost position for any given product group. They include scale, scope, experience, technology and complexity. The notion of executional cost drivers refers to those determinants of a firm's cost position which hinge on its ability to 'execute' successfully. They can include work force involvement, total quality management, capacity utilisation and exploiting linkages with suppliers and/or customers (Shank and Govindarajan, 1993b, pp. 29-31). The basic idea behind the concept of 'strategic cost drivers' is to escape the notion that volume drives cost. In their 1992 contribution, Govindarajan and Shank focus on the importance of tailoring controls to strategies, in terms of strategic missions (build, hold or harvest) and different generic strategies (cf. Porter).¹⁹

Shank and Govindarajan demonstrate the power of the framework with the help of numerous case studies. They claim that, once an analysis is carried out, critical strategic decisions become clearer. Their case studies seem to suggest that strategic cost management is easy to accomplish and should be done. Porter (1985, p. 39), however, notes that value activities and accounting classifications are rarely the same. Hergert and Morris (1989) investigate the difficulties associated with using accounting data for value chain analysis. They identify five

¹⁹ For a further discussion on strategic cost management, see Kaplan et al. (1990).

major obstacles. These include inter alia the fact that there may be no obvious correspondence between critical activities as defined in the value chain and responsibility centres as defined in accounting systems. Further, the constituents of buyer value may not be easily identifiable, and the accumulation of costs, revenues and assets around these cost objectives may be difficult. However, Hergert and Morris (1989) conclude that some of the benefits of value chain analysis will arise even if precise evaluation of the variables is not possible. They argue that it is the process of performing the analysis and not the exact numerical output, which provides useful insights.

Shank and Govindarajan further give examples of potential applications of their framework. It can be used for make-or-buy decisions, forward/backward integration decisions, and investment decisions (Shank and Govindarajan, 1992c). Two contributions (Shank and Govindarajan, 1992b and Shank, 1996) explicitly investigate the analysis of technological investments. These will be reviewed in the next section, which focuses on strategic investment appraisal.

4.2.3 Strategic investment appraisal

Shank and Govindarajan (1992b) demonstrate the application of the strategic cost management approach to the appraisal of a new manufacturing technology investment in a large forest products company. Before that, they analyse the shortcomings of other methods of capital investment analysis. In their case study, the use of a net present value (NPV) framework would have led to rejecting the investment. The picture looks different from a SCM perspective. For example, the value chain analysis shows that the change to the new technology proposed does involve major financial benefits, but these are not seen at the stage in the value chain where the investment is made. The NPV analysis could hide this. The other two stages of analysis similarly add to the decision making process. Shank (1996) shows a similar example, with reference to new manufacturing technology, an important issue in today's environment.

Tomkins (1991) provides a general overview of corporate resource allocation from financial, strategic and organisational perspectives and Tomkins and Carr (1996) drew from that and their own experience and empirical findings (cf. 4.3) in the framework shown in Figure 7 below. It shows how many of the techniques discussed in this chapter can be used for the formal analysis of a strategic investment decision.

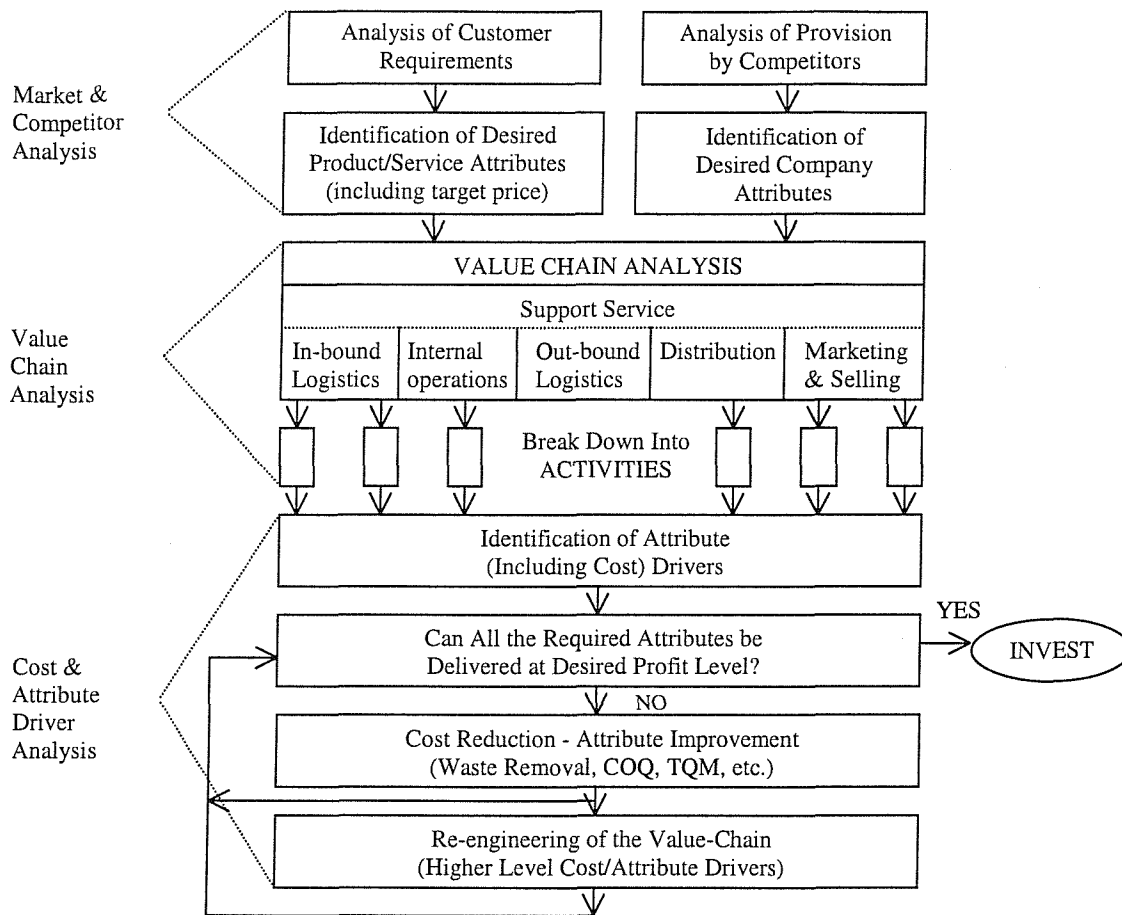


Figure 7: Strategic investment decision analysis (adapted from Tomkins and Carr, 1996, p. 276)

Other researchers have focused on investment appraisal and the link between finance and strategy. Barwise et al. (1989) make the case for the complementarity of strategy and finance. According to them, good investments come from a detailed understanding of both the market and the company's operating and competitive capabilities, thus combining the external and the internal context. Finance can help to bring these into the open, if used sensibly. Good project evaluation should consider all the relevant factors and also take into account the consequences of not investing.

Similar lines of argument can be found in publications by Grundy (1990a,b), who discusses what he calls strategic value management, which is defined as *"the combined use of strategic and financial analysis tools to assess the likely value of major investment decisions"* (Grundy, 1990a, p. 40). This is meant to ensure that major corporate investment decisions are looked at in a much broader context than is usual. In a later publication (Grundy, 1992), a framework for linking strategic and financial appraisal is proposed. Strategic appraisal is said to have, inter alia, the following characteristics: it captures a wide range of variables – both internal and external, it uses mainly qualitative measures, it shows

longer-term horizons, and it deals with broader uncertainties (Grundy, 1992, p. 16). According to Grundy, strategic and financial appraisal can provide complementary views on longer-term financial decisions. He argues that whilst strategy can provide a broader vision, finance can provide greater precision. Ward and Grundy (1996) argue along similar lines and call for the strategic management of corporate value.

4.2.4 Other related issues

Sections 4.2.1 to 4.2.3 have provided an outline of competitor accounting, strategic cost management and strategic investment appraisal in turn. The present section describes contributions to SMA that cover several other related issues and provides overviews of some integrated SMA processes, commencing with Dixon and Smith (1993).

Dixon and Smith (1993) propose a process of strategic management accounting that draws many of the discussed techniques together. It is characterised by four stages: strategic business unit identification, strategic cost analysis, strategic market analysis, and strategy evaluation (p. 607). The first stage involves the identification of strategic business units (SBUs), which can be defined as autonomous units in a company that are capable of strategic decision making. These can be identified using certain criteria, but the task is said to be complex. The second stage, strategic cost analysis, draws mainly on work by Porter and Shank and Govindarajan, and focuses as much on the company as on competitors. As for stage three, market analysis, the need to collect and analyse qualitative market information is stressed. Stage four, the evaluation, also includes strategic investment appraisal as advocated by Grundy. To conclude, Dixon and Smith (1993) state that the various stages can contribute greatly to a firm's long-term success. However, they stress that they are not a panacea for all the problems of strategic management, and that they are not problem-free either.

Another issue concerns the PIMS study, which is introduced as relating to SMA by Wilson (1995), who discusses it alongside with the contributions by Porter, Shank and Govindarajan, Simmonds, Bromwich and Simons. PIMS (Profit Impact of Market Strategy) is a database that contains financial and strategic information for around 3,000 business units. The PIMS research project was initiated in 1972 with the aim of determining how key dimensions of strategy affect profitability and growth. Three major factors were found to affect business performance: market characteristics, the competitive position in that market, and the strategy pursued. The PIMS database requires the input of more than 100 separate variables by a company wanting to apply the model. The company can then assess the

relative strengths and weaknesses of competitors in order to identify the best source of competitive advantage (Buzzell and Gale, 1987).

Roslender (1995b) published a good overview about different techniques. He gives an account of what he calls accounting for strategic positioning (ASP). He defines ASP as “...*a term, which might usefully be employed to describe developments in management accounting designed to assist senior management to secure, and subsequently to sustain, competitive advantage*” (Roslender, 1995b, p. 48). He believes that competitive advantage is a means to achieving the end of strategic position. That is the reason why he selected the term ASP in preference to either accounting for competitive advantage or strategic management accounting. ASP is said to include activity accounting, strategic management accounting and accounting for advanced manufacturing technology. Roslender introduces the term activity accounting (AA) to refer to a set of techniques, which focus on what are termed activities (p. 48). AA is said to include inter alia activity-based costing, customer profitability analysis and direct product profitability. Cooper and Kaplan (1988, 1991) proposed activity-based costing (ABC) as a tool of corporate strategy. It is designed to provide more accurate product costs and can thereby assist strategic decision making. Ward (1992a, p. 167) refers to customer account profitability analysis as the “*total sales revenue generated from customer or customer group less all the cost that are incurred servicing that customer or customer group*”.²⁰ Direct product profitability is a complementary technique available to retail organisations. It involves tracking the direct costs associated with individual products throughout the whole distribution system (Roslender, 1995b, p. 49).

Regarding strategic management accounting, Roslender refers to the main contributors, namely Bromwich and Bhimani (1989), Simmonds, Porter, Shank and Govindarajan and Bromwich. Bromwich and Bhimani (1989) make the case for strategic management accounting, while mainly drawing on the work of Bromwich (1990, 1992). Accounting for advanced manufacturing technology (AMT) is said to refer to the need to account for the wide range of technology-related changes that have occurred in recent years, and which promise to make significant contributions to achieving and sustaining competitive advantage (Roslender, 1995b, p. 52). These are related for example to world class manufacturing and just in time management. New measures and techniques, such as non-financial performance measures and backflush costing have been developed accordingly. Further, the massive scale

²⁰ For an empirical study on ‘customer accounting’, see Guilding and McManus (2002).

of investment often found in AMT has led to the development of new appraisal techniques, such as strategic investment appraisal, as was discussed previously.

Roslender (1995b) gives a very exhaustive account of strategic management accounting in its widest sense. The need to include certain techniques such as ABC is debatable. Bromwich and Bhimani (1989) for example argue that SMA is more useful than ABC, because of its external emphasis. Bromwich and Bhimani (1989, p. 95) further comment that the emphasis of ABC on improved pricing decisions seems unnecessary, if one subscribes to the belief that market forces largely determine prices (cf. target costing). Palmer (1992, p. 182), on the other hand, refers to the prestige of ABC as a strategic accounting tool on account of its more accurate product cost information, which is seen as crucial to competitive success (Cooper and Kaplan, 1988, p. 96). If SMA is defined as being 'about the use of management accounting systems in supporting strategic decision making' (cf. above), then it must include ABC. ABC might be associated with SMA by managers in companies, and it is therefore a concept worth knowing.

Another concept possibly associated with SMA is the balanced scorecard. It was proposed by Kaplan and Norton (1992) as a tool to track the key elements of a company's strategy. A balanced scorecard is a set of measures that is designed to give managers a fast but comprehensive view of their business. It usually comprises four perspectives: the financial perspective ('how do we look to shareholders?'), the internal business perspective ('what must we excel at?'), the innovation and learning perspective ('can we continue to improve and create value?'), and the customer perspective ('how do customers see us?') (Kaplan and Norton, 1992). The balanced scorecard includes non-financial as well as financial information and external and internal measures. The intention is to develop a close link between the strategy adopted and the performance measures selected (Otley, 1999, p. 374). Kaplan and Norton (1992) stress that the balanced scorecard puts strategy and vision, and not control as its emphasis. Its measures pull people toward an overall vision and keep companies looking and moving forwards instead of backwards. The balanced scorecard can thus be regarded as one more strategic management accounting tool. A similar concept to this is the so-called '*tableau de bord*', a system known in France and referred to by

Bromwich and Bhimani (1994). Its name means literally 'dashboard' and provides managers regularly with non-financial and financial key performance measures.²¹

Roslender et al. (1998), Roslender and Hart (2000, 2002) and Foster and Gupta (1994) discuss the integration of the fields of management accounting and marketing. Following Roslender's 1995 discussion about 'accounting for strategic positioning', Roslender et al. (1998) announced the plan to research the linkages between management accounting and marketing, in order to progress towards the concept of 'strategic marketing management accounting'. Roslender and Hart (2002) outline some findings of that study, while making the case for strategic management accounting. They note that brand management accounting, like SMA, is a fundamentally interdisciplinary notion, while showing a market-driven emphasis on customer and (branded) products (Roslender and Hart, 2002, p. 272).

Tayles et al. (2002) discuss the potential role of SMA in dealing with the management of intellectual capital. Intellectual capital is arguably of prime importance for service companies and thus a key issue to the developing UK service industry. Tayles et al. (2002, p. 254) argue that it must be possible for management accounting to identify and value the intellectual capital of a company, if it is to be of strategic value. They observe on numerous occasions that management accountants must work with other disciplines to carry out that task. Tayles et al. (2002, p. 264) conclude by proposing SMA as a significant means for management to increase corporate shareholder value.

A last interesting look at strategic management accounting is through the eyes of the profession and via management accounting textbooks. Not many textbooks include strategic management accounting in their topics. One rare example is Wilson and Chua (1993), who devote some pages to that subject. A small number of books focusing on strategic management accounting have been published (for example Smith, 1997; Ward, 1992b). These discuss some of the techniques referred to earlier, while also raising two closely linked issues, related to product life cycles and portfolio matrixes that stem from the strategy field. These will now be discussed in brief.

²¹ For a review of the development of activity based costing and the balanced scorecard from 1984 until 1994, see Kaplan (1994). Furthermore, see Bjørnenak and Olson (1999) for a discussion of the differences between recent management accounting innovations, including, inter alia, SMA, ABC and the balanced scorecard.

It has been widely accepted that products (and services) normally pass through a series of phases during their life cycle, typically known as introduction, growth, maturity and decline (cf. Wilson, 1995, p. 167). Profit per unit usually varies as products move through their life cycle, and each phase poses different threats and opportunities that give rise to different strategic actions. Linked to this are product market portfolio matrixes. One of the first matrixes was produced by the Boston Consulting Group.²² The Boston Matrix is drawn as a 2x2 box, relating relative market share to the rate of market growth. The four boxes include products in different stages of their life cycle, these are usually named 'question marks' (build mission), 'stars' (hold), 'cash cows' (harvest) and 'dogs' (divest). The Boston Matrix is a general strategic planning concept that attempts to relate critical strategic issues to the different phases of the product life cycle. It further shows how successful strategies must be appropriately tailored to changing needs. Similarly, the focus of strategic management accounting and its control measures need to be tailored to fit the strategy. Control measures may focus on research and development milestones (question mark), discounted cash flow (star), return on investment (cash cow) and free cash flow (dog) (cf. Ward, 1992b; see also Govindarajan and Shank, 1992).

The argument for including such 'textbook knowledge' is that the techniques advocated here might well be found in use in companies. Practitioners do not usually acquire their knowledge from articles published in academic journals (whether or not they focus on accounting, management accounting, strategy or management in general), they consult textbooks, and perhaps journals published for practitioners, such as *Management Accounting (CIMA/US)*, the *Harvard Business Review*, and *CA Magazine*.²³ Management consulting firms also have an impact on practice, as shown by the example of the Boston Consulting Group Matrix. Consulting firms also seem to have picked up some of the tools advocated by Kaplan and his colleagues, such as ABC and the balanced scorecard.

²² Other more sophisticated versions have later been developed by McKinsey, General Electric, A D Little and Shell Chemical (UK) Ltd. (Cf. Ward, 1992b, p. 40)

²³ Strategic management accounting and related aspects have been the topic of numerous short articles in *Management Accounting (CIMA)*, see e.g. Allen (1985), Bhattacharya (1987), Grundy (1990a/b, 1995, 1997), Piercy and Morgan (1989), Smith (2000), Taylor and Graham (1992), Tricker (1989) and Wilson (1995).

To conclude this section, a comment on normative research seems appropriate. Thus far, the following main techniques have been discussed:

- competitor-focused accounting;
- strategic cost analysis and management;
- strategic investment appraisal;
- accounting for advanced manufacturing technology, activity-based costing, the balanced scorecard, and product life cycle and portfolio concepts.²⁴

From the review of the normative research, the following conclusions can be drawn. Agreement can be reached with Tomkins and Carr (1996), who stated that an agreed and well-specified overall framework for SMA has not yet been worked out. The techniques can broadly be classified into different themes, but even that is not easy. Many articles simply add different techniques together, either as an overview or as a 'new' framework. Some of the work is simplistic and seems to be built on rather weak theoretical bases (e.g. Simmonds). Others only seem to be 'jumping on a bandwagon' without really contributing much to it (e.g. Shank and Govindarajan). They still contribute to the development of SMA, by raising issues and providing case study material. A credit to the published normative work is that it has led to increasing interest in SMA, and this not only in the areas of accounting and management accounting, but also as regards the strategy, marketing and management fields. The discussion of SMA and other 'new' management accounting techniques has led to a further questioning of 'traditional' techniques. However, it seems that most of the articles discussed seem to focus on one stakeholder group, the shareholders, and financial information. One notable exception is the balanced scorecard, advocated by Kaplan and Norton (1992), which includes non-financial measures and explicitly recognises other stakeholder groups, such as employees. Further steps in this direction seem necessary. Another major drawback of most of the normative research discussed is that it is disconnected from reality. Dermer (1990, p. 68) takes the position that "*...we must know what actually happens and why it happens before we can deal with what should happen.*" Empirical research is thus needed. The few empirical articles that have been published to date will be discussed in the next section.

²⁴ It could be argued that more of the 'new' accounting techniques, such as those associated with just-in-time management, flexible manufacturing systems etc. should be included in what is to be seen as strategic management accounting. This would be true in the sense that all these may help companies to survive in today's manufacturing environment. However, here, such techniques are voluntarily excluded.

4.3 Empirical SMA research

Normative research has been criticised for being too disconnected from the business world. Empirical research attempts to answer the questions of whether and how the techniques that are proposed in a normative way are used in practice. This takes the form of surveys and field studies. A rough distinction can be made between 'functionalist' and 'interpretive' empirical research.

4.3.1 'Functionalist' empirical research

Several of the proponents of techniques discussed earlier encounter the issue of the applicability of their techniques. They often simply argue that it is possible to use them, and state that they are already being used, but without giving any actual example or reference (e.g. Simmonds). Others refer to case study data, to which they apply their new techniques. They seem to use case studies in a normative way (e.g. Shank and Govindarajan, 1989; Moon and Bates, 1993; Smith, 1997) without providing evidence of the techniques actually being used. The case is different for the contributions by Jones (1988) and Hergert and Morris (1989) and the work of Kaplan et al., who draw on real world experience to advocate the use of certain techniques (e.g. ABC) in a normative way. Functionalist empirical research as it is understood here provides examples of strategic management accounting techniques actually being used, without specifically advocating any technique.

Rickwood et al. (1990) illustrate a management accounting approach that adopts a strategic perspective in a UK-based company. Their findings suggest that the accounting function gathers, both routinely and specifically, data concerning the external environment of the company's operations, including information on competitors' performance and plans. The sources of external data are not usually subject to the same degree of control as internal data, and there is a need for ingenuity and awareness in gathering external information. Their findings further suggest that the management accountant in this company was able to make use of his central position to capture information from marketing personnel. His role is here seen to extend beyond the routine provision of accounting information.

Lord (1996) draws on a case study in New Zealand to show that certain elements of strategic management accounting can be found in a real life situation. Her findings seem to suggest that the techniques of SMA may in many cases already be found in companies, but that the information may not be quantified in accounting figures, and may not be collected and used by management accountants. She argues that what has been proposed as the results of

strategic management accounting are in fact the natural outcomes of effective operational management processes.

Dixon (1998) presents a real-life case study in the UK. He aims to highlight the views and current practices of a management team operating an active policy of analysing competitor information along lines of strategic management accounting and to show the value and impact of SMA on an organisation. The main point he draws from this experience is that strategic management accounting as a concept is acceptable but has practical limitations. He suggests that the concept of strategic management accounting has to be developed by both practitioners and academics. His findings from this one case study seem to suggest that the collection and use of competitor information for strategic purposes can be achieved without implementing a formal SMA process. Further, non-financial information was found to be important, and the management accountant was only one of many people involved in gathering and interpreting that information (Dixon, 1998, p. 279). This seems to confirm the findings of Lord (1996).

Cooper (1996) provides evidence on costing techniques to support corporate strategy, drawing on a set of 23 case studies in Japan. He describes the form that competition takes and the management accounting needed to ensure survival in such an environment. According to him, the concepts of sustainable competitive advantage and generic strategies of cost leadership and differentiation may not always be applicable. Lean enterprises are different. They are said not to compete, but to collide. They collide because they have the ability to introduce products that match their competitors' offerings so rapidly that it makes it virtually impossible for any firm to sustain a competitive advantage (Cooper, 1996, p. 219). Lean enterprises are forced to adapt the generic strategy of confrontation, i.e. they actively seek out competition as opposed to avoiding it. Three product-related characteristics play a critical role in determining the success of firms. These are product price, quality and functionality. Aggressive management of these characteristics becomes critical, and a highly effective cost management programme is a necessity. Reflecting the importance of cost management to strategy, many Japanese firms have developed integrated cost management programmes, including inter alia target costing and Kaizen costing.²⁵ The important part of this contribution lies this new view of competition.

²⁵ Kaizen stands for continuous improvement. Kaizen costing is the application of kaizen techniques to reduce the costs of components and products by a pre-specified amount (Cooper, 1996, p. 242).

Van Cauwenbergh et al. (1996) investigated the role and function of formal analysis in strategic investment decision processes in an empirical study in 50 large companies and banks in Belgium. Managers were confronted with 27 statements on strategic investment processes and asked to comment on them. The findings suggest that formal analysis, and specifically financial evaluation models, play an important role in strategic investment processes. Formal investment analysis has a dual role, as a communication instrument and as a decision instrument. Elements other than financial evaluation techniques also seem to be taken into account, with power playing a role as well. Van Cauwenbergh et al. (1996), however, stress that a number of managers seem to take a rather normative position in their comments, a limitation to their findings.

Goold (1986) provides a discussion about accounting and strategy, based on twelve years of consulting experience and also research into the basis of strategic decision-making in large UK firms. He contends that there are several major and common deficiencies in the accounting information support for strategies. These relate inter alia to an inappropriate definition of cost categories, to little or no attempt to model competitors' costs and profits, and to an emphasis on short-term, internal and financial measures, rather than longer-term, external, market, technological and competitive measures (Goold, 1986, p. 182). Goold (1986) argues that these shortcomings can be explained by the fact that accounting information is usually compiled for purposes other than strategy. They might also be explained by accountants' own conceptions of their role, related to objectivity, the striving for maximum precision and the avoidance of errors.

Guiding (1999) proposes a study on competitor-focused accounting (CFA) in Australia. In CFA, he includes competitor cost assessment, competitive position monitoring, competitor appraisal based on published financial statements, strategic costing, and strategic pricing. The survey aims to appraise the frequency and perceived helpfulness of CFA practices, and to build a contingency theory with respect to three factors: company size, competitive strategy and strategic mission. As far as the first aspect is concerned, the following has been discovered: CFA usage has been found to be higher than 'what might have been reasonably anticipated' (Guiding, 1999, p. 593), but there would appear to be a potential for still greater use. Further, competitive position monitoring has been found to be the most widely used CFA practice, and is also perceived to be of the greatest help. Competitor cost assessment

and strategic costing rank lowest in terms of usage.²⁶ The second aspect investigated relates to the contingency framework. Guilding (1999) finds a positive relationship between the use of CFA and strategic mission and company size. Little systematic relationship between CFA and industry type has however been found.

Other contingency and systems studies focus on similar aspects, e.g. Simons (1987a) (relationship between accounting control systems, business strategy and firm performance); Chenhall and Langfield-Smith (1998) (relationship between management accounting, management techniques and strategic priorities); Anderson and Lanen (1999) (relationship between management accounting practices, exposure to world markets and differences in competitive strategy in companies in India); and Abernethy and Brownell (1999) (relationship between strategic change, style of budget use and performance). These studies do not seem to be of further interest for the present work, and will therefore not be considered in more detail. A good overview of research into management control systems and strategy has been published by Langfield-Smith (1997), including contingency approaches and case study applications.

A survey providing an international comparison of strategic management accounting practices was carried out by Guilding et al. (2000). They investigated the incidence and perceived merit of twelve SMA practices.²⁷ The survey sample comprises large companies in New Zealand, the UK and the US. This study is very close to the work of Guilding (1999), the only differences being its broader focus, and the missing contingency framework. Findings include the following: there is a wide range of application rates for the practices reviewed, competitor accounting and strategic pricing being the most widely used.²⁸ Most of the SMA practices however are not widely used, even though there seems to be potential for greater use. Further, there seems to be negligible use of the term 'strategic management accounting' and practising accountants have a limited appreciation of what the term means (Guilding et al., 2000, pp. 128/29). Cravens and Guilding (2001) made a similar study of the application of fifteen strategic management accounting techniques, focusing on the US. They found that three of the top five ranking techniques contained the word 'competitor' or

²⁶ For a definition of these terms, see above.

²⁷ These are attribute costing, brand value budgeting and monitoring, competitor cost assessment, competitive position monitoring, competitor appraisal based on published financial statements, life cycle costing, quality costing, strategic costing, strategic pricing, target costing, and value chain costing.

²⁸ Competitor accounting includes competitor cost assessment, competitive position monitoring and competitor appraisal based on published financial statements. Strategic pricing is defined as "... *the analysis of strategic factors in the pricing decision process.*" (Guilding et al., 2000, p. 132).

'competitive'. Furthermore, strategic pricing was found to have the fourth highest score. This underlines the perceived importance of competitor accounting as an SMA tool and confirms findings by Guilding et al. (2000).

Another set of surveys and case studies involving international comparisons was published by Carr, Tomkins and Bayliss (1991, 1994a,b) and Carr and Tomkins (1996, 1998). The articles are part of a wider research project, which attempts to investigate processes involved in strategic investment decision-making in companies in one sector (vehicle components) in the UK, the US, Japan and Germany (some of the publications however only focus on country-subsets). Most of the findings focus on comparative aspects, and only some are relevant in this context. Leaving country differences aside, they find that strategic investment decisions are ultimately determined more by strategic considerations emerging from informal decision-making processes, than by the application of more formal capital budgeting techniques (Carr, Tomkins and Bayliss, 1994b, p. xiii). Lord (1996) and Van Cauwenbergh (1996) drew similar conclusions. Further, Carr and Tomkins (1996) examine the application of SCM techniques (cf. Shank and Govindarajan) in practice. They conclude that *"in general, compared with unsuccessful companies, successful companies placed proportionately five times as much attention on the issue of competitive advantage, almost three times as much on value chain considerations and twice as much on cost drivers..."* (Carr and Tomkins, 1996, p. 199).

In sum, the survey data discussed seems to suggest that the term SMA is not widely used in companies, and its meaning is not always clear to managers (Guilding, 2000). It further proposes competitor accounting and strategic pricing as the most widely used techniques. The case study data is less consistent as regards the use of SMA in companies. Some elements appear to be used, but perhaps without being labelled SMA (Lord, 1996). No clear role can be attributed to the management accountant. One case study does provide evidence of his/her central role in the process (Rickwood et al., 1990), while others state that the management accountant is just one of many persons involved in SMA (Lord, 1996; Dixon, 1998). Informal processes seem to play an important role (Dixon, 1998; Carr, Tomkins and Bayliss, 1994b). However, it seems that, as regards Japanese companies, the 'new' concept of SMA drawing on strategy research published in the 1970s and 1980s may already be outdated in today's business environment (Cooper, 1996). This point is important as it might also apply to other countries.

All in all, the empirical research discussed provides some valuable insights into strategic management accounting in companies. The case studies particularly offer interesting points. They may only present single cases, but still appear to provide more information than the two surveys discussed. However, the empirical research reviewed so far has predominantly been informed by functionalism, even though some of it tends towards the interpretive paradigm (e.g. Carr and Tomkins, 1996). It focuses primarily on techniques. Interpretive research is discussed next.

4.3.2 'Interpretive' empirical research and advocacy

In Chapter 3, an overview of interpretive accounting research was provided, relating to strategic issues and planning, while notably referring to key contributions by Roberts (1990), Ahrens (1997b) and Parker (2001b, 2002). It was noted that, given the aim of interpretive research to show the complexity of organisational life, no interpretive contribution exclusively focused on one issue (such as budgeting), but included other related issues. The same applies to interpretive research investigating issues of strategy and accounting. The following paragraphs provide a focus on what can loosely be referred to as interpretive SMA research, starting with the contribution by Simons.

Simons (1987b, 1990, 1991, 1992 and 1994) presents research on the relationship between business strategy and the use of management control systems. He started with the study of one company (Simons, 1987b), before expanding his research to field data on 30 businesses in the US health care products industry (Simons, 1991). Management control systems are defined as "*the formalised procedures and systems that use information to maintain or alter patterns in organisational activities*" (Simons, 1987a, p. 358). These systems are said to include formalised information-based processes for planning, budgeting, cost control, environmental scanning, competitor analysis, performance evaluation, resource allocation, and employee rewards (Simons, 1991, p. 49). Simons (1990) stresses the fact that the view of management control he examines differs from traditional frameworks. His findings seem to indicate that management control systems are not only important for strategy implementation, but also for strategy formation. Further, they demonstrate the power of management control systems in empowering organisational learning and interactively influencing strategy. Simons proposes the following model, depicted in Figure 8 below.

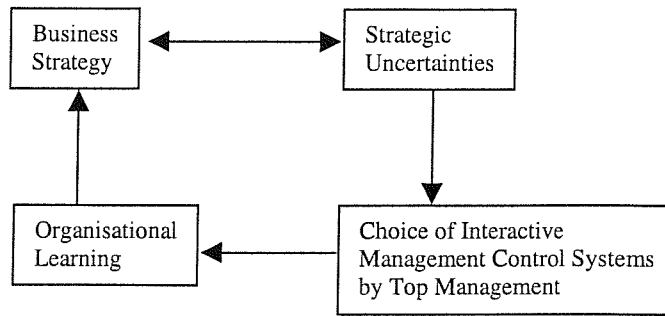


Figure 8: Business strategy and management control systems (Simons, 1990, p. 138)

Figure 8 shows how intended business strategies create strategic uncertainties. Top managers make a choice about which management control systems to use ‘interactively’. Interactive control systems are monitored closely, unlike ‘diagnostic’ control systems.²⁹ The top management’s choice provides signals to organisational participants about what should be monitored closely and where new ideas should be proposed and tested. This activates organisational learning, and through the debate that surrounds this process, new strategies and tactics emerge over time (Simons, 1990). According to Simons (1992, p. 50), the different control systems have different purposes. Diagnostic control systems rely on measurement to monitor the implementation of past strategies. Interactive control systems stimulate and guide the emergence of strategies for the future by fostering learning within the organisation. Each system is used differently by managers. Top management involvement is said to be ongoing and intensive for interactive controls, and ‘exception-based’ for diagnostic controls. The accountants’ roles differ as well. They act as facilitators and advisors for interactive control, and as technical experts for diagnostic controls (Simons, 1992, p.50).³⁰

Roberts (1990) also looked at control systems. He explored the various aspects of the relationship between the use of accounting information for performance reporting and control and the formulation and implementation of business and corporate strategy. This was done by means of a case study of the acquisition and subsequent management of a company (ELB) by a UK conglomerate. Roberts (1990) stated two main aims: first, to shed light on what accounting makes visible and what it conceals, and secondly, to explore and make sense of the tension between strategic management and the use of accounting as an

²⁹ Diagnostic control systems are commonly referred to as the ‘general feedback model’ of management control (Simons, 1992, p. 45).

³⁰ Simons refers to ‘boundary systems’, which communicate the domain of permissible activity to all employees in the organisation by dictating acceptable rules of competition (Simons, 1992, p. 49).

instrument of control. His findings suggest that accounting can create a climate which works against both the successful formulation and the successful implementation of strategy (Roberts, 1990, p. 124). However, the use of management conferences (meetings) in this company seemed to potentially resolve the tension between accounting and strategy. They helped to create a set of shared meanings. *“Taken in isolation, the use of the conferences within ELB suggests that strategy is potentially a much more powerful set of meanings around which to mobilise action than the thin abstraction of accounting information can ever provide”* (Roberts, 1990, p. 125).

Simons referred to interactive controls triggering organisational learning. An article looking at the potentially symbiotic relationship between organisational learning and strategic management accounting was published by Coad (1996). He presented the outcomes of a four-month action research project that involved the use of SMA to inform the bid decision in a compulsory competitive tendering project. Drawing on work by educational psychologists, he concluded that individuals involved in strategic management accounting projects are required to work “both smart and hard”. He further produced evidence that a “learning orientation” is necessary. A “learning orientation” motivates both “hard work” and “smart work”. He defines “smart work” as being the manifestation of a tendency to select clever and ingenious approaches to dealing with a given task, and to modifying these approaches, intelligently and resourcefully, where necessary. “Hard work” may be regarded as the expenditure of effort in the performance of tasks (Coad, 1996, p. 387). Coad presents the output of inductive work, even though he chooses to write it in a ‘conventional hypothesis-testing’ way. It has implications for the practice of management accounting and the education of management accountants.

Jarvenpaa (1998) provides an interesting account of management accounting and strategy in a Finnish high-tech firm. He examines how the case company used strategic management accounting in strategy formulation. At first sight, the adoption of new techniques such as balanced scorecards, competitor analysis and strategic management accounting appeared to be consistent with the predictions of their proponents, but grounded study revealed a more complex picture. Jarvenpaa found that if the issues were more strategic, the less involved the management accounting function became. The paper further considered the role of fads in managerial choices, and how different functions, especially accounting and engineering, use them to socially construct (and reconstruct) their domains. Jarvenpaa (1998) concludes that his study does not support the normative strategic management accounting literature very

much. He notes that the SMA tools suggested in this literature were mainly not used or even not needed in the case site, however, the company can be considered very successful.

Ahrens (1997b) presents another interpretive piece of research, looking at the strategic interventions of management accountants. As indicated in a previous chapter, he analyses ethnographic material from a set of British and German brewers, in order to explore how management accountants in the two countries conceive of their relationship with processes of strategic formulation and how they seek to mobilise strategic arguments. The focus is on comparative aspects. Ahrens (1997b, p. 561) notes how the German management accountants' mobilisation of strategic concerns could be seen as being linked to notions of plans and planning. Their schematic way of thinking was expressed in cybernetics. The British management accountants, on the other hand related the notion of strategy to proactive involvement and discourses around 'taking the business forward' (Ahrens, 1997b, p. 583). Generally speaking, Ahrens (1997b) provides us with some interesting findings that will be useful for comparisons with the emergent grounded theory.

Dent (1990) has published a conceptual article with strong arguments for interpretive research. He discusses three possibilities for research at the interface between accounting and strategy. The first concerns the relationship between control systems and strategy, the second relates to accounting systems and the process of strategic decision-making, and the third concerns connections between control systems and the emergence of strategic change. As far as the strategy-structure linkage is concerned, Dent comments that most research has focused on contingency frameworks. However, he argues that the issues of concern call for deeper association with the organisational world than could be achieved through questionnaires. Similar comments are given on the other fields. Strategic decision-making can be portrayed as a complex, dynamic, multi-level activity, shaped by the interests of diverse individuals and groups. Strategic change is seen as an interpretive phenomenon. Looking at prior strategy research, Dent refers to tensions between normative and descriptive theories. He suggests that "*organisationally grounded researchers characterise strategic decision-making as a messy, disorderly, disjointed activity around which multiple units and sub-groups with often conflicting interests contend*" (Dent, 1990, p. 8). He further argues that enquiry into the areas he suggests would contribute significantly to knowledge in this yet underdeveloped field.

Dermer (1990) focuses on the significance of accounting to the pre-enactment stage of strategy. Dermer approaches the issue from an ecological perspective, which views organisations as an ecosystem, wherein conflicting stakeholders contend for the control of strategy. According to him, this ecological perspective opens a multitude of new avenues to accounting researchers, especially when used to link accounting with strategy (p. 67). From a similar position as taken by Dent (1990), strategy is not seen as a tool of management, but rather as the outcome of organisational struggle. Dermer (1990) further gives examples of why an ecological view of the relationship between accounting and strategy breathes life into the notion of accounting as a means of reality construction (cf. Morgan, 1988).

These are the interpretive publications found to date. Only two of them specifically refer to the term strategic management accounting, one looking at the relationship between organisational learning and SMA (Coad), the other investigating the use of SMA in strategy formulation processes (Jarvenpaa). The other interpretive articles explore the relationship between business strategy and the use of management control systems (Simons) and the relationship between the use of accounting information and the formulation and implementation of strategy (Roberts). All these publications make it clear that SMA, accounting information and management control systems are not neutral devices used in a rational way, as the functionalist literature would suggest. They show the potentially changing use of such techniques and systems, and focus on issues of power, shared meanings and socially constructed realities. Dent (1990) and Dermer (1990) extend this view to the field of strategy. They stress that strategy is not a tool of management, but rather the outcome of organisational struggle.

Functionalist research does not provide such insights, even though these are potentially valuable. No management technique can be considered in an organisational vacuum without taking into account the people involved. Presenting techniques as neutral devices hides other important aspects of their implementation. There is no point in inventing and advocating new techniques if it is not known how people in companies can use them, and which issues seem important to them. Interpretive research can add enormously to functionalist research by providing such insights. The case for interpretive SMA research will now be further developed.

4.4 The case for interpretive SMA research

The case for interpretive accounting research in general has already been made in Chapters 2 and 3. It was argued that an interpretive approach was primarily chosen because of the key assumptions underlying it, but also in order to produce research that might be relevant for practitioners. This reasoning can now be applied to the specialist field of strategic management accounting, based on two main arguments.

The field of SMA has been identified as lacking a clear framework. Numerous contributions have advocated the use of different techniques, naming these in diverse ways. Little is known of what managers and accountants understand by strategic management accounting. By adopting a functionalist empirical approach to SMA research, concepts developed in a normative way might be imposed upon practitioners. Research results could then be distorted in two ways: Managers who do not know exactly what these concepts mean might give 'wrong' answers. Others might try to take a normative position and pretend to be using the techniques that they 'ought to' use. These potential problems have been recognised by some researchers. Guilding (1999) and Guilding et al. (2000) acknowledge that, in addition to generally acknowledged limitations of survey research, the following issue is problematic. "*Standardisation of terminology used in connection with SMA practices employed can be expected to be minimal. This problem has been highlighted by the minimal degree to which the term 'strategic management accounting' is used in companies*" (Guilding et al., 2000, p. 130).³¹ Both studies try to remedy this problem to a certain extent by providing managers with a list of definitions of the terms used in the questionnaire. This may clarify concepts, but could also lead to imposing certain concepts on managers.

Case studies with direct contact between researchers and respondents may remedy this first potential problem. The second problem, however, might still be a challenge. Van Cauwenbergh et al. (1996) stress that some managers seem to be answering their questions by taking a normative position. Their research was informed by a (rather superficial as it seems) multiple case study approach. It seems that the best way to obtain reliable data on SMA in use in companies is by carrying out in-depth case study research. Interpretive in-depth research can lead to an understanding of how organisational actors perceive SMA and which issues and concerns they perceive to be relevant. It gives managers a voice, ideally

³¹ Note that Cunningham (1992, p. 91) encountered similar difficulties with regard to management control systems, respondents not being familiar with the term and some of the academic jargon associated with it.

without leading them in any preconceived directions. In addition, it does not focus on techniques, but includes the whole context of activities. This leads to the second argument.

Strategic management accounting is as yet a 'new' approach to management accounting. It has been identified as having an external and forward-looking focus, and as linking to strategy. The information to be gathered is more complex and uncertain than the usual internal data might have been. SMA may thus require management accountants to embrace new skills. These may not have been part of their training or usual practice, even though there seems to be an increasing awareness of such issues, for example at CIMA. SMA might further require co-operation with other areas in companies, e.g. general management, corporate strategy, marketing and product development, where the image of accountants might not be so good (Bromwich and Bhimani, 1994, p. 130). This could prove a difficulty for managers/accountants that have not been confronted with it before (for example in the case of a recent implementation of SMA). Conflict and resistance to change might thus be potential issues of interest. Yet another issue is the perceived role of management accountants. All this seems to indicate that SMA is not just a technique existing and being used in a social vacuum, but that there may be broader issues around it that need to be discovered. Interpretive approaches do provide the means to discover such issues.

These two arguments taken together suggest that interpretive research can add a lot to existing SMA research. It can help to produce an understanding of SMA in companies, including all potential issues arising, such as conflict and resistance to change. The literature review has revealed that very little evidence has been provided yet as to how organisational actors perceive SMA and use its techniques. There seems to be scope for further interpretive research into this area. The case for interpretive research is also made in the literature (e.g. Dent, 1990), even by 'functionalist' researchers (e.g. Roslender, 1995b). Preconceived notions should not play a role in this process. However, researchers cannot go into the 'field' without having any idea of it at all. In this case, the SMA literature has been reviewed not only to identify gaps, but also in order to get a first understanding of which kind of issues might be involved. From this, two main research questions can be stated.

- How are strategic management accounting techniques used and implemented in companies?
- And how do organisational actors perceive SMA and what are their main issues and concerns related to it?

It is expected that at least some techniques may be found, even if they are not named as such, or if they are just 'unconsciously' used. Further, the main issues and concerns may include some of the aspects discussed above, namely change and conflict. These are some ideas coming up, but the definite precise research ideas will be guided by the findings in the company.

4.5 Summary

This chapter has reviewed the extensive literature that relates to strategic management accounting. Strategic management accounting was defined comprehensively as being about the use of management accounting systems in supporting strategic decision making. Techniques that have been advocated by normative contributors include competitor accounting, strategic cost management and strategic investment appraisal. Even though normative research has been criticised for being too disconnected from reality, it has probably done most to develop SMA. Empirical research has investigated whether and how the techniques that have been advocated are used in companies. Functionalist empirical research has shown that some techniques are used, even if they are not always labelled SMA. Interpretive empirical research has further revealed that SMA and associated techniques are not to be seen as neutral devices used in the rational way the normative literature would suggest. However, little is yet known about the latter issue. It is argued that interpretive research into SMA can add extensively to existing research, by providing an understanding of SMA as it is used and implemented in companies and perceived by organisational actors. The current chapter is the last of three literature review chapters. The study now moves on from a discussion of the literature that has informed this research project to outline the specific methodology and methods used in researching SMA in a multinational company.

CHAPTER 5: RESEARCH METHODOLOGY

5.1 Introduction

An interpretive stance and grounded theory as a clearly defined methodology and a set of methods were chosen as informing this research project. The rationale underlying this choice was developed in Chapters 1 to 4. The present chapter gives further information on the research methodology and methods used, the focus being on the latter. Some definitions of how some taken-for-granted terms are used here appears paramount. Methodology can be defined as being a way of thinking about and studying social reality, while methods can be defined as a set of procedures and techniques for gathering and analysing data (Strauss and Corbin, 1998, p. 3). Methods thus embrace data collection and analysis issues, both of which will be discussed in turn.

Schatzman and Strauss (1973, p. vii) stress that much of the research process in field studies consists of dealing with field contingencies that variously modify the research and that this and other properties of field research mean that extensive prefabrication of the research process is impossible. However, general guidelines related to methodology and methods used in the course of the present research project are outlined, and occasional deviations from the 'ideal' general way as described in books are explained. Buchanan et al. (1988, p. 53-55) introduce their opportunistic approach to fieldwork in organisations. They argue that fieldwork is permeated with the conflict between what is theoretically desirable on the one hand and what is practically possible on the other. They call the practice of fieldwork the art of the possible, and propose to exploit the opportunities offered in the circumstances. This stance was to a certain extent followed here.

The present chapter moves from a general outline of grounded theory methodological issues and methods to the specific data collection issues applied in the research site. Further descriptive information on the case study will then be given in Chapter 6. Before discussing the detailed data collection and analysis issues, a general note on the interpretive research process as it was applied in this study is outlined.

5.2 The interpretive research process

General characteristics of an interpretive approach to research were outlined in Chapters 2 and 3. The focus here is on the interpretive research process that was followed. As opposed to a linear research process, which is considered normal in positivistic research, the interpretive research process is iterative, moving forwards and backwards between the different stages. Russell (1996) stresses that interpretive research involves ongoing analysis and reflection through stages of exploration, where the researcher is gradually discovering the issues and questions of centrality to the informants, through to an emergent theoretical perspective and ultimately to a description and theoretically informed understanding. The process is depicted in Figure 9.

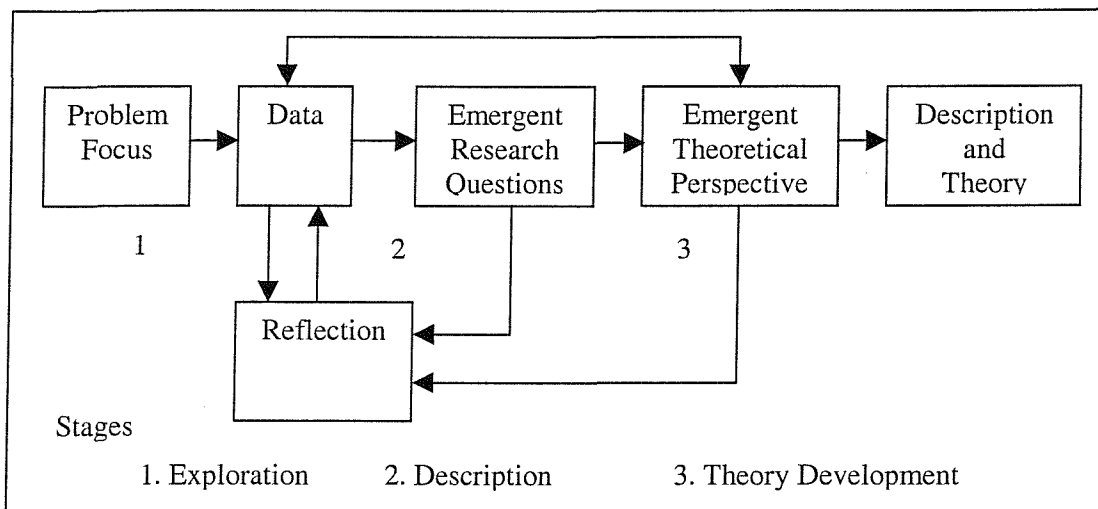


Figure 9: The interpretive research process (adapted from Russell, 1996, p. 9)

The initial problem focus was iterated in Chapters two to four. The present chapter will deal with general issues of data analysis, informed by grounded theory, and data collection. Later chapters will focus on theory development.

5.3 Data analysis: grounded theory

5.3.1 The case for grounded theory

Grounded theory was chosen amongst other possible interpretive approaches for several reasons. According to Parker and Roffey (1997), grounded theory differs from ethnomethodology and ethnography in a number of respects, which are rather appealing. Amongst others, they stress that *“rather than focusing exclusively on describing field members’ sense-making activities and interactions, grounded theory aims to incorporate the*

researchers' understandings, and attempts to develop explanatory theoretical frameworks representing structures and processes observed" (Parker and Roffey, 1997, p. 218). Grounded theorists attempt to assume the responsibility of interpreting the data, instead of simply reporting it. This was one major argument for using grounded theory. Another argument is seen as lying in its ability to generate theory and to ground that theory in data (Strauss and Corbin, 1998, p. 8). Taking the words and actions of the people studied, it is of potential relevance for non-academic and academic audiences, and, if done correctly, enables the participants to speak in voices that are clearly understood and representative (Strauss and Corbin, 1998, pp. 6, 56). It captures and then organises the knowledge of people in the field in a theoretical way, thus making it transferable (Glaser 1978, p. 13). Furthermore, the methodology allows the actors' own perceptions and meanings to emerge. Grounded theory practitioners argue that studies which begin with pre-defined operational variables developed from positivist hypotheses exclude the possibility of identifying either new 'variables' or categories of data, or a more meaningful analysis of the relationships and patterns between variables (Parker and Roffey, 1997, p. 227). This is arguably an important consideration when conducting research in an area such as SMA involving complex human interactions in organisational settings that are as yet unknown (cf. the argumentation in Chapter 4). Furthermore, grounded theory is capable of capturing complex social phenomena, as it emphasises the need for developing many concepts and their linkages (Strauss, 1987, p. 7). Parker and Roffey (1997, p. 212) stress that grounded theory is a distinct methodology that offers the prospect of reflecting some of the complexity and richness of the environments within which accounting and management are practised. Grounded theory thus does justice to the complexity inherent in human interactions related to accounting, while organising data in an abstract way, using concepts that are full of meaning and easier to remember and further developed than a lot of descriptive detail.

After this first inductive paragraph, the historical development of grounded theory is now outlined and the case for a 'Straussian' (Stern, 1994, p. 212) version of it defended.

5.3.2 Historical development of grounded theory

The sociologists Barney Glaser and Anselm Strauss first coined the term grounded theory in their 1967 book entitled 'The discovery of Grounded Theory'. In it they address the question of "*how the discovery of theory from data – systematically obtained and analysed in social research – can be furthered*" (Glaser and Strauss, 1967, p. 1). Since then, numerous books (Glaser, 1978, 1992; Strauss, 1987; Strauss and Corbin, 1990, 1997, 1998) and journal

articles (Corbin and Strauss, 1990; Strauss and Corbin, 1994) by at least one of the original authors, focusing on this methodology have been published. Although originating from the field of sociology, grounded theory has since been used in areas as diverse as psychology, anthropology, education, social work, nursing, accounting and management, to name just a few.³²

It was already indicated that grounded theory derives its theoretical basis from symbolic interactionism. Its development can be explained by the individual backgrounds of Glaser and Strauss. Glaser received his graduate education from Columbia University. He especially saw the need for making comparisons between data to identify, develop, and relate concepts, while also emphasising the use of empirical research in conjunction with the development of theory (Strauss and Corbin, 1998, p. 10). Strauss received his advanced degrees from the University of Chicago, which is said to have had a long history and strong tradition in qualitative research. Amongst other aspects, his background contributed to the focus of grounded theory on meaning, interaction and the awareness of the interrelationships between conditions, action and consequences (Strauss and Corbin, 1998, pp. 8/9).³³

Glaser and Strauss now have different views on what they consider to be grounded theory. The issue of these differences has been raised by numerous contributors, namely after Glaser's publication in 1992 of a rather negative critique of Strauss and Corbin (1990) (see e.g. Bartlett and Payne, 1997; Kendall, 1999; Parker and Roffey, 1997; also Corbin, 1998, and Rennie, 1998a/b). Their differences appear to revolve around three main issues, i.e. the definition of the research problem and the role of the literature review in its formulation, the degree of definition of research methods, and the need for theory verification. Strauss and Corbin (1990, 1998) allow for the identification of research phenomena prior to entering the research site, while Glaser (1992) suggests only the selection of a broader problem area. The focus of the investigation is left to evolve from the field.³⁴ As for research methods, while Glaser (1992) opts for a rather loose emergence of categories and their properties, Strauss and Corbin (1990, 1998) provide a whole set of clearly defined methods and procedures that researchers are supposed to apply, even though these procedures are not to be taken as commandments.

³² For a good overview of the adoption of grounded theory in management research see Locke (2001).

³³ For the interested reader, Baszanger (1998) offers an overview of the work of Anselm Strauss.

³⁴ See also a later section 5.3.3.3, where the role of the literature is discussed.

Furthermore, Glaser (1992) prefers to leave theory verification to others, while Strauss and Corbin (1990, 1998) stress the importance of verifying the developed theory, even if only provisionally. Strauss and Corbin (1994, p. 274) underline that verification of hypotheses, i.e. statements of relationships between concepts, needs to be done throughout the course of a research project, rather than assuming that verification is only possible through follow-up quantitative research.³⁵

The question is in how far those differences matter. If methodology is considered a way of thinking about and studying social reality, and methods are regarded as a set of procedures and techniques for gathering and analysing data (Strauss and Corbin, 1998, p. 3), it can be argued that Glaser and Strauss have a common understanding from a methodological point of view, even though their advocated methods diverge now (Parker and Roffey, 1997, p. 223). The discussion around the differences appears to be promoted by advocates of the 'Glaserian' approach to grounded theory, who agree with Glaser's emphasis that the 1990 book "... produces a forced, preconceived, full conceptual description, which is fine, but it is not grounded theory" (Glaser, 1992, p. 3). According to Parker and Roffey (1997, p. 222) this view has not yet been demonstrated to result automatically from the Strauss and Corbin method. Cutcliffe (2000, p. 1483) proposes that "...providing the researcher explains what she/he has done and how she/he did it, straying outside of the boundaries of one particular version is less of an issue than limiting the potential depth of understanding that strict adherence to one version would produce."

For the present work, an approach that was informed by a rather 'Straussian' way of doing grounded theory was employed. The methods outlined by Strauss and Corbin (1998) have been predominantly used.³⁶ However, the main publications related to grounded theory have been read and complement the above-mentioned book where appropriate. The use of methods will be further outlined in the relevant analysis chapters. Two main reasons for choosing Strauss and Corbin (1998) as a main source of techniques can be outlined: one, because it allows a focus for the investigation to be defined before entering the research site, an issue of primordial importance for the access to and first steps in organisations, and two, because they propose very detailed operational guidelines, which help novice researchers to

³⁵ It could be argued here that the authors have a different understanding of what 'verification' means. Corbin (1998), in her reply to Rennie (1998a), underlines that there may be alternative interpretations of data, including descriptive procedures outlined in a book. The meaning of particular words is influenced by personal details, and this could explain part of the differences between the authors.

³⁶ Strauss and Corbin (1998) is a new edition of the 1990 text, which includes a few changes. The 1998 book was the main reference for the present piece of research and also the procedures described in this chapter.

find their way into the methodology and methods of grounded theory. These were the main elements of choice for the Straussian approach, which certainly increased the manageability of the research project.

The following overview introduces the main terms, techniques and procedures used in the analysis of the data. Examples of the use of these in this study will be given in the analysis chapters.

5.3.3 Definitions and main features

Strauss and Corbin (1998, p. 15) define theory as *“a set of well-developed concepts related through statements of relationship, which together constitute an integrated framework that can be used to explain and predict phenomena.”* Grounded theory is theory that is derived from data, which is systematically gathered and analysed through the research process. Theory that is developed in this way is likely to resemble reality and to offer insight, enhance understanding, and provide a meaningful guide to action (Strauss and Corbin, 1998, p. 12). A distinction can be made between substantive and formal theory (Glaser and Strauss, 1967). A substantive theory is developed for a substantive area of enquiry, whereas formal theories are less specific to a group or place and apply to a wider range of disciplinary concerns and problems. Analysts should progressively build theory from facts, through substantive to formal theory. However, only one level should be focused on (Glaser and Strauss, 1967, p. 32-34). The present piece of work aims to develop substantive theory.

Chapter 2 outlined the central features of grounded theory methodology as including the grounding of theory upon data through data-theory interplay, the making of constant comparisons, the asking of theoretically oriented questions, theoretical coding and the development of theory (Strauss and Corbin, 1994). It is important to stress that grounded theory procedures are not applied in a linear way. The analyst has to constantly go forward and backwards, joining data collection, coding and analysis, and combining induction, deduction and verification. Strauss (1987, p. 12) emphasises that all three aspects are absolutely essential. While induction refers to those actions that lead to the discovery of a hypothesis, deduction consists of the drawing of implications from hypotheses for purposes of verification. Ultimately, the whole integrated scheme is validated by verifying its component relationships, a process referred to as the grounding of the theory. If there are instances which do not fit the theory, it has to be asked why and potential additional intervening conditions might be identified or the theory slightly changed, until the best fit for

the highest number of cases is achieved (Bartlett and Payne, 1997, p. 193/94). The result of going through the process of grounded theory should lead to a complex theory that corresponds closely to the data, and that possesses four highly interrelated properties: fitness, understanding, generality, and control (Glaser and Strauss, 1967; Glaser, 1978). The main procedures and issues that are considered important are now outlined in turn, including coding procedures, basic operations and analytical tools, some practical considerations and issues concerning the evaluation and credibility of grounded theory.

5.3.3.1 Coding procedures

Coding refers to “*the analytic processes through which data are fractured, conceptualised, and integrated to form theory*” (Strauss and Corbin, 1998, p. 3). Strauss and Corbin distinguish three types of coding, named open, axial and selective coding. These can be differentiated in theoretical terms, even though they are not discrete parts of the analysis process. All three types of coding are most often carried out simultaneously. For example, even though one starts with open coding, axial coding might also occasionally be done in early stages of the coding process, even before open coding is considered complete.

Open coding refers to the analytic process through which concepts are identified and their properties and dimensions are discovered in data. Properties are the characteristics of a category and dimensions refer to the range along which properties of a category vary. Concepts are the building blocks of theory. They are an abstract representation of an event, object or action/interaction. Once concepts begin to accumulate, they should be grouped under more abstract explanatory terms, named categories. Open coding can be done by analysing line-by-line, whole sentences or paragraphs, or by perusing the whole document. However, Strauss and Corbin (1998) stress the importance of analysing little pieces of data when starting, in order to generate initial categories (with their properties and dimensions).

Axial coding refers to the process of relating categories to their subcategories. Subcategories are concepts that pertain to a category, giving it further clarification and specification. They specify a category further by denoting information such as when, where, why, and how a phenomenon is likely to occur. The purpose of axial coding is to begin the process of reassembling data that were fractured during open coding. Categories are linked at the level of properties and dimensions. This is done with the help of the ‘paradigm’, an analytic tool devised to help analysts integrate structure with process. The basic components of the paradigm are conditions (i.e. structure), actions/interactions (i.e. process), and consequences.

Hypothetical relationships are defined and need to be repeatedly verified against incoming data.

Selective coding refers to the process of integrating and refining theory. All categories are unified around a central or core category, either as conditions, actions-interactions or consequences. Selective coding is thus similar to axial coding. However, it is done at a higher level of abstraction and focuses on a core category. In the process, the scheme that is developed needs to be reviewed for internal consistency. Poorly developed categories need to be filled and excess ones need to be trimmed. This happens until theoretical saturation is reached, i.e. the point in the development of categories at which no new properties, dimensions or relationships emerge during analysis. The scheme should then be validated. This can be done by comparing it to raw data, or by telling the story to respondents.

While coding, analysts make use of basic operations such as the asking of questions and the making of comparisons, and various other analytical tools. These are outlined next.

5.3.3.2 Basic operations and analytical tools

Strauss and Corbin (1998) stress the importance of thinking in abstract terms. Asking questions and making comparisons can help to move the analyst more quickly away from describing the specifics of a case to thinking more abstractly. Questions include general ones, such as who, when, why, where, what, how, how much, with what results, and temporal, spatial, technological and informational questions. These become stimuli for thinking about where to go to theoretically sample or what further questions to ask. The making of theoretical comparisons is an analytical tool used to stimulate thinking about properties and dimensions of categories. The importance of comparative thinking is underlined by grounded theory having been labelled 'the constant comparative method' (Strauss and Corbin, 1994, p. 273).

Another important tool is the composing of memos and diagrams. Memos are written records of analysis, which are meant to be analytical and conceptual rather than descriptive. Diagrams are visual devices that depict the relationship among concepts. Writing memos and doing diagrams are important parts of the analysis. They help the analyst to gain analytical distance and enable the keeping of a record of the analytic process. They should be orderly, progressive, systematic and easily retrievable for sorting and cross-referencing. Memos and diagrams evolve over time and are different for the three types of coding.

Coding, questions, comparisons, memos and diagrams are the main techniques as outlined by Strauss and Corbin (1990, 1998). It is important to note here that these are not imposed on the analyst, but are rather to be understood as “rules of thumb” (Strauss, 1987) and not commandments (Strauss and Corbin, 1998, p. 4). The procedures named were here used to a varying extent. Further detail on some procedures and the use of these will be given in the analysis chapters. Some detailed techniques that have proven to be useful for the present piece of work will be explained there, with appropriate examples. But first, some practical considerations will be discussed.

5.3.3.3 Practical considerations

One important practical consideration concerns the issues of sensitivity and objectivity (Strauss and Corbin, 1998, pp. 42-48; Glaser, 1978). Sensitivity relates to the ability to respond to the subtle nuances of meaning in the data. Objectivity refers to the ability to achieve a certain degree of distance from the research materials and to represent them fairly. Strauss and Corbin (1998) stress that it is necessary to maintain a balance between objectivity and sensitivity and that a complete state of objectivity is impossible. It is thus clearly recognised that subjectivity is an issue. It is however possible to limit the intrusion of subjectivity by taking certain measures such as following the grounded theory procedures closely and stepping back periodically and asking “*What is really going on here?*”. On the other hand, using the literature and personal and professional experience can increase sensitivity. Strauss and Corbin (1998) propose that insights happen to prepared minds during interplay with data. Sensitivity is thus fundamental to the creation of insights. Related to this is the issue of the function of literature. Strauss and Corbin (1998, p. 49) suggest that there is no need to review all the literature in the relevant field before the research, but they ‘allow’ and encourage prior exposure to literature. In the present piece of research the literature was reviewed before data collection started in order to provide a motivation for the research by identifying a gap and selecting a research methodology. This led to a set of research questions which, consistent with grounded theory, were at first broad and open-ended, while becoming more refined and specific as the research progressed. While collecting and analysing data, the literature was ‘bracketed’ to a large extent in order to let those categories emerge which were indicated by the data and not those defined as important by the literature.³⁷ Bartlett and Payne (1997, p. 181) believe that the skill of the grounded theorist

³⁷ ‘Bracketing’ refers to the researcher’s effort to temporarily suspend from thinking all preconceived notions, expectations and previous theorising related to the substantive area they are studying (Locke, 2001, p. 89).

lies in reading around the project in order to become theoretically sensitive, while at the same time phenomenologically 'bracketing' specific theoretical knowledge while actually performing the analysis. Further literature for this research project was reviewed when analysis was close to completion, this time on the basis of the emergent theory. This second literature review completed and tied in the theoretical issues that were discovered through the grounded theory process. It will be outlined in Chapter 10.

To conclude this section on grounded theory, issues of evaluation and credibility are discussed next.

5.3.4 Issues of grounded theory evaluation and credibility

One major issue relates to the criteria of evaluation. Strauss and Corbin (1998, p. 266) suggest that the usual canons of good science have value but need redefinition to fit the realities of qualitative research. These canons include significance, theory-observation compatibility, generalisability, consistency, reproducibility, precision and verification. The issue of how to generalise from e.g. the study of one organisation is important. Strauss and Corbin (1998, p. 284) suggest that concepts that are abstract enough are likely to occur in similar or variant forms in other organisations.

What is learned about a phenomenon from one case might provide insights and understanding in other cases. Strauss and Corbin (1994, p. 278) note the following. "*Insofar as theory that is developed through this methodology is able to specify consequences and their related conditions, the theorist can claim predictability for it, in the limited sense that if elsewhere approximately similar conditions obtain, then approximately similar consequences should occur.*" The general position is that all theory is temporally limited. Grounded theory is not to be seen as static, but rather as a developmental theory (Glaser and Strauss, 1967).³⁸

Corbin and Strauss (1990) and Strauss and Corbin (1998) produce criteria for the evaluation of the research process and the empirical grounding of a study. In order for readers to be able to assess grounded theory studies, their publications should give information on some criteria and make the choices made clear. Glaser and Strauss (1967) suggest that, to convey credibility, researchers should inter alia quote directly, include field notes and give background information. These principles will be adhered to in the analysis chapters.

³⁸ For an interesting discussion around the problem of generalisability in accounting research, see Lukka and Kasanen (1995).

Backman and Kyngäs (1999, p. 151) believe that grounded theory results are discovered in a multiphase process and that part of this process takes place unconsciously in the researcher's mind. This part of the process might be difficult to write down and thus cause problems to readers of the account, as they might be unable to completely follow the way in which the results have been discovered. This is one of the main problems grounded theory researchers face when presenting their work, which might be a problem that applies to all interpretive approaches in varying degrees. However, if grounded theory procedures are followed, it should be possible to trace back the developmental process and to communicate it. The issue of writing up research is discussed at length in most of the main grounded theory books, this being recognised as problematic (Glaser, 1978; Strauss, 1987; Strauss and Corbin, 1990, 1998; Locke, 2001).

These are the main points to be raised as regards grounded theory, from a purely theoretical point of view. The analysis chapters will show its application to the case study data, while referring to and further developing some of the notions discussed. Detailed data collection methods and considerations are addressed next.

5.4 Data collection

5.4.1 Sampling strategies

Sampling issues need to be raised prior to data collection. Schatzman and Strauss (1973, p. 38) rightly stress that it is impossible to observe everything, even for a large research team, and that selective sampling is unavoidable. In the present piece of work, both selective and theoretical sampling strategies have been employed. Selective sampling was used first, for the selection of a research site and the first set of interviewees inside the research site. Theoretical sampling then superseded this when the emergent theory highlighted directions, which further sampling needed to follow. Theoretical sampling refers to data gathering in a way that maximises opportunities to develop the theory (Corbin and Strauss, 1990). This is driven by the evolving theory, and thus cannot be employed right from the start of a research project. The combination of selective (or purposeful) sampling and theoretical sampling appears to be the strategy that is generally adopted by grounded theory researchers (Backman and Kyngäs, 1999, p. 149; Cutcliffe, 2000, p. 1477). Further details on the rationales for the selective sampling strategies that were followed are outlined in the coming sections. It needs to be stressed here that sampling is an issue that is not limited to the initial

design phase, but requires ongoing attention (Locke, 2001; Miles and Huberman, 1994). However, an overall sampling strategy should be and was defined from the outset and adapted as necessary.

5.4.2 Research site selection

The study was undertaken through a case study of one multinational company in Germany.³⁹ The country was chosen because of the researcher's familiarity with it. The research access strategy that was pursued involved contacting a set of selected companies in carefully chosen sectors, namely the chemical and pharmaceutical sectors. These sectors were chosen as primary target for a set of reasons. Companies in these sectors appear to face fierce and global competition, which would suggest the operation of some kind of SMA system. Further to that, the sector was reasonably well known to the researcher, thereby facilitating the identification of appropriate companies. The researcher thus followed a selective sampling strategy, the aim being to find a research site where certain research conditions are existent. Marshall and Rossman (1995, p. 51) delineate four ideal conditions for research sites, which, according to them are, however, seldom completely attained. These are:

1. that entry is possible,
2. that there is a high probability that a rich mix of processes, people, programs, interactions, and structures of interest are present,
3. that the researcher is likely to be able to build trusting relations with the participants in the study, and
4. that data quality and credibility of the study are reasonably assured.

Negotiating access to appropriate companies proved to be difficult and time consuming. One first site was visited and discarded as not appropriate. Another site showed interest, but did not allow access to the extent that was needed for this research project. A third company proposed access in the 'ideal' conditions that were named above and was therefore chosen for the present piece of research. The choice process involved negotiation of access terms via email and two initial visits to the company, where interviews with some main 'gatekeepers' were carried out. The chosen case company is briefly introduced below.

³⁹ Case study is here not understood as a methodological choice, but a choice of object to be studied, as outlined by Stake (1994, p. 236). Llewellyn (1993, p. 233) stresses that 'case study methods' are data collection techniques and are not sufficient for providing a methodological framework for interpretive management accounting research. See also the discussion in Chapter 2.

5.4.3 The case company

The case company is Henkel KGaA, a large multinational company based in Germany, which produces a widely diversified product portfolio of consumer and industrial chemicals. It had a turnover of close to 13 billion Euro in 2000, which was distributed in a more or less equal spread across five main divisions. On average, approximately 60,000 employees were employed in 2000, about 75% of which worked outside Germany.

The researcher was granted access to four distinctive parts of the company: the corporate functions (namely Finance & Controlling; and Research Technology) and two divisions, all located in the German company headquarters, as well as one subsidiary located in the United Kingdom. Further detail will be provided in the next chapter.

The decision to focus on one firm only was taken on account of the size of the company and its provision of access to diverse company locations inside Germany and the UK. This meant that considerable time was needed to understand the workings of such a complex entity and that extensive scope for comparisons inside the company was available. This point will be further developed in Chapter 6.

5.4.4 Data collection methods

This section includes the theoretical rationales underlying the data collection process, but also a short description of the actual data that were collected. Furthermore, issues of reliability and validity will be mentioned where appropriate. Easterby-Smith et al. (1991, p. 41) suggest that validity seeks to determine whether the researcher has gained full access to the knowledge and meaning of the informants. From an interpretive perspective, validity refers to the extent to which a researcher's account accurately reflects the features of a phenomena that it is intended to describe, explain or theorise (Hammersley, 1992, p. 69). Reliability on the other hand reflects whether results of a study are consistent with the data collected, which is an issue that is more closely related to the above-mentioned grounded theory procedures. McKinnon (1988, p. 37) notes four main types of threat to reliability and validity in field research. These are observer-caused effects, observer bias, data access limitations, and the complexities and limitations of the human mind. Strategies and tactics to ensure reliability and validity will be explained in respect to the methods employed. The researcher mainly relied on in-depth interviews, complemented by elements of observation and the collection of documents. The combination of data collected from multiple sources is called 'triangulation' and is generally advocated (e.g. Locke, 2001, p. 45; Sanday, 1979, p.

528). The use of multiple methods reflects an attempt to secure an in-depth understanding of the phenomenon in question (Denzin and Lincoln, 1994, p. 2) and provides stronger substantiation of constructs and hypotheses (Eisenhardt, 1989, p. 538). The three data sources are now addressed in turn.

5.4.4.1 In-depth interviews

Interviewing raises the issue of what form interviews are to take. A distinction is made between structured and unstructured interviewing (Fontana and Frey, 2000, p. 653). While structured interviewing aims at capturing precise data of a codable nature in order to explain behaviour within pre-established categories, unstructured interviewing attempts to understand complex behaviour without imposing any a priori categorisation that may limit the field of inquiry. Consistent with the aims of this research project, initial interviews were carried out in a fairly unstructured manner, allowing respondents to focus on the issues that were of particular concern for them. With progressive data analysis and development of concepts and categories, interview questions were narrowed down, in order to focus on specific aspects of the developing theory.

A similar strategy was carried out in connection with sampling issues, using purposeful sampling first and then theoretical sampling, thus again focusing with progressive data collection over time. Interviewees were selected using purposeful and theoretical sampling whenever possible. The researcher was provided with a comprehensive organisation chart and some information by the main informant and gatekeeper in the corporate finance function, indicating which people might be helpful for the advancement of the research project.⁴⁰ Furthermore, first interviews were carried out with the heads of Controlling of the two divisions, following a similar strategy. The information provided by interviewees had to be partly relied on for the sampling of other interviewees, as little written information on people apart from the organisation chart was available and e.g. the term SMA did not appear on it. With time, the researcher herself became more knowledgeable about people and had to rely on the informants to a lesser extent.

⁴⁰ Note that Fontana and Frey (2000, p. 655) advocate the location of a good informant, i.e. someone who is an insider in the company and is willing and capable of acting like a guide and translator for cultural and language issues. The main informant in the present study was certainly very helpful for those issues and the organisation of the fieldwork.

Interviews were tape recorded whenever possible and the majority were transcribed. They were either carried out in German or English, the choice being left to the respondents. However, German is the first language of the majority of respondents, and most interviews were in German. These were left in their original language, but analysed using English terms whenever possible. Strauss and Corbin (1998, p. 285) suggest that only minimal translation of interviews be done. They stress that the difficulties of achieving an accurate translation are well known, an opinion that is shared by the author of this thesis. They further state that many of the original subtleties of meaning in one language are lost in translation and that too much valuable time and meaning can be lost in trying to translate all materials. However, elements of some interesting interviews were translated in order to be included as direct quotes in the analysis chapter. Ultimate care was taken for those little pieces of data to find the right wording, approximating the original as closely as possible.

The interview schedule included people from different locations and functions. Interviewing a breadth of people allows for different perspectives to emerge. It further contributes to validating the statements of different respondents, and to getting a richer picture of phenomena. Cutcliffe (2000, p. 1478) stresses the importance of finding the right balance between a wide and a narrow or more focused sample. The sample was kept broad at first, aiming to get a differentiated understanding of what was going on in the company. With increasing time spent and the advancement of the emergent theory, the sample width was kept more or less constant, but the same people were interviewed again, now focusing on the development of the theory, as indicated by Strauss and Corbin (1990).

Altogether, 46 formal interviews with 30 different people were carried out. Furthermore, informal discussions were held on numerous occasions. The shortest interview was about thirty minutes, the longest was about four hours. Most interviews however were of about one hour duration. Two joint interviews were carried out, involving the discussion between the researcher, a marketing manager and his or her Controller in one sub-division. Further detail will be provided in Chapter 6, as the provision of a list of interviewees at this point, without at the same time offering any detail of the company and its structures is not sensible.

The exclusive use of interviewing can pose some problems, as respondents may not be able to fully describe and explain their actions or may distort information on purpose, i.e. adapt to the interview situation at hand. McKinnon (1988, p. 38) in this context refers to 'the complexities and limitations of the human mind'. This may pose a threat to reliability and

validity in that respondents may consciously seek to mislead the researcher, or that natural human tendencies and fallibilities may affect their reports without dishonest intentions. In the latter case, this may be linked to respondents forgetting things, being biased, or simply taking some aspects of interest for granted and thus failing to mention them. Other researchers mention similar concerns (Silverman, 2000, p. 32; Van Maanen, 1979, p. 546). It can be argued that given the considerable length of time spent in the company, and the nature of the relationship between the respondents and the researcher, these threats to reliability and validity have been addressed. Furthermore, probing questions have been advocated as a powerful means to tackle these threats, and these have been used extensively in the interviews. Furthermore, elements of observation and document analysis were included in order to counterbalance potential distortions.

5.4.4.2 Observation

Observational evidence can be useful in providing additional information, while complementing other forms of data such as interviews. There can be a distinction between a range of observational methods ranging from complete participation to complete observation. For the present study, a non-participant role was taken, as more participation would have required long periods of immersion, which was not feasible. Observation can be formal, such as the observation of meetings, and less formal, such as any observation made during a field visit (Yin, 1994, p. 87). Both types will be outlined in turn.

Informal observation was carried out at any time the researcher was present in the company. Altogether, 8 weeks were spent at Henkel between November 2000 and June 2002, involving 7 trips of varying length. Any opportunity to spend time inside the company was used, even on days where no interviews were scheduled. The researcher was given an office to operate from during her stay in the company. Furthermore, she joined the main informant and his colleagues in their lunch breaks, in the course of which numerous work-related discussions could be observed. Besides, she could move freely inside the company, thereby getting access to the on-site library and other information sites. These cumulative instances of informal observation contributed greatly to the knowledge about the company and to getting a feeling for what was going on in general terms.

Formal observation, on the other hand was a more sensitive issue. The researcher requested to be able to observe various meetings, but this was at first declined, due to the confidentiality of the issues that were discussed, especially if these were considered

strategic. In spite of this, the evolving relationship and increasing levels of trust between the 'gatekeepers' and the researcher resulted in limited access to meetings being eventually granted. Management accounting meetings were observed at corporate level and in one division. These were not tape recorded but recorded in fieldnotes. Observation of meetings contributed to a further understanding of management accounting interaction and decision making.

Again, the issues of the reliability and validity of observations can be raised. Participants can potentially behave differently when an observer is present, than in a normal interaction. This has to be recognised and observations have to be evaluated with due care. McKinnon (1988, p. 44) notes that the social behaviour in the field can have a positive impact on this and the access problem indicated above. Increasing confidence, trust and respect towards the researcher can unlock access to data and contribute to a good relationship between the two parties. This was certainly the case for the present study, where ultimate care was taken to build up such a relationship, with the consequence of the researcher being perceived as less and less obtrusive over time. In addition to these strategies, the analysis of documents can further understanding of the case study.

5.4.4.3 Documents

Documents provided a rich source of information on the company in general, but also an additional source of understanding of numerous organisational processes, notably with reference to accounting. A whole range of different types of documents, ranging from internal to publicly available documents were collected, viewed and analysed. Internal documents could in some cases be photocopied and taken away, or in other cases be consulted in the company. Extensive notes were taken when they could only be consulted. Publicly available documents were collected on site or printed from the company website and business related newspapers.

Altogether, hundreds of pages of documents were collected and analysed. Yin (1994, p. 81) notes that the most important use of documents for case studies is to support and augment evidence from other data sources. He however stresses that researchers need to be aware that any document is written for some specific purpose and audience other than those of the case study carried out. Documents were therefore approached with a critical and questioning stance and not taken at face value, mainly if they were provided for the general public. A complete list of documents is provided in Table 1 below.

Internal documents	Dates
Organisation chart	July 2000
Strategy 2004	
Strategy 2004 Update	from 06/01
Strategy 1996	1993
Financial strategy 1999	
Reporting documents (Yellow book)	Monthly, quarterly, annual
Information folder for a weekend meeting of the board & shareholding committee	08/2000
Accounting and reporting manuals	09/2000, 2001
Planning guideline	07/2001
Economic data for planning	07/2001
BACH: Business Administration Tool-Case Henkel	1997
'Strategic tools workshop' documents	
Talk on 'Management Reporting'	
Published article on the company planning system	
Programme of company training courses	
Publicly available documents	Dates
Annual and quarterly reports	1998 - 2001
Historical company overview	
Henkel in brief	2001
Mission/Principles/Strategy	
Leitlinien für Zusammenarbeit und Führung (Guidelines for teamwork and leadership)	
Grundsätze und Ziele zu Umweltschutz und Sicherheit (Guidelines & objectives of environmental protection & safety)	
Code of conduct	
Henkel-Life: employees' journal	several months
Journal for Retired Employees	several months
Henkel Journal: for neighbours	several months
Safety, Health and Environment (SHE) reports and standards	1999, 2000
Sustainability Report	2001
Research & Development brochures	1999 - 2001
Press articles from the web data base	from 1998 until now
Diverse communications from the company's website	
Holthausen 1899-1999 (Schriften des Werksarchivs) (100 years of production in Düsseldorf)	
Feldenkirchen, W. and Hilger, S., Menschen und Marken – 125 Jahre Henkel (Publication on the 125 years of company existence)	2001
Operative Performance-Messung im Shareholder-Value-Konzept von Henkel (published article on performance measurement and the shareholder value concept)	

Table 1: Company documents collected

5.5 Summary

Following the literature review chapters, where the case for interpretive research into strategic management accounting was made, this chapter discussed the detailed research methodology and methods followed in the present research project. It was organised in three distinct parts, focusing on the interpretive research process, data analysis and data collection issues.

The interpretive research process was first outlined in general terms, noting its iterative course. An overview of grounded theory was then provided, including an outline of its historical development and its main data analysis techniques. An indication of data collection rationales and a description of the steps taken during the empirical data collection followed this. The sampling strategies were exposed and data collection from three different sources was described: in-depth interviews, non-participant observation and company documents. Furthermore, issues of reliability and validity were discussed in relation to these data collection methods. Chapter 6 will now complete the information given of the case site.

CHAPTER 6: THE CASE STUDY

6.1 Introduction

After a detailed outline of methodology and methods in chapter 5, the present chapter will outline the case study that is the basis of the thesis. This chapter will serve as a source of reference for the following analysis chapters. To commence this section of the thesis, the two main research questions are reiterated. The first addresses the question of how strategic management accounting techniques are used and implemented in the company. The second deals with the question of how organisational actors perceive SMA and what their main issues and concerns related to it are. While the first is to a large extent answered in the present chapter, the second will to a greater extent be addressed in the grounded theory chapters that follow.

The present chapter first provides an outline of the German business and accounting environment. Then, general details on the case company will be outlined, including a historical overview, an explanation of organisational structures and the different company sites visited, and a listing of the organisational actors who were interviewed. This is followed by a detailed description of the different management accounting practices that were encountered in the company. The different practices are addressed in five subsections dealing with financial accounting requirements and management accounting, financial reporting and performance measurement, planning practices, resource allocation and the allocation of central costs. Then a focus is provided on strategic management accounting practices. The attribution of practices to SMA is not clear cut in the company, however, practices relating to competitor accounting, strategic investment appraisal and strategic costing were observed and will be described in turn. The last section then addresses roles and images of management accountants. But first an overview of the German business and accounting environment will be given.

6.2 The German business environment

Business practices in Germany are carried out in a way that can be considered very different from British practices. This is certainly linked to the specific environment surrounding the German economy. Some important aspects of it are now discussed in turn, starting with the German economy and its business values.

6.2.1 The German economy and its business values

With its population of about 80 million, Germany is the fourth country in the world in terms of overall economic performance (Randlesome, 2000). According to Randlesome (2000), German business values encompass conservatism, environmentalism and long-termism. By conservatism, he refers to a certain resistance to change observed amongst German business practitioners. Environmentalism is a business value that has recently been at the forefront of the German economy, partly because of the growing influence of the Green Party (*Die Grünen*) in German politics (Randlesome, 2000). Considerable concern with environmental issues has also been observed in the case study. The most cited value or characteristic of German business relates to what has been labelled long-termism. Simply put, “*German companies are in business in order to stay in business*” (Randlesome, 2000, p. 10). Currie (1995) notes that (West) German companies have traditionally been less subject to short-term pressures from stock markets. The big German banks are major equity-holders in manufacturing companies and as such those businesses are not shareholder-driven in the Anglo-American sense. Another reason for long-termism can be related to family shareholding communities that influence certain forms of business organisations, an aspect that certainly plays a major role in the case study and will be further developed in the next sub-section.

6.2.2 German forms of business organisations and companies

Nobes and Parker (2000) distinguish between three main forms of business organisation, the AG, the KGaA and the GmbH, which are all ‘companies’ and as such have to comply with different financial reporting and disclosure requirements than ‘businesses’.⁴¹ The AG, or *Aktiengesellschaft* is the nearest analogy to a British PLC. The organisational structure of an AG is legally prescribed. The decision making power and responsibility are within the hands of the management board (*Vorstand*). Furthermore, there is a supervisory board (*Aufsichtsrat*) whose members are up to 50 percent appointed by the workforce. The GmbH (*Gesellschaft mit beschränkter Haftung*) is a private limited liability company. Medium-sized and small companies seem to prefer this form, whereas companies with high capital requirements to be met by the capital market use the AG (Nobes and Parker, 2000).

⁴¹ ‘Businesses’ include such forms as OHG, KG, and GmbH & Co. that shall not interest us any further here.

The KGaA (*Kommanditgesellschaft auf Aktien*) is a mixture between the limited partnership and a stock corporation. The case company is of this latter type. The KGaA is a business organisation in which at least one shareholder, the general partner (*Komplementär*), is personally liable for the company's obligations to its creditors. The latter shareholders are managers of the company. The remaining shareholders (*Kommanditaktionäre*) are only liable to the extent of their interest in the company. The organisational structure is similar to the AG with the existence of a management board and a supervisory board (Nobes and Parker, 2000).

The latest available statistics on the economic importance of these business forms date back to 1992. That year, the largest 100 industrial companies in Germany by turnover were 68 AG's, 19 GmbH's, 2 KGaA's and 11 others. The KGaA is thus a very rare business form for large industrial companies (Nobes and Parker, 2000).

6.2.3 Accounting and management accounting in Germany

German accounting is based on a commercial code (*Handelsgesetzbuch, HGB*) rather than on accounting standards set by accountants like in the Anglo-Saxon world. Accounting practice has gradually established generally accepted accounting principles (*Grundsätze ordnungsgemässer Buchführung, GoB*), which are now to a certain extent codified in the HGB. One major influence on accounting is tax law, which requires expenses to be recorded in the financial statements if they are to be tax deductible. The influence of the German accountancy profession is increasing, but still weak compared with the influence of tax rules and also compared to the Anglo-Saxon accountancy professions. There are thus major differences between German and Anglo-Saxon accounting. These continue to exist, but have been reduced by various harmonisation efforts induced by the EU and via the use of International Accounting Standards (IAS). Some German companies are now registered on the New York Stock Exchange and for this were required to either use US accounting methods or to provide reconciliation to them (Nobes and Parker, 2000).

Management accounting in Germany is usually referred to by the term 'Controlling'. And management accountants are called 'Controller'. The same terms were used in the case company. According to Scherrer (1996), the development of management accounting in Germany has resulted primarily from the efforts of academics rather than practitioners. There is no professional body of management accountants in Germany such as the Chartered Institute of Management Accountants (CIMA) in the UK. However, there exists an

International Controller Club (*Internationaler Controller Verein*) and a Controller Academy, who offer Controlling courses and also provide a forum for the exchange of ideas and experiences for Controllers. Controllers working in companies are usually graduates of German business degrees (*Betriebswirtschaftslehre*) most of which have chosen to concentrate on issues of Controlling and accounting.⁴²

Scherrer (1996) provides an overview of management accounting practices in Germany with a focus on cost accounting. He reckons that empirical research into German cost accounting has not been as fully developed as theoretical research. His findings on the utilisation of various accounting techniques in German companies appear to mirror the practices employed in the case company (cf. a later section). Sheridan (1995) proposes that on the continent, including Germany, controllership is regarded as part of the management and not part of the accounting continuum. He reckons that this is one of the reasons why it is possible for Controllers to look much more to the future.

6.2.4 The German chemical industry

The chemical industry is a key industry in Germany with a sales share of about 10 percent of all German manufacturing sales. On a worldwide basis, this industry ranks third in terms of sales after the USA and Japan (Verband der Chemischen Industrie (VCI), 2002). One of the major challenges identified by the German chemical industry association (VCI) for this industry is related to globalisation issues. The chemical industry is today a global industry and the international competition is expected to become even harder in the future due to new competitors (VCI, 2002). This translates into a challenge for research and development activities as new products and processes provide the driving force of continuous international competitiveness. Furthermore, structural changes can be observed as the chemical industry engages in a process of 'destructuring', while destroying old structures and closing unprofitable assets. Mergers, alliances and acquisitions are at an all-time high and have taken their turn in re-shaping the landscape of the chemical industry (VCI, 2002).

After this short outline of the German business and accounting environment, the case company is now portrayed. It has to be considered on the basis of the specific environment that is present in Germany.

⁴² The same applies to a certain extent to Controllers in the case company. See below for further detail.

6.3 Details on the case company

6.3.1 Historical development

The case company was founded in Germany some 125 years ago. Since then, it has grown from a small German firm to a global player, with the majority of its business conducted outside Germany. An important factor in the development of this company is and was its founding and shareholding family. As indicated, Henkel is a KGaA form of business, and has been since 1975. It now trades its shares on all eight German stock exchanges. About 50% of its shares are non-voting. Of the 50% voting share, about 80% is estimated to be held by the family of the original founder of the company, who thus have the majority of votes. The 'family', as they are called inside the company, have decided a few years ago to keep the majority of shares for about the next 20 years to come, thereby committing themselves to the continuity and stability of the company. They are not involved in the company's day-to-day management, but become involved when decisions of high strategic relevance have to be made through a committee, whose rights to management have been delegated to the board of directors. Their influence is thus still remarkable and regulated through the management of the company as an 'open family company'.

The company, on the occasion of its 125th founding anniversary, commissioned two German researchers specialised in company and economic history to research the history of Henkel. The resulting publication (Feldenkirchen and Hilger, 2001) draws an extensive picture of the company's interesting past, while also analysing organisational structures, financial politics and its international development. Feldenkirchen and Hilger (2001) stress the importance of brands and people for the successful development of the firm. Henkel today occupies leading positions in many branded product markets. An increasing globalisation of its consumer product markets and industrial customers has led to an increased globalisation of the company and its structures.

6.3.2 Organisational structures

Organisational structures reflect power and positions of influence inside the company. An organisation chart is provided in Figure 10 below, for clarification of interviewees' positions. The complexity of the company does not allow for a full organisation chart to be provided. In order to fully capture all respondents' positions, five levels would have to be included under the board of directors, which would only lead to confusion. The researched parts are in the grey shaded areas.

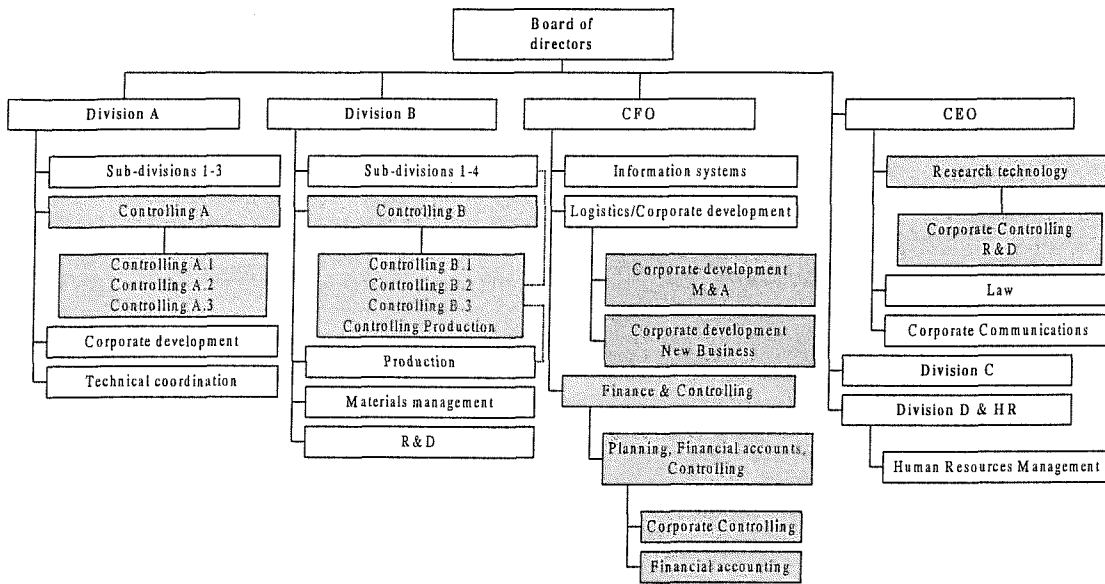


Figure 10: Organisation chart (as of July 2000)

A board of directors comprising the chief executive officer (CEO), a chief financial officer (CFO) and one director for each of the four divisions manages Henkel. Note that the director of division D also represents the corporate human resources management. Each division is in turn managed by a divisional board consisting of the division's director, who is thus on both boards. Divisional boards furthermore include other divisional managers and the divisional heads of controlling. There are corporate functions such as finance, research & development, human resources, law, corporate communications etc., which are located in the German headquarters and focus their attention on corporate issues. At the same time, most of these functions are replicated in the divisions, with a focus on the business level. A balance is attempted between corporate and business elements. Divisions are organised around strategic business units, which have a world-wide responsibility for their businesses. Strategies are defined globally and implemented locally.

6.3.3 The four research sites

The research sites that were included in the case study are located in four different parts of the company. One main site is situated in the corporate functions; access was further granted to two divisions and one subsidiary. Each is described in turn.⁴³

The corporate functions

The corporate functions are located directly under the board and attached to the CEO (for Research and Development) and the CFO (for Finance and Controlling, and Corporate Development), with no particular link to any of the divisions. The corporate R&D Controlling function is responsible for the company-wide co-ordination of research and development, with a focus on the evaluation of strategic R&D projects. The Corporate Development units are in charge of merger & acquisition (M&A), divestment and new business projects, destined to develop the company in line with its strategic focus. The corporate development managers interviewed co-ordinate and manage the decision process for such projects. Employees in the Finance and Controlling unit work for the board of directors through the CFO, as a corporate unit. The Corporate Controlling unit was the main research site for this case study. Their tasks include the preparation of Controlling reports and analyses from a corporate point of view.

Division A

Division A is involved in adhesives businesses, targeting consumers and industrial firms. It accounted for about 23 percent of the company's sales with close to 3 billion Euro turnover in 2000. Division A is subdivided into two business to business sub-divisions, named industrial and engineering adhesives, and one consumer sub-division, named consumer and craftsmen adhesives.⁴⁴ The industrial adhesives sub-division produces and markets, amongst other items, packaging, wood and shoe adhesives. The engineering adhesives business manufactures and sells products such as reactive adhesives and high-performance sealants. These two sub-divisions are very different from the third one, which focuses on consumer and craftsmen adhesives, a branded business, which is less technical, but more brand oriented.

⁴³ The company underwent some organisational change in late 2001. These changes are already included in the 2001 annual report, however, they are not significant for the research study, as the main data collection period was finished by then. The following discussion focuses on the situation as it was before the recent change, while concentrating on those aspects of importance to the case study.

⁴⁴ The recent change in organisation structure has split this division. The consumer part is now a division in its own right, whereas the industrial sub-divisions have been merged with divisions C and D to form one main technology division. As indicated above, this change is of little relevance to the present case study.

Division B

Division B focuses on cosmetics and toiletries, targeting consumers more or less directly. It accounts for about 16% of Henkel's sales, which translated into a turnover of approximately 2 billion Euro for 2000. Division B is subdivided into four sub-divisions named 'body care', 'oral/skin/fragrance', 'hair care', and 'hairdresser'. These however appear to be less separated than the sub-divisions in division A, except for the hairdresser business. While sub-divisions 1 to 3 sell their products to consumers via retail chains and shops, the hairdresser sub-division markets its products via hairdresser businesses.

The British subsidiary

The British subsidiary is a legal entity that is attached to Henkel Germany. It includes different divisions and has its own responsibility structure. Its Chief Administrative Officer is responsible for all companies in the UK and the Republic of Ireland, all of which are managed through one so-called Shared Service Organisation. Net total sales of Henkel UK and Ireland (for 2000) were about £321 million, for a total of about 1,300 employees. Most of the sales were produced in the adhesives market segment.

These four distinctive parts have to be distinguished and can be used to compare happenings inside the company. The two divisions can be differentiated by their products and product markets, which constitute important contextual factors and influence the divisional sub-cultures. The divisions and subsidiaries can be perceived as separate companies with different viewpoints, however, they are held together by belonging to the same holding. Corporate issues take precedence over business issues, when it comes to the strategic development of the company as a whole. Despite these small differences, the data collected will later be included in one grounded theory scheme. The differences contribute to the variability of the underlying conceptual categories.

6.3.4 Details of interviewee positions

A detailed list of interviewee positions is provided in Table 2 below, which will now be understandable on the basis of the information that was given above. The column labelled 'Location' shows the situation in the organisation chart, while the next column shows the more detailed position inside that location.

Location	Position	Number of interviews
CFO		
Corporate Controlling	Corporate Controller 1	5
	Corporate Controller 2	2
	Corporate Controller for Investment appraisals	3
Corporate Development	Corporate M&A Manager	1
	Corporate New Business Manager	1
Financial accounting	Corporate Budgeting	1
	Corporate Accounting Guidelines	1
	Corporate Accounting Systems	1
CEO		
Research technology	Head of R&D Controlling	3
Division A		
Controlling A	Head of Controlling	2
Sub-Division 1 (A.1)	Sub-divisional Controller	1
	International Marketing Manager	1
	International Business Development Manager	2
Sub-Division 2 (A.2)	Sub-divisional Controller	3
Sub-Division 3 (A.3)	Sub-divisional Controller	1
Division B		
Controlling B	Head of Controlling	3
	Head of R&D	1
	Production Controller	1
Sub-Division 1 (B.1)	Marketing Manager 1	1
	Sub-divisional Controller 1	2
	Marketing Manager 2	1
Sub-Division 2 (B.2)	Sub-divisional Controller 2	1
	Marketing Manager 3	1
	Sub-divisional Controller	2
Sub-Division 3 (B.3)	Sub-divisional Controller	1
UK Subsidiary		
	Chief Administrative Officer	2
	Marketing Manager	1
	Business Controller	1
	Financial Controller	1
	Assistant Cost Accountant	1
TOTAL	(Number of persons formally interviewed)	30
TOTAL	(Number of formal interviews)	46

Table 2: Details of formal interviews⁴⁵

⁴⁵ Note that some joint interviews were carried out in Sub-division B.1, e.g. with Marketing Manager 1 and Sub-divisional Controller 1, and Marketing Manager 2 and Sub-divisional Controller 2.

After this general outline of the company and the case study, a focus on management accounting will now be provided. The next section will explain management accounting practices that were encountered in the case company.

6.4 Management accounting practices

Management accounting practices can be described as issues related to financial accounting requirements and management accounting, financial reporting and performance measurement, planning practices, resource allocation, and the allocation of central costs. These five points are addressed in turn.

6.4.1 Financial accounting requirements and management accounting

The regular internal management accounting activities follow the financial accounting yearly events, such as annual accounts and quarterly reports. The company is required to produce these accounts, based on German HGB⁴⁶ and IAS. Internationally speaking, the company's accounting manuals require affiliated companies to comply with IAS, and any further binding local requirements. If there are national accounting regulations, companies are required to adjust them to the Henkel IAS guidelines, except if there are no material changes. The company issues a guideline for uniform accounting and reporting, which is updated on a yearly basis. It sets binding rules with the purpose of ensuring that annual and quarterly financial statements are produced on a uniform basis and in compliance with the IAS. The guideline is to be followed by all group companies, which are later included in the consolidated financial statements of the company. Furthermore, the guideline sets rules for the monthly reporting, the annual planning or budgeting and the establishment of expected value statements in April and October. The latter are outlined in a later section.

As indicated by its name, the guideline includes accounting and reporting aspects. While parts of it focus on external financial accounting requirements, others focus on internal accounting and reporting aspects. These two parts are closely linked, some key figures being identical for the external and internal statements. Also, internal figures are partly disclosed to external stakeholders. There are annual and quarterly financial statements, and monthly reporting cycles, as addressed in the next section.

⁴⁶ *Handelsgesetzbuch*, cf. above.

6.4.2 Financial reporting and performance measurement

The monthly reporting is compiled using two main statements, the internal income and the internal asset statements. These are central to the reporting system and allow the management and control of current business activities.⁴⁷ The internal income and asset statements are compiled at the beginning of the following month with a tight deadline, the 3rd working day. They thus rely partly on projections, such as budgeted numbers or standard costs, which then have to be brought in line with the actual figures during the course of the year. Having timely, but projected information is preferred to having actual but untimely information. The monthly reporting is compiled in a computer system and is available on screen, but so-called 'Yellow books' are also produced, which provide the most important information in printed form. Yellow books are also compiled on a quarterly and annual basis. Annual yellow books are more detailed than the monthly versions, and draw the whole year together.

The internal income and asset statements consist of altogether about 75 lines of figures, including the main control figures, which are EBIT (Earnings Before Interest and Tax), and EVA[®] (Economic Value Added).⁴⁸ They also report on some key performance indicators (KPI). The main KPI employed include turnover figures (inventories, accounts receivable, capital turnover) and return figures (return on sales, on investment, on capital employed).⁴⁹ These are the main figures that are imposed from a corporate point of view. The diverse parts of the companies may use further reporting figures for their own reporting, according to their specific needs. Further figures that are often reported include net external sales, return on sales and contribution ratios, and in a financial focus, return on equity and earnings per share. Moreover, yellow books provide analysis pages that include qualitative information on the figures, on regional development, on special effects, on future measurements and an outlook. It is noteworthy that managerial staff is partly paid through a performance-related remuneration scheme, thus providing an incentive for the attainment of goals.

⁴⁷ Besides, there is a cash flow statement, at a corporate level.

⁴⁸ EVA[®] is trademarked with Stern, Stewart and Co., a New York based consulting firm. See O'Hanlon and Peasnell (1998), Mouritsen (1998) and Otley (1999). Henkel recently introduced Economic Value Added as a main control figure in the context of a shareholder value programme that was launched in 1996.

⁴⁹ For the basic structure of the internal income statement (labelled E6) and the internal asset statement (labelled E7), see Appendix I.

The internal income and asset statements are compiled for each strategic business unit. More detailed information is also accumulated on a product basis. Furthermore, actual reporting data is always set in relation to comparative figures that relate to the previous year, the budgeted accounts, and expected value figures, thus leading to a deviation analysis. Data can be related to different corporate entities, thus linking information across time and space. Future data is compiled through planning practices.

6.4.3 Planning practices

There are different planning time horizons, ranging from long term to short term planning. Long term or strategic planning involves projections for five years ahead. Furthermore, there is the annual planning or budgeting cycle and the biannual forecasting exercise.

The strategic planning cycle attempts to define a whole set of information for five years into the future. It includes general information related to the company and its markets, and also a formalised sheet, which is called 'OGSM' and focuses on Objectives, Goals, Strategies and Measurements.⁵⁰ There is interplay of quantitative and qualitative information, some of which serves to link the strategic planning to the annual planning. The strategic planning sets the general direction for the future of the company and its constituent parts, while the annual planning breaks this down into smaller and more easily manageable pieces. Furthermore, there is a separate financial strategy that is defined every few years. The strategic planning process is less formalised than the annual budgeting process. However, the plan is updated on a regular basis, without any specific dates set in advance.

The annual planning cycle on the other hand is clearly defined in a planning guideline. The guideline rules the preparation of the plans within the short term planning and provides some hints on the planning commentaries to be provided. The process usually starts in August and is completed in December. It involves several rounds of bottom-up and top-down cycles, eventually leading to budgets that are acceptable to everybody. The planning guideline states that the budget is only to be considered approved after agreement by the board of directors and the shareholding committee. The numbers included in the planning represent the goals that are to be achieved in the year to come.

⁵⁰ For an example, see Appendix II.

The short term planning includes a set of five form sheets and commentaries. Separate form sheets have to be filled in regarding the marketing plan, the personnel plan, investments and maintenance, the operating income plan and the operating assets plan. These usually set the past year's actual figures, the present year's expected figures and the next year's plan in relation to each other. The planning guideline defines basic planning requirements to be taken into account by the sectors and divisions for reasons of uniformity, such as the forms to be filled and the numbers to be provided. On the other hand, it leaves scope for them to define their specific requirements regarding the qualitative comments. The so-called planning narrative should however include some information on the current and projected business specific environment, strategic direction, risks to the plan and opportunities arising out of the plan, and some key data (net total sales, EBIT, return on sales, return on investment).

The planning is updated twice a year with forecasts, which are called expected value figures. These update the budget by replacing planned months by actual months as far as possible and by revising the future months' estimation. They thus complement the planning with new information emerging during the year. While the establishment of the first expected value figures (in April) focuses on problems and deviations only, the second expected value date (in October) reviews every item and requires more effort. It is the preparation of the year's next planning exercise.

Generally speaking, planning or budgeting has to be distinguished from what is here called resource allocation.

6.4.4 Resource allocation

Whereas the planning sets overall budgets for the diverse accounting figures, it does not involve decisions on individual sums of money to be spent, particularly if these involve large amounts of money. The planning guideline clearly states that the approval of the budget does not embrace any individual project approvals, which are to be obtained individually for each project, according to the capital investment project approval procedures. There are three main resource budgets for three different purposes. These are budgets for investment in capital, investment in research and development, and a budget for acquisitions. There are clearly established rules for the resource allocation process, outlined with reference to capital investments. Similar rules exist for the other budgets. The corporate strategy states that all

investment expenditures compete within the same financial framework, i.e. they must be submitted to similar decision processes.

Any project involving the expenditure of resources for capital investments above some clearly defined monetary limits has to be decided upon centrally, in the central finance department. Project proposals have to be provided to one central Controller, who is responsible for decision support to the decision-makers (the board or even the family). The information that has to be provided for such decisions is clearly defined. The major data sheet for capital investments states the information that is required, which includes information on the investment purpose, the project description, the justification or objective of the investment, the market situation, an economic evaluation, and numerical information for the investment calculation.⁵¹

The Controller in the central function collects the relevant information set. His task is then to analyse, evaluate, transform and complete this information, using his experience, and to provide an appropriate set of information for the decision-makers. The information provided in form of a management summary is based on two main pillars: a set of financial data, i.e. estimated future costs and returns, and strategic arguments. Those two distinct elements are used together, and strategic aspects might be considered more important than financial arguments. There is a very complex cash based evaluation system that takes into account numerous assumptions in order to assess the future. It takes a discounted cash flow method (DCF) based on a 10-year period to compute the net present value (NPV) and internal rate of return (IRR) for different assumptions (usually for normal case and worst case scenarios). The hurdle rate is the weighted average cost of capital (WACC), which is adjusted according to the risk of investing in different countries. For investment projects of a lower expenditure, and where cash flows are more or less equally distributed over the years, a payback period can be calculated in exception to the DCF rule. This is justified on the background of historical processes, as it simplifies the evaluation process. At the same time, the above-mentioned strategic aspects are considered one by one, without attempting to quantify them. This is considered important, as they are really important aspects that can potentially lead to a refusal. Strategic, economic and technical aspects are included in the so-called arguments' profile, an important part of the information provided to the decision-makers.

⁵¹ Appendix III provides the data sheet for capital investments, the so-called Red Form.

Potential acquisition projects are treated similarly, even though they are less frequent and certainly treated with more confidentiality. There is a management accountant in the central units who has a similar function to the person involved in capital investment appraisal. He co-ordinates acquisition and divestment processes and also ensures standardisation of procedures and financial evaluation methods. The aim is the development of the divisions' product portfolios. Strategic aspects are considered of prime importance when a potential acquisition is considered. These are essentially the kick off points of a consideration. A potential acquisition target is only considered when its strategic relevance to Henkel is established, for example in terms of technological innovation. The financial data is used to make sure that such a move is financially viable, and as such is complementary and of secondary importance. The final decision is again based on strategic aspects and a discounted cash flow (DCF) calculation based on a future business plan for the acquisition target, using, again, the WACC. The difficulty here is that very little information on the target might be available, even after some negotiations. The target might be negotiating with a few companies who are generally competitors and might not wish to disclose too much information until the buyer has signed. Getting the right information is thus key to the acquisition process. Generally speaking, any aspect is potentially evaluated in terms of financial figures, in order to calculate the impact on business plans. This is the management accountants' main task.

A particular case is the investment into so-called new business firms. The 'new business budget' is part of the acquisition budget and is provided for investment in new economy firms such as start-ups that might be developing a technology of interest to Henkel. The problem of information availability is here compounded, as start-up firms do not usually have a history yet. There is thus hardly any past information that can be projected into the future. Furthermore, a product market might not be defined yet, as the product is under development. The resulting uncertainty and risk are managed by using higher hurdle rates compared to 'normal' acquisitions. Again, strategic aspects play an important role and money might be invested in order to provide information on new technological developments.

The third expenditure budget relates to research and development projects. Corporate R&D projects, as referred to here, are usually of strategic scope as well, while divisional projects might be short term. Again, a DCF method is used, with cash flows spanning a period of 10 years, complemented by strategic aspects.

Any of the aforementioned practices focus on management accounting. However, there are usually other people involved, such as marketing and production managers, chemists, and lawyers. Also, the monitoring of success or failure of projects is noteworthy. Respondents distinguish between monitoring and success analyses. Monitoring is carried out from the beginning of a project, such as the construction of a new production plant, to see if it is still on track compared to the plan. Success analyses on the other hand are carried out after e.g. the completion of the plant and from usually two years after the beginning of production on the site. Then, two years of actual data and eight updated years of forecasted data are used to check the success of the project so far. People other than those who were responsible for the project usually carry out success analyses, to ensure 'independence'. After this rather long description of resource allocation, a short note is given on the allocation of central costs.

6.4.5 Allocation of central costs

Also included in the above-mentioned activities are costing practices, namely cost allocation. Costs are allocated in different ways in different parts of the company. Overall, much attention is afforded to the fair and precise allocation of overhead costs. Some parts use activity based costing, others still use their own traditional system, which is perceived as complex and precise. The 'good' allocation of costs is considered important for taking the right decisions. As far as administration costs are concerned, the guideline for uniform accounting and reporting states that these should be allocated to business units in an activity based way whenever possible. The guideline proposes the application of cost drivers, which are supposed to be reference figures that have a determining impact on the respective levels of the costs to be allocated. If this is not possible, then estimates of the relevant effort in terms of time or personnel, or sales-based allocations are to be carried out. Generally speaking, costs are at the centre of attention, with a focus on cost reduction and the understanding of cost drivers. The company operates in some highly competitive markets, where margins can easily be squeezed and thus internal cost reduction is one of the few aspects that can be influenced. Further comments on strategic costing will be made in the following section.

6.5 A focus on strategic management accounting

Strategic management accounting techniques were described in Chapter 4 as including practices such as competitor accounting, strategic investment appraisal, and strategic costing and cost management. Most of these practices were described above as part of the company's management accounting techniques. However, the designation of practices to SMA as distinct from MA is not clear inside the company. Many respondents have no clear view on what constitutes SMA as opposed to MA, and while some shared notion of SMA appears to exist, it only refers to the highly strategic aspects of MA. At the same time, there are MA techniques that are perceived as strategic in one division, but not another. Some of the practices mentioned in Chapter four have however been observed, with varying intensity, and these will now be discussed in turn.⁵²

6.5.1 Competitor accounting

Competitor accounting was described as providing a focus on a company's competitors and its own position in relation to those competitors. The main points of interest relate to relative cost and price positions, and to the monitoring of the competitors' strategies over a number of years. The case company performs these activities, to differing degrees. A distinction can be made between regular and ad hoc activities.

The company certainly does carry out regular screening activities related to markets and competitors. These are mostly compiled by non-accounting people, namely marketing managers and market researchers, and relate to the past. Market share information is provided by external panels and also compiled through market research departments. Marketing managers and management accountants use this information on a regular basis and it is part of the monthly reporting at business level. However, they stress that it is only past information, and that market information might not be available for all product markets, mainly in industrial areas. Furthermore, mainly marketing managers regularly screen the markets and their competitors' moves by collecting product samples that might be analysed for their content. Besides, press summaries are compiled, together with annual reports and information from company websites. These activities are mostly carried out in the divisions and strategic business units, and are to a certain extent communicated to the corporate units. This is different for ad hoc activities.

⁵² Please note that the next chapter will provide an outline of the shared meaning of 'strategic' in conceptual terms.

Ad hoc activities are carried out for a specific purpose, such as the revision of the strategic planning or a special enquiry by the board to provide some information. The above-mentioned market share information is used for the definition of strategies, with goals being defined in relation to the market share that is aimed for. Furthermore, management accountants compile information on competitor cost and price structures. These are mostly drawn from financial accounts and are not always available. Whatever is available is used for an assessment, while being aware that the information might only be an indication of what is happening, but not a real and hard fact. This is usually carried out in the divisions. The competitors' data are compared to internal data in some kind of benchmarking, which also extends to different internal sites. Furthermore, the data of a set of about 20 competitors is used in an annual corporate benchmarking exercise that provides information for the strategic planning and the financial long term planning. While the above-mentioned activities focus on quantitative data, some competitor activities also use qualitative data. Qualitative information is for example collected through press summaries that provide competitor information and any external information available. The whole external environment is constantly screened for happenings that can have an impact on the company, not only in economic terms, but also as regards political developments. Competitor strategies are also screened and analysed on an ad hoc basis, in divisions and corporate units. The understanding of how competitors think is perceived as important in order to be able to a certain extent to anticipate their moves.

Competitor accounting is thus an important part of the company's management accounting and marketing techniques. Another important SMA technique that is extensively used in this company refers to strategic investment appraisal.

6.5.2 Strategic investment appraisal

Strategic investment appraisal was mentioned in Chapter four as potentially including a value chain analysis and furthermore link strategic and financial aspects. Details on how strategic investment projects in capital, R&D or acquisitions are handled in this company were outlined in a previous section. The important position of strategic aspects in project evaluation processes was highlighted there. The key point to stress here is the extent to which the management accountants found the use of strategic arguments important in this context. The value chain is not employed for strategic investment appraisals, but value chain analyses are carried out in some operative units for other purposes. However, they were not performed by Controlling units.

6.5.3 Strategic costing

This part of SMA is not really clearly defined in theory, and its relevance is less evident than for competitor accounting and strategic investment appraisal. The same applies for its use in the company. The costing techniques used in this company were described above, and some of them can be called strategic. The allocation of costs is generally based on cost drivers in an activity based costing (ABC) manner, while striving for a good and fair allocation of costs. Good cost information is perceived as leading to the right decisions taken in terms of product costs and the product portfolio, and is as such a strategic issue. However, respondents' opinions diverge on this issue. While some perceive ABC and good costing practices as strategic based on the above-mentioned arguments, some do not perceive them as strategic, as they relate to aspects internal to the company.

In addition to the regular costing activities that were mentioned, ad hoc cost analyses are carried out and perceived as strategic. For example, a specific cost analysis has recently been carried out by one corporate Controller with the purpose of comparing structural costs across the company. Even though this focused on internal and past costs, it is perceived as strategic, as it allows conclusions to be drawn for future change.

6.5.4 Other SMA practices

Other SMA practices mentioned in Chapter 4 relate to the balanced scorecard and portfolio techniques. People in the company appear to be up-to-date with such new developments. They have checked the potential use of the balanced scorecard, but have decided not to use it in exactly the way it is advocated. They use their 'OGSM' system instead. It is similar to the balanced scorecard in that it aggregates financial and non-financial information on one main sheet related to different corporate and business levels. OGSM is seen as just one way of structuring information that is perceived as useful for the company. However, it is not used for regular reporting exercises, but focuses on the future. Besides, there exists a key performance indicator system that regularly reports KPI, which are again both of a financial and non-financial type.

As far as portfolio techniques are concerned, these are certainly used for the development of product ranges inside the divisions. However, no specific management accounting practices are employed for the different phases included in the matrix. Research and development units also use portfolio matrixes, with the axes showing technologies and markets. These are perceived as very helpful for the development of new products.

After this detailed outline of management accounting and SMA practices in the case company, the next section will provide an overview of roles and images of management accountants.

6.6 Roles and images of management accountants

Henkel's use of management accounting and strategic management accounting practices was outlined in the two previous sections. The present section focuses on the roles and images management accountants as persons appear to possess in relation to their work. As outlined before, the terms Controlling and Controller are used in Germany and in this company to refer to management accounting and management accountants. Those terms are interchangeably used in the subsequent sections and chapters, even though respondents mostly refer to the German terminology. Roles and images of management accountants will be outlined in turn, using the powerful evidence of interview quotes.⁵³

6.6.1 Roles and business involvement of management accountants

One issue related to this section refers to the significance of management accounting inside the company. It was indicated above that Controllers have prominent positions in the organisational structure of the company, as indicated by the organisation chart. This is confirmed by their own and their colleagues' understanding of their importance for the company. Controlling plays an important role, a role that appears to have increased over the past years. It is a real 'added value' function that involves not only the 'crunching' of numbers, a job that is nowadays to a large extent done by computers, but more complicated tasks. Management accountants do not limit their involvement to the indication of problems, but also work on the suggestion of counter-measures and solutions. This development is outlined in the following quote.

... and this is where I can see a clear change, if in the past Controllers used to be called 'pea counters' or 'number crunchers'... nowadays this is really only a basic information. In Controlling and strategic Controlling, the decisive points are after all the measures that you derive from it, the dedicated actions, the interpretation of certain developments, and at the end of the day, this is the task of my colleagues and myself and everybody working in Controlling (Divisional Controller).

⁵³ Interview quotes are provided in Italics. The following signs have been used for quotes in this and subsequent chapters: '...' denotes areas where parts have been left out and square brackets [] have been used to add a few words, when necessary, for the understanding of the quote.

The Controllers' role is in most cases defined as management support, i.e. assistance for other organisational actors. Most management accountants are involved in the everyday activities of managers. They are referred to as the 'sparring partner' or the 'right hand' of management, which suggests a close relationship. Furthermore, the Controllers' judgement on particular business cases is perceived by them as a 'seal of approval' necessary for decisions to be taken. Those issues are underlined in the following quotes.

...our strategic Controller always used to say: the Controller is the sparring partner of the management. He must either tell the management that, what the management [does], based on gut feeling or on experience, is right and confirmed by the numbers. Or he must say: you may be right in what you are feeling, but the numbers and the history and the logic tell a different story. And this is how he is the sparring partner. The Controller can't decide, but he can collect and structure the retrievable facts in such a way that they support the decision or are against the decision (Manager).

We also get involved in acquisitions... So, decision support, sure, production strategies, actually everything that you can imagine. Whenever far-reaching decisions are to be taken... That's nice, it's like a seal of approval... (Divisional Controller).

Management accountants are thus involved in the day to day life of business managers, at all levels of the company. The management accountants in the corporate units provide support to the CFO and the board in general. The divisional management accountants provide support to the divisional general managers and their sub-divisional managers. The relationship is direct and the involvement high, even on a daily basis. This appears to be even more the case in Division B, where management accountants appear to be closely related to 'their' business or marketing manager. This is apparent in the interviews, but also on the organisation chart, where management accountants are accountable to their management accounting chef (straight line) and their marketing manager (dotted line). The following quote stresses the importance of high involvement.

And you know, because you are focused on which role Controlling has in this, I strongly repeat: it has a key role. I don't believe that management can take a decision without serious support of let's say Controlling, which is able to foresee implications of each decision... But, there is one key issue. This kind of process, this kind of decision and support and co-operation with Controlling can be true only if the Controllers are fully involved in the business. This is an important point that I would like to underline (Divisional Manager).

This is slightly different in Division A. Here, management accountants are only accountable to the chief management accountant of that division, thus claiming to conserve some independence. The relationship to business and marketing managers is less close and the involvement less regular.



Generally speaking, Controllers have a focus on alarm and deviation. The management accountants centre their attention on financial issues, and on 'things that go wrong'. The focus of management accounting support is said to lie in the ability to raise the alarm if something goes wrong and in the ability to 'be critical'. They thus primarily have an attention directing function.

A Controller really does have an alarm function. Management accounting has less the function to tell us how great we are and that we have increased our profits by one percent again. That's the salesmen's job. They sell the good news. The Controller is the company's bad conscience. I.e. the Controller is expected to always walk around with an alarm bell and to constantly sound the horn, saying, there is an alarm and there is yet another one (Manager).

Furthermore, there is an important interdisciplinary aspect to the Controller's work. The information provided by management accountants is not the only information basis on which decisions are taken. Decision-making is an interactive and interdisciplinary process, involving people from different functions. The Controller's role appears to at times include the mediation between different functions and levels.

We often have a mediator role here, between the countries, production and marketing. Just the daily discussion is slightly different, only because the people are generally a bit different. I don't want to generalise this, but a certain tendency is observable. It even has to be like this. A product manager obviously has to focus on creativity and be strong on this side and be communicative. While somebody working in production obviously has to either have a more technical orientation or a quantitative orientation (Divisional Controller).

Related to these interdisciplinary encounters are images of management accountants in their organisational context.

6.6.2 Images and expectations

There appear to exist various images related to different organisational groups. Whereas marketing managers are seen as rather intuitive people, management accountants are perceived as scientists, who are able to manage and massage numbers in order to assess the situation, and communicate this assessment to the people involved. They are the specialists in the financial field and are trusted by the managers. Even though facing uncertainty, they manage to convey an image of rationality, putting future information down in scientific terms. This complements the managers' often rather 'subjective' assessment of non-accounting facts. As indicated, management accountants appear to possess a critical stance towards the information they are using. As opposed to Marketing managers, who are said to

have an optimistic stance, management accountants are perceived by other organisational actors as realistic, with their feet well on the ground. They can thus get other people back on the ground with them, while trying to achieve a common understanding of the situation at hand.

Related to this are the expectations people have of themselves and others. There appears to be a tendency to categorise people's behaviour, such as the marketing people as opposed to the management accounting people, and to transpose a few person's behaviour on the whole group, thereby creating expectations that appear to be generalised to whole groups. A generalisation often encountered in interviews is related to the differences between marketing or business managers and management accountants. Managers are often perceived as assessing the future in an overoptimistic way. Management accountants on the other hand are expected to redefine this assessment in realistic terms. Furthermore, management accountants are expected to act in a rational, neutral and objective way. Different types of information are associated with diverse roles, marketing managers using qualitative information and subjectivity and gut feeling, while management accountants focus on quantitative information. As a consequence, management accountants aim to fulfil expectations and act according to their functional group's image.

Well, the [Controllers] have to assess whether what the others are doing is good, whether the strategy is right, whether the operating business is good or bad. They are expected to have a sound opinion. And this as objectively as possible (Manager).

And then we do the [project] planning, sure, it's an estimation and therefore we do a monitoring afterwards... The divisions and countries tend to overestimate and to make too positive a planning. And then, we as Controller are expected to bring it down to a realistic level, to critically assess it. We will never be 100% right, very honestly, but we have accumulated some experience with the number of little and large projects that we have been carrying out in the past... (Divisional Controller).

6.7 Summary

The present chapter has provided descriptive detail on the German business environment, the case company and its management accounting practices. The German business environment was described as being very different from the UK business environment, in terms of business values, forms of business organisations and accounting. The German chemical industry was subsequently briefly described. It is a key industry in Germany, and subject to increasing globalisation, and research and development challenges. Henkel is an important player in the German chemical industry. Its historical development and organisational structures were outlined, before giving an overview of the research sites visited and the organisational actors interviewed. While the company background and its environment was only briefly described, management accounting related information was given in more detail.

Management accounting practices in general were described first, before providing a focus on strategic management accounting and roles and images of management accountants. To conclude, the company appears to be well developed in terms of general management accounting practices. Furthermore, Henkel employs most strategic management accounting techniques discussed in the literature. Controllers in the company appear to keep up to date with new management accounting developments, whose possible usefulness for the company is assessed on a regular basis. Moreover, they appear to be perceived as an important function for the running of the company. The next chapters will expand the case study findings in an increasingly theoretical way by outlining the results of the grounded theory analysis. The issues covered in the present chapter underlie the subsequent discussion.

CHAPTER 7: OPEN CATEGORIES

7.1 Introduction

This is the first analysis chapter that serves to introduce the early categories that were found to play a role in the case organisation's life. These categories were developed through open coding and the integration of early open concepts. They do not have a high level of abstraction, but serve the role of introducing some concepts that will later be refined and integrated into higher order categories. Later chapters will recount the further progress of theoretical abstraction and integration via axial and selective coding. The stages of open, axial and selective coding are thus separately addressed, for ease of reading, even though in reality these stages are not separate, but intermingle. Discussion is theoretical, but interspersed with quotes and examples of empirical data.

The current chapter describes the building blocks of a grounded theory of strategic management accounting in a multinational company in Germany. The focus lies explicitly on management accounting practices. Other functional viewpoints are included where necessary. To set the stage, an introductory section on what the term 'strategic' means in this company is included. An overview of the generation of open categories will then be provided before addressing each open category in turn.

7.1.1 The meaning of 'strategic' in the company

Strategic management accounting is at the heart of the following discussion. However, no strict definition of what is considered 'strategic' in the company was encountered. There were different perceptions of what the term 'strategic' means and thus different classifications of 'strategic' management accounting as part of management accounting. The following paragraphs give an overview of the meaning of 'strategic' inside the company in conceptual terms. This section is not part of the open categories, even though terms like properties and dimensions are employed. The discussion is of a stage-setting nature, while outlining the background of the grounded theory study, which is characterised by a 'strategic' context.

Generally speaking, the term 'strategic' is linked to strategies, anything that is in the strategic focus is thus perceived as strategic. There are different levels of strategies inside the company, thus leading to different perceptions of 'strategic' in the different locations. At the same time, there appears to be some shared notion of what 'strategic' means. This is linked to the nature of the particular context, which can be explained in relation to several properties and dimensions that were derived from the data. The different properties were labelled resource commitment, frequency, degree of normality, degree of expectation, focus and information nature and are now discussed in turn.

'Resource commitment' refers to the amount of organisational resources in terms of money that are involved in the decision to be taken. If there is any property that in itself has the power to determine whether a project is considered strategic or not, then it is this one. The company has clearly defined responsibility structures that outline the positions in the hierarchies that can take decisions and up to which levels. Decisions involving the highest resource commitment can only be taken by the board and the shareholding committee and are thus perceived as highly strategic.

'Frequency' refers to the regularity or not of incidents. Closely related to this are *'degree of normality'* and *'degree of expectation'*. Incidents may be regular, perceived as normal and expected to a certain degree. At the other end of the dimensional range, incidents arrive on an ad hoc basis, are perceived as deviation or not normal, and are unexpected. A strategic context is defined by its location towards this end.

'Focus' refers to the location of the centre of attention of the event across two different dimensional ranges – space and time. The focus can be on a rather internal or external situation, which can relate to the past or the future (short term and long term). A strategic context is characterised by a focus on rather external and long-term future developments.

'Information nature' relates to the kind of information that is available in the different contexts. A strategic context is characterised by uncertainty and unreliable information sources. This is mainly caused by the other properties such as focus. Further information properties apply and will be outlined in the category 'information'.

These main properties illustrate the location of strategic events or contexts in this company. Figure 11 draws them together to define a strategic context. Note that these are perceptions and no clear position on the dimensional range can be given. It summarises the organisational actors' perceptions of strategic contexts in a conceptual way and serves as a basis from which to compare strategic to non-strategic contexts.



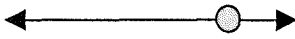
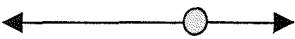

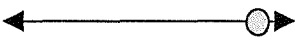
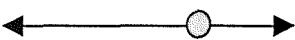


Property	Position on the dimensional range		
Resource commitment	Low		High
Frequency	Regular		Ad hoc
Degree of normality	Normal		Deviation
Degree of expectation	Expected		Unexpected
Focus	Internal		External
	Past		Future
	Short term		Long term
Information nature	Certain		Uncertain
Context perceived as	Routine		Strategic

Figure 11: The properties of a strategic context

As illustrated in figure 1, 'strategic' refers to those contexts that are situated towards one end of the dimensional range and are characterised by a high resource commitment, ad hoc, non-normal and unexpected situations, focusing on external and long term future developments and restrained by uncertainty. Routine or 'normal' contexts are located towards the other end of the dimensional range. This broad division corresponds to the shared notions of 'strategic' and 'routine' in the company. According to this, acquisition and divestment, and high level capital investment projects for example are usually considered as strategic events. And management accounting in this context is perceived as being SMA.

Besides, there are instances of routine efforts that are considered as strategic. These can be labelled 'routine strategic' and are characterised as being perceived as strategic in some parts of the company but not others. There is thus no shared organisational notion of them. This applies for example to decentralised competitor analysis efforts that may be considered strategic for certain strategic business units, but not for others.

Another aspect of strategic contexts and strategic management accounting that can be derived from the above discussion relates to it being rather rare, as opposed to normal, day to day management accounting. This issue is expressed in the following quote.

That means that the strategic Controlling is relatively narrow. I.e., as the word indicates, we can't revise a strategy on a daily basis. And the organisation, 'organisation follows strategy', we can't change every day either... That means that the biggest part is operating Controlling, how did the business do yesterday etc... (Manager).

To conclude this section it has to be stressed that the previous discussion of a strategic context provides useful background information for the subsequent discussion of the open categories. The emergent theory, whose building blocks will be outlined little by little, is based on findings of management accounting in such a strategic context. But first, a few more lines on the generation of open categories are provided.

7.1.2 The generation of open categories

Open categories were generated following the procedures proposed by Strauss and Corbin (1990, 1998). Chapter 5 of this thesis outlined the importance of analysing interviews on a line-by-line basis, mainly at the start of the analysis. This was carried out and in the process, a large number of open concepts were generated. The open concepts were then grouped under more abstract explanatory terms, called open categories. The open categories that are explained in what follows are not systematically related to each other at this stage. However, certain links between them are discussed if necessary to further the understanding of the categories. One of the aims of open coding is to develop categories in terms of their properties and dimensions and also to further differentiate them by breaking them down into their subcategories, by explaining the likely when, where, why, how and so on of a category (Strauss & Corbin, 1998, p. 114). To indicate properties and subcategories, these are printed in italics, or outlined as subheadings. Even though open categories are not systematically interrelated at this point, some references are necessarily made between different categories. For ease of reading, categories that are cross-referenced are placed in inverted commas. The categories are sequenced in approximate order of appearance, as the order in theoretical terms does not matter yet. Altogether, 23 open categories were created. These are now discussed in turn, starting with 'Information'.

7.2 Information

Information can be defined as “*something told, knowledge; or items of knowledge, news*” (Oxford dictionary). Properties of information include the availability of information, the quality of information, sources of information, types of information and the cost and benefit of information.

Availability of information is one of the main concerns of the respondents. It can range from high to low or limited. Associated with this are different aspects of the *quality of information*, such as relevance, reliability, clearness and comparability of information. Information can be perceived as relevant, reliable, clear and comparable, or the opposite might apply, always related to a specific purpose. In the present case, respondents appear to struggle with the limited availability of relevant, reliable, clear and comparable information, while at the same time being overflowed with information that might not be relevant, reliable, clear or comparable, for the purposes at hand. There can thus be an overload of information at the same time as a limited availability, when it comes to the ‘right’ quality of information. Relevance also includes the right timing. Apparently, this issue is experienced as highly problematic, with a certain increase over the past few years. The advances of information technologies and the internet have increased the availability of information, but not necessarily the quality, as stated in the following quote.

It starts with the internet. You have got huge information access possibilities via the internet... This means that you have a huge overflow of information... I.e., yes, the information flow is increasing, but not automatically the quality... And this poses a big challenge to the person reading it, the Controller... (Manager).

This is an issue that differs according to different *sources of information*, external information being associated with a potential overflow, but also limited availability when it comes to competitor related information. At the same time, there are instances of internal information overload, created by the reception of numerous emails and also by the daily information distribution system that automatically sends certain pieces of information. If there is an information gap, it might be closed by posing appropriate *assumptions* for the problem at hand.

So that means filling the gaps in your information structure through appropriate assumptions, which are plausible and as realistic as possible... And consistent... (Corporate Controller).

Furthermore, there are different *types of information* that are used, such as qualitative, quantitative, and more precisely, financial and non-financial information, and information that relates to the past or to the future. Management accountants use the different types of information, with a focus on quantitative and financial information. Generally, the difficulty of analysing qualitative information is expressed in the following quote.

...nobody analyses all those numbers, they are simply aggregated by the [information] system. But you cannot do that with written words. You cannot aggregate written words. There you always need somebody. It doesn't work, because it is not structured. I.e. the written word is in a report and somebody has to read that report (Manager).

To draw these different properties together, it can be stated that the availability of relevant, reliable, clear and comparable information that relates to external entities and/or the future can be limited, while there might be overflow of information that does not have these qualities. Furthermore, qualitative information might not be comparable, while quantitative information usually is (at least at first sight). As these are the types of information that are usually needed in a strategic context, a first problem area has thus been identified.

As a consequence, if information is limited there might be a certain degree of *uncertainty* associated with the situation. There are different *levels of uncertainty*, personal and organisational uncertainty, or uncertainty concerning the survival of the company as a whole as much as the survival of individuals inside the company. The concept of uncertainty was at first not often explicitly mentioned by the respondents. It can be concluded from this that it was not a very important issue, the perceived level of uncertainty being relatively low. This has however changed recently with the downturn of the economy in general, as expressed by the following respondent.

There is a certain uncertainty, now, if you look at the industry, e.g. the car industry... The question there is: what will the next spring bring, how can we do a reasonable planning on this basis. That's not easy, you can quickly get it wrong (Corporate Controller).

Generally speaking, information is considered an asset with a *cost* and a *benefit*. Information availability can be a goal of organisational action. The participation in high-tech venture capital firms for example has been stated to be based on different goals, such as financial returns but also the organisation of timely information flows (cf. 'Decision criteria'). Where there is inadequate information availability, considerable time is needed to select and provide information and the decision may be taken not to take the trouble. This is for

example the case when collecting information about competitor cost structures, as explained in the following quote.

As far as possible, yes. While we only have as much information as is delivered by our competitors in their published reports. Accordingly it gets very, very difficult to draw comprehensible comparisons, to benchmark. We do look for a reasonable relation of cost to benefit. There is no point to get two people to do benchmarks and competitor analyses for weeks, if we cannot compare apples to apples. So, we'd rather try to use approximations via common sense with the key figures (Divisional Controller).

7.3 Information collection

Information collection involves the purposeful gathering of information from different *sources* (cf. above). The availability of information was named as a major issue of concern to respondents, the collection of information is thus a main strategy towards succeeding in obtaining the right information. There is a *constant* information collection effort, as much as there are *ad hoc* information collection efforts that are triggered by specific internal and external happenings. Both are considered important by the respondents and discussed in turn.

Constant information collection efforts

Constant information collection includes internal and external sources. *Internal information* is constantly accumulated in the accounting systems of the company, leading to monthly, quarterly and annual reports, as outlined in Chapter 6. *External information* is also gathered on a constant and ad hoc basis. Constant efforts include the gathering of information from published sources such as newspapers, including information on markets and competitors, but also general information on political and social happenings in Germany and the world. Ultimately, anything happening in the world may have an impact on the company in the long term. Information collection is a *personal* as much as an *organisational* matter. Relevant newspaper articles and reports are collected by specifically appointed employees and made accessible in so-called press summaries. Furthermore, management accountants are encouraged to read newspapers and magazines to keep up to date with general happenings. Constantly having a feeling for what is going on is considered important for the fast and efficient judgement of events that may arise suddenly.

This is why you always see us reading. Many people think, why do they always read newspapers, the whole day. But we do this deliberately and we are also supposed to do so in order to be informed about the political and social circumstances, and of course also the economic circumstances... in the different countries, also regionally. We have a huge

collection of information here, where the divisions also collect and observe regional developments (Corporate Controller).

Ad hoc information collection efforts

Ad hoc information collection also relates to internal and external information. Information is collected for specific analyses on an ad hoc basis, as the need arises. It builds on the information that is accumulated day by day. Respondents refer to the importance of 'knowing the right people' and networking in this context, as noted in the following quote.

And to build your own network... on the one hand, the internal network in the company in order to know whom to talk to for such a project, also for detailed questions... Therefore, it is necessary to have the relevant contacts to the law department, the tax department, the Controlling department, and to the various business development managers in the different divisions. That helps. As much as there needs to be the construction, cultivation and maintenance of an external network... (Corporate Manager).

Knowing the right people can thus be essential in accessing the right information. The internet is an equally important source of information for ad hoc analyses. In any case, information ultimately used must be carefully selected, as outlined in the next section.

7.4 The selection of information

This category refers to the choosing or filtering of information on the way 'into' the system ('Selection and collection') and the summarising, aggregating and reducing of information on the way 'out' ('Selection for distribution'). It refers to the fact that not all information might be needed or wanted (information overload), and information is thus chosen.

Selection and collection

On the way 'into' the system, management accountants need to determine which information is relevant for the analysis at hand, for their own purposes and understanding of processes. This includes not only ad hoc analyses, but also the regular reporting tasks. According to the following quote, the focus has recently shifted from information collection to information selection, a technically more demanding task.

Information today, the world and the individual never had so much information at their disposal as today. Only via the internet... That means that, while it was always a question of getting enough information in the past, today the focus lies on selecting from too much information... That is why finding the right information from a complete overload of information is becoming more and more important (Manager).

When another person provides information, this might involve the judgement of this person and his or her rationales. Information that is collected for investment appraisal, for example, has to be set in context, with the person asking for funds. The management accountant who is involved in this information processing function stated that he has to make a judgement on the quality of the information provided, based on his experience of the people involved. This raises the issue of trust and political negotiation, as it is the information provider whose personal situation might depend on the decision taken. The information can easily be tainted, for a certain purpose.

Information is indeed often personally or subjectively tainted. That's very clear. It concerns opposite interests or interested requests that are proposed (Corporate Controller).

Selection for distribution

The selection of information on the way 'out' provides a focus of what is important to communicate. The company's board of directors employs a few management accountants in the corporate functions, whose one important task among others is to provide the 'right information in the right format at the right time'. In order to provide this, information needs to be analysed and transformed, as will be outlined later. The information provided to the board and other decision committees needs to be carefully selected. This matter is expressed in the following quote.

Not all the information gets distributed... If we give them too much paper, I mean, the top management is certainly already carrying a huge burden, and the information has got to reach them in proportioned bits... So, I do make a selection and ask myself: do they really need to know this, or am I trying to include it into the arguments. And if it is critical aspects, then I might even pass on the original document (Corporate Controller).

Information is selected partly on the basis of its analysis, the next information activity to be considered.

7.5 The analysis of information

The analysis or assessment of information and situations is the main activity underlying most of the other 'information activities'. The selection of information for example involves assessing what the information means to the company or to the information receiver. Information must thus be understood in the context of the company. In order to understand what is going on, information is often analysed with reference to some other information, i.e. by *comparing and relating* it to other instances, across *space and time*.

Comparisons across space

Comparisons across space relate to locations inside and outside the company. For example, from a corporate point of view, the different business units' performances are compared to each other and to competitors. Chapter 6 provided an overview of competitor accounting, which is related to comparisons of information across space. The following respondent stresses the importance of these external benchmarking activities.

Well, benchmarking is indeed, I wouldn't say the most important thing, but without benchmarking there cannot be any assessment of anything... Benchmarking, generally across anything... We always and generally need to know, and that is also a question of a having a feeling for our brands and our behaviour on the market, how do we look in which processes compared to our competitors... (Divisional Controller).

In addition to these official benchmarking exercises, all information has to be seen in its context. No information, number or development has a meaning outside of its context.

That's why, in our company, the operating Controllers report to me. Because they should be independent from the business units. But they have their offices in the business units in order to be able to know what is happening in marketing departments and in the business units generally. Because, a very bad number or very bad results can be a disaster, or can be exceptionally good. Because, if the market goes down [a lot] and our own figures only go down a bit, then we can have a fantastic result in this particular context, even if we are making a loss. But if you have bad figures in a growing, fantastic environment, then that's a disaster (Manager).

Comparisons across time

Comparisons across time involve relating the past to the present and the future, for example in terms of how an actual figure compares to the past and to the long term goals. Comparison implies comparable information. As a consequence, again, a piece of information is not analysed in a vacuum, but related to a similar event. This is important for the regular accounting and reporting figures, but also for projects such as acquisitions (see also section 7.24). Moreover, there is an element of wanting to link the past, the present and the future. In this sense, it is like building a bridge of thought, where the past and the present have meaning for the future and where any step taken is potentially a step towards the reaching of goals.

I.e., we have a look at the past and the future and consider, whether there are any gaps, do we get there, is what we are doing in our operating businesses right... And then we would ask: are the operating units on the right way to reach their strategic goals? Well, yes, there is a link. Then we are dealing with numbers, but also with many qualitative statements... (Corporate Controller).

7.6 The transformation of information

The transformation of information involves the change of information, for example the adaptation to specific user needs. It might include the quantification of information, one of the main domains of management accounting. Furthermore, there are instances of translation of information.

And the task of Controlling in this area is... in the context of the due diligence, i.e. when potential acquisition targets are closely inspected, to form an opinion on it, to analyse their data, to establish what their profitability means according to our definition. So to speak to translate their reporting in our own language... to determine on the basis of their past data what this business means to us... (Divisional Controller).

The main issues of concern named by several respondents in this context refer to the standardisation of information and the structuring of information. While standardisation mainly relates to quantitative and financial information, structuring relates mostly to qualitative information.

The standardisation of information

If information is to be comparable over time and space, it needs to be standardised according to clearly defined rules. It can then be assessed more easily. This partly involves the harmonisation of business and accounting processes, with accounting information about these being comparable as a consequence. One of the main tasks of the corporate Controlling departments involves the standardisation of information for the board, as expressed in the following quote.

The advantage of us doing it here in this department for the board is that everything is done in one piece, these bits all look absolutely identical. The same kind of preparation. We also try to make sales and EBITs comparable across the company. There are always elements that differ, even though it has been done according to IAS... We always have to be careful in this respect. We also carry out adjustments. So that the figures are really comparable (Corporate Controller).

Respondents also at times refer to the standardisation of information as Controlling or number games, referring to the 'playing around' with numbers to make them comparable and then assess what they really mean.

The numbers first... These are the kind of Controlling games, there we have rearranged some things in order to make them comparable... (Divisional Controller).

The structuring of information

The structuring of information appears to be most important and most difficult for qualitative information. The company has recently invented a formalised way of expressing objectives, goals, strategies, actions and measurements (the so-called OGSM - cf. Chapter 6) for their planning cycle, which is certainly a push towards structuring information. The related rationale is explained in the following quote.

And because we have pulled it through in this form, and have forced people to think in this structured way, it [OGSM] has actually become a logical entity. And [it] is interchangeable, like a construction kit. We can now tell, if we see there are deviations in certain fields, then we can go back into it, we can correct it and we can directly compare it with the planning that we have just done. Because we have structured the planning in exactly the same way (Divisional Controller).

The structuring of information for own and presentation purposes complements this formalised, pre-planned structuring. The latter is an important aspect that also relates to the distribution of information.

7.7 Information distribution

The *distribution of information* refers to all those activities that involve the dissemination of information in a purposeful way, that is, to a *target* or audience.

The target of information provision

The target of information provision is an important subcategory that influences the how of information distribution and other information activities. Management accountants were characterised before as supporting management in their various tasks, by providing useful information. Even though they also carry out information activities for their own understanding of situations, their main focus is on the provision of information to their managers. All the information activities thus explicitly recognise the target or audience of the information they provide. This ultimately determines the kind of information that is provided, in terms of type, content, presentation etc. Above all, information has to be decision oriented. A specific target or audience usually has a specific need for information, based on their prior knowledge and experience and the specific task at hand. These user needs might not be clearly defined. Management accountants preparing information need to be aware of the specific needs of the audience. All information provided has thus to be adapted to the purpose and target, involving knowledge of the audience. As indicated above,

the information might be adapted to the user and the specific problem at hand. Above all, the information provided must be understandable to the audience, as stressed in the following quote.

...it is our function to present results or analyses in such a way that they are understandable. This is a key role. So, it is our problem to do it in a way that they [board of directors] can understand it. If they don't understand an analysis, then the analysis has been bad... (Corporate Controller).

The powerful decision making elites

One of the main audiences for information provided for strategic decisions is the board of directors. The issue of information distribution was mainly mentioned in the central Controlling function, where information is regularly provided to the board, characterised as a demanding target. The right packaging and communication of results is essential. The same applies to lower levels, even though apparently to a lesser extent. There are powerful decision making elites in different levels of the company.

It happens in a flash, that is sometimes very demanding, the board decides on something, and it then sometimes has to be carried out immediately ...and an immense pressure can build up, through short periods of time and this performance orientation, the board definitely expects to get good results, relevant statements that are good... (Corporate Controller).

The role of persuasion

The ability of *persuasion* or being convincing was mentioned in the same context. It is at times not enough to simply provide information, but some persuasiveness is also needed. Several respondents have stressed the importance of conviction (or persuasion) in this context. A person at a relatively low level inside the hierarchies can potentially be influential if possessing convincing arguments and seeing them through. This is one of the characteristics people need to have in order to succeed.

You can have a good idea, but if you can't sell it then it is no use. It has to do with personal persuasiveness and behaviour. The company consists of many people, and people react with other people and if your communication isn't right, then the idea might be rejected (Corporate Controller).

7.8 Assessment of the past

Many information activities focus on the assessment of the past. What has happened in the past is often seen as a good source of learning for the present and the future. Performance measurement and organisational learning are addressed in turn.

Performance measurement

Performance measurement relates to all those activities that serve to assess the development of organisational life ex post. Performance is measured monthly, in the usual reporting entities that were discussed in Chapter 6. This is of little relevance to strategic management accounting, even though it serves as a general framework for assessing situations. Furthermore, there are assessments of the past in relation to specific projects, notably investment projects and acquisition projects, which are referred to as monitoring and success analysis.

...[the aim is to]... carry out reasonable acquisitions. Which doesn't always work out, because sometimes the reality is even worse than our risk scenario... But therefore we have, you have to imagine this as a kind of 'control system', this part of the monitoring, the success analysis. From this we can draw insights into why something hasn't been achieved. It is not just noticing that there is a deviation, yes, less sales, less profit. But why, and above all, which activities and countermeasures do I take. And from this we learn for new projects... (Corporate Manager).

These monitoring and success analysis cycles are perceived as very important by respondents and often mentioned. Assessing the past is generally perceived as useful for organisational learning.

Organisational learning

Figures that were achieved in the past are generally set in relation to planned or budgeted figures and the achievement of goals is measured. Also more generally, past happenings are analysed with the aim of learning for the present and the future. The assessment of the past is fed back into new processes, thus allowing organisational learning to take place as a consequence. Learning happens on an individual and organisational basis. The performance measurement activities that were outlined above lead to individuals learning in an organisational framework. Furthermore, there is the day-to-day learning every individual is subject to. Generally speaking, organisational learning is important for the expansion of 'knowledge and experience' (cf. a later category). The past appears to be important for the

company to look at, however, they appear to put the focus on the future, mainly so in strategic projects.

7.9 Projections of the future

People in the company appear to spend a lot of time thinking about the future (cf. 'People'). Projections of the future are key to the evaluation of the long-term development of the firm generally, but also for the assessment of strategic projects. Anything considered strategic is situated in the future. The main task of management accountants in this context is to contribute to the projection of the future, for example to assess what a potential acquisition might mean to the company in the future. They attempt to anticipate the potential consequences of such a move, while creating different scenarios through discounted cash flow (DCF) calculations.

... and the crucial focus lies on the standardised evaluation. There are different evaluation methods. Henkel has decided to employ the DCF method, on the basis of business plans, which are prepared by the operating units. And projects are evaluated accordingly, based on the expectations about the future. And this evaluation and the result of this evaluation is the basis of the decision in the board of directors, if the project will be approved in the end or not. And obviously under which conditions (Corporate Manager).

Projecting the future is perceived as a difficult undertaking. As what will happen in the future cannot be known in advance, organisational actors rely on information substitutions, thereby attempting to reduce the inherent uncertainty. Amongst others, they rely on projections of past data, the analysis of parallel developments and the market environment, and plausibility checks to assess the future. The importance of having different scenarios or views of the future is stressed in this context. As indicated before, at least two different project scenarios are usually prepared, the normal and worst case scenario. This serves as a buffer in case the situation forecasted under realistic assumptions declines, just to be on the safe side.

7.10 Knowledge and experience

Information was defined as “*something told, knowledge; or items of knowledge, news*” (Oxford dictionary), thus including the notion of knowledge, but the focus being on ‘items of knowledge and news’. It is important to draw a distinction between information on the one hand, and knowledge and experience on the other. Whereas information is external to the person handling it, knowledge and experience, the way the terms are used here, are internalised and *personal*, even though they can also be shared. They are ‘already there’ or can be acquired for a *specific purpose* and over time, as information is usually acquired for a specific purpose. For example, when the case company was considering making use of Economic Value Added (EVA[®]) as a measurement tool, theoretical publications were explored in order to increase the knowledge of people involved in the EVA[®] project. Knowledge and experience can be *shared* to a certain extent. Knowledge management is one area that has been developed recently in the company, involving amongst others a computerised knowledge management system and learning tools such as workshops and seminars. However, the focus here is on personal knowledge and experience and less on organisational knowledge management.

The shared properties of knowledge and experience are thus that they can be based at different *levels* (personal vs. organisational) and are accumulated over time. Furthermore, there are different *sources* of knowledge and experience. These can be internal and external to the company. Internal knowledge and experience can exist in people and be expanded through training and learning, thus increasing and sharing knowledge and experience. Employees who join the company for the first time are allocated to a more senior employee whose responsibility is to train the newcomer on the job, thereby sharing his or her experience. Organisational knowledge is sometimes extended by drawing on external consultants. To conclude, knowledge and experience are thus very similar and closely related, however, they can and should be distinguished from each other.

Knowledge

Knowledge can be defined as “*a theoretical or practical understanding of a subject; awareness or familiarity gained by experience*” (Oxford dictionary). Knowledge can thus be derived from experience, but also from a theoretical understanding. This refers to any aspect that is known from a rather theoretical point of view, i.e. that has been acquired in a theoretical way, such as during a university degree. A company can have a written

knowledge base, but most knowledge might be located in the people. Theoretical knowledge can at times be drawn upon in a normative way and lead to a conflict between what is theoretically desirable and what is practically achievable.

It is definitely so that some of our tasks are really theoretical. Of course... one has to somehow adapt the theory to the practical circumstances. So, it is in most of the cases not sufficient to simply deliver a highly theoretical analysis, but there always has to be this second step... I.e., what does the application of those theoretical findings... mean under the existing circumstances that are present at Henkel or in the context of this particular problem, what does it exactly mean. So, this second step is always necessary. In this respect theory is indeed very important, but theory alone is not sufficient because the important thing is, or our main task here is the provision of decision relevant information, and therefore we often have to go a step further (Corporate Controller).

Organisational actors must possess a considerable amount of knowledge in different disciplines in order to keep the company working. Management accountants need to have extensive accounting knowledge, but knowledge on the markets or the context in which the company operates is also required. This extends the usual accounting knowledge.

Here, I don't know how it is in other divisions, but at least here, the Controllers are different to how Controllers usually are, they thus do not carry out financial Controlling, Controlling, Controlling. Our Controllers have a relatively broad experience and training... You always need acceptance for Controlling. The Controller cannot be a number juggler who doesn't know anything about the customers, the market and the competition, no, they have to be the ones who know these best... (Divisional Controller).

Not all management accountants interviewed have received a degree in management accounting or other related formal qualifications. People with a chemical or technical background hold some management accounting posts. This is mainly so in functions related to R&D and investment in machinery, where a considerable amount of non-accounting knowledge is required. These Controllers combine their interdisciplinary knowledge to carry out management accounting tasks with a great deal of technical knowledge and experience. Generally speaking, the closeness between management accounting and other organisational functions requires management accountants to develop an in-depth understanding of those other functions, in order to enable a shared knowledge and communication.

Experience

Personal experience on the other hand appears to be less tangible than knowledge. It can be defined as “actual observation of or practical acquaintance with facts or events; knowledge and skill resulting from this” (Oxford dictionary). Again, the close relationship between

knowledge and experience is stressed. Experience thus develops from the particular situations that people have faced in their professional, but also personal life. It is very important to the organisation. Whereas knowledge might be rather general, experience complements this to form an overall 'know-how' (or practical knowledge) adapted to the specific situation inside the company.

The good thing about our department is that we are a mixed bunch as far as our educational background is concerned. I.e. we have a collection of all kinds of different main foci so that we often complement each other well. So, we've got a balanced focus profile here and that's quite good, as many people can contribute many interesting things to certain problems. And another thing that has proved its worth is not only having young people up here, but also at least one a bit more experienced Controller, who knows the Henkel world a bit, i.e. who knows, how the ways of thinking are here, who has already been inside an affiliated company. That certainly is an advantage (Corporate Controller).

The quote also raises another related issue, the importance of working in groups.

Working in groups

Even though organisational actors may have a considerable amount of interdisciplinary knowledge, they need to solve some issues in groups, thereby complementing each others' knowledge and experience base. In the context of complex decision situations, people from different disciplines are working together, necessitating at least a minimum of shared knowledge and experience, in order to be able to understand each other.

...ok., we have to think much more in terms of projects, and we then have to relatively quickly be able to get along with other people, [and] to have their understanding. Because many people from many different departments obviously have more knowledge and we can thus solve problems... relatively quickly, if we approach them in an interdisciplinary way (Divisional Controller).

...sure, the decision in a group is always better than an individual's decision. What one person can develop can certainly be very good as well, but things often get overlooked or are not expressed in an understandable way... So, these discussions are very important, this is why it is good that we are a relatively large department... so that we have a pool of different knowledge, which is important as well. I mean, myself with my 10 years of experience in this company, that's good too, but this new knowledge, fresh knowledge of the graduates, that is above all very important, that they bring theoretical tools with them (Corporate Controller).

7.11 Subjectivity

Subjectivity appears to have an important input in organisational life, in addition to information, knowledge and experience. Organisational processes, including management accounting practices are often depicted as objective activities. However respondents in this case study stress the importance of subjectivity in certain contexts. They refer for example to terms such as 'gut feeling'. Subjectivity is all the more important when no reliable information is available, e.g. when the future or external entities are to be investigated. When there are information gaps, these have to be filled by a substitute – gut feeling. Strategic contexts may be characterised by this lack of information and the need for subjective assessment. This also means that management accountants and managers to a certain extent listen to that internal subjective feeling when analysing information and deciding on courses of action to be taken.

I.e., the more it gets strategic, the more the verbal communication becomes important again, [like asking] what do you think? Numbers are one thing, but not all decisions, and certainly not all entrepreneurial decisions are exclusively based on numbers. For this, a bit of gut feeling needs to be included (Manager).

Of course you always pretend to be objective, yes, certainly in the Controlling area, because you regularly deal with numbers, also processes, but mostly with numbers. You always think, mainly when you have a big number with decimal points, you have to be precise, but the interpretation of numbers is very subjective in the end. That is something that is often underestimated, the judgement of individuals... My learnings from Controlling in general, and even more from strategic Controlling are: it is extremely subjective (Corporate Controller).

However, it is stressed that the right balance between objectivity and subjectivity has to be found. And that management accountants should rather be objective, whereas other functional groups, e.g. business managers appear to definitely draw on their 'gut feeling' when taking decisions, while analysing the information at hand.

[Acquisitions...] Well, as I said before, in the first place it is purely a business decision of the business manager. There has to be, even if this sounds strange, there has to be a certain gut feeling. This must be felt because of the personal experiences, the knowledge of the market, of the customers, of the businesses. You cannot do this via numbers, numbers can only help to create transparency, to disclose the circumstances, to describe how the situation is. You cannot use numbers to look into the future. You cannot foresee the future (Divisional Controller).

The quote nicely stresses the inability of using numbers to look into the future. It shows the limitations of a numeric representation of a future 'reality'. When assessing the future, the only information available may be based on a subjective assessment of the situation, which can then be transformed in numbers that are, however objective and precise they maybe look, based on subjectivity.

7.12 Monetary resources

Monetary resources partly explain what is going on in this company. *Availability of monetary resources* is certainly limited. The use of funds has thus to be considered very carefully at all times. Instances where this is most visible is during the annual budgeting exercise and also during capital expenditure decision processes. There is considerable *internal competition*, as all divisions and organisational sub-units have to share the funds available on a corporate basis. The allocation of funds is based on corporate and business strategies and on performance measures (cf. Chapter 6). Furthermore, the non-expenditure of funds is an issue, as is obvious in cost saving exercises. The limited availability of monetary resources is also evident in the definition process of corporate strategies, cf. below.

The budgeting process is characterised by the fact that there usually are more requests than resources and there tends to be a fight for a share of those, which is characterised by the classical thing, "the one shouting the loudest will get the most", as a negative expression. But I would say in reality much more in such a way that those applicants with substance in their request or their scenarios and budgets will get the most resources (Corporate Controller).

... you are in a corporate business... And in this corporate business there are four other divisions... This also means that all five divisions compete for the resources, which are only available once... And then it is the line of strategic Controlling to get the most out of it for us. And this usually only happens via a very convincing EVA[®] presentation, i.e. a presentation of profit-related figures, which fulfil the requirements of sustainable management of a corporate business (Divisional Controller).

As a consequence, organisational actors such as management accountants appear to have these restricting issues in their mind, whatever their activity. They have to be ready to make trade-offs between the different resources and the organisational goals. At the same time, it stresses the importance of providing convincing information, in order to succeed in internal competition. Management accounting is perceived as an important information tool in this context.

7.13 Accounting rules

A rule can be defined as “*a principle to which an action conforms or is required to conform*” (Oxford dictionary). Accounting rules have already partly been discussed in Chapter 6 and are now outlined from a conceptual point of view. They include externally and internally oriented rules. On the internal side, the company has clearly defined accounting and reporting guidelines that are applied in all business units across the world, leading to a standardised way of compiling internal profit and loss accounts and internal asset statements. Furthermore, there are clearly defined procedures concerning the appraisal of acquisitions and divestments, and of investment projects. All these rules have in common to be clearly defined, urging organisational actors to comply with them. There is thus a *high level of definition*. However, even though they may be explicitly stated, individuals might comply with them differently, according to their own perceptions and interpretations. Furthermore, accounting rules are *written*, updated on a regular basis and display a *high level of generality* across the company.

There are different purposes to accounting rules. One of their main aims is *harmonisation and standardisation* of business processes and accounting practices, and information. The comparability of information was mentioned above as one of the key qualities for understanding. However, even though rules are clearly defined, they are not always complied with 100%, leading to problems for the comparison of information.

Background of the decision [to implement a new production organisation] was the fact that we could harmonise the guidelines, the budgeting guidelines, and thus have exactly the same way of calculating manufacturing costs everywhere. So we can expect the calculations to be based on the same system for all four production sites, and for their different products. Which wasn't the case before and is still not always the case for other sites in the world. Of course there are guidelines, but they always leave some scope for interpretations. And these [interpretations] are then more or less used by the countries, thus leading to distortions, which we always have to work out for comparisons, benchmarking exercises... (Divisional Controller).

In addition, rules appear to provide a common structure or framework to organisational life. People complying with clearly defined rules can be sure that they are carrying out their work in the ‘right’ or ‘normal’ way. They lead to a certain degree of consistency and predictability across the company. On the other hand, generally defined rules can be perceived as unhelpful, if they do not appear to apply to a specific case. Rules can thus be perceived as unhelpful or negative.

7.14 Organisational visions, strategies and goals

Visions, strategies and goals provide a focus of what the company wants to be and where it wants to go in the future. These are defined at several levels, leading to a whole 'pyramid' of strategic systems. Simmonds (1988) distinguishes between three distinct *levels of strategy*: corporate strategy, business strategy and functional strategy, all of which are present in the case. At the same time, visions, strategies and goals indicate different levels, the level of definition increasing from visions to goals. These two points are addressed in turn.

Levels of visions, strategies and goals

Strategies are defined in a typical bottom-up and top-down process. The smallest unit that defines strategies is the strategic business unit and the German and foreign companies affiliated to the divisions. Each level defines its strategy and communicates it to the other levels. This is based on its own assessment of the internal and external situation of the unit. Ultimately, corporate visions and strategies are defined at the headquarters, while taking into account business strategies and the headquarters' own assessment of the internal and external situation of the company as a whole and of its constituent pieces. These are then communicated to the divisions, who in turn redefine their business strategies, while taking into account the corporate strategies. This usually means adaptation of their original strategies. After definition of these, they in turn communicate these to the lower levels, which can then redefine their vision and strategies. There is usually a gap between the 'ideal' strategies and the actual strategies implemented, as not all projects can be financed on the background of limited availability of organisational resources. The process thus focuses organisational resources on those parts of the company that provide the ideal strategic development potentials from a corporate point of view.

The general portfolio strategies, where we invest, where can acquisitions take place, in which regions do we want to further our development, this tendency is obviously determined by the board of directors. And that then forms a kind of pyramid of goals, in which the different subdivisions and strategic business units also move about (Divisional Controller).

Furthermore, corporate and business levels focus on different parts of the external and internal situation of the company. As far as the external environment is concerned, the corporate units focus on the financial markets and their performance in these markets, as well as in their product markets. They define a financial (i.e. functional) strategy and an overall corporate strategy. Their main concern is with the long term profitability and survival of the group as a whole. They also focus on shareholders and financial communities, making

sure that the inflow of financial capital is secured (through a good rating and confidence on the part of the shareholders, cf. later). This is often represented through the definition of financial goals in terms of e.g. earnings per share. The divisions on the other hand focus on their product markets, brands and competitors. This focus is often expressed through the definition of goals in terms of market share. As far as the internal situation is concerned, both levels focus on the past performance of constituent parts and future profit potentials in their markets. The decision on strategies is based on the two elements.

The translation of visions into strategies and goals

Visions represent the overall view of the different units of how they see themselves now and where they want to be in the future. Visions are often expressed in general terms and need to be further defined to be manageable. Strategies on the other hand have a higher level of definition, resulting from a long process of refinement based on the above-mentioned processes. While visions reflect wishful thinking, the ultimately defined strategies include adaptation to the actual situation. Visions and strategies lead to clearly defined goals and decision criteria (cf. below). The ultimate goal is ensuring the future viability of the company and its constituent parts.

The meaning of visions, strategies and goals

The purpose of visions, strategies and goals is twofold. They give a common sense of direction to organisational members, but also serve as a control function. The meaning of five-year planning is at times questioned on the basis of the speed of change in the external environment. However, the need to face in the same direction is often stressed. Breaking down visions and strategies into more detailed pieces helps operationalise strategies, but also makes the achievement of them controllable. This applies to internal but also external control. Organisational members individually are assessed on the achievement of their goals, but also the company as a whole. Goals are communicated to the shareholding and financial communities and the company is assessed as such. Performance measurement is carried out ex post to assess the achievement rate of strategies (cf. above).

..i.e. the numbers correspond to the strategies. In this sense, strategic Controlling... the realisation of these strategies can be recognised via these key numbers. How far have we come? Will we ever reach those numbers, given the breakdown in 2001? So, in this sense... we do measure the actual developments and the planned development also via these strategies that are behind these key numbers (Corporate Controller).

7.15 Decision criteria

Decision criteria reflect strategic priorities, as they were defined and enacted by the organisational actors. Criteria influence the everyday life of the respondents, as they are the underlying goals they are aiming for and provide a focus of attention, based on the strategies. There are *different types* of decision criteria. These complement each other and often stand in contrast, meaning that trade-offs frequently have to be taken between them. They might be of clearly defined numerical order, or rather qualitative, difficult to quantify and standardise. Hurdle rates for investment appraisal are of that first quantitative type. It is often assumed that this type is the main basis of decisions. However, in strategic decisions, there is *complementarity* between quantitative and qualitative criteria. The qualitative criteria or so-called soft factors used in the present case study relate to the strategic priorities, while including a variety of aspects such as political and technical aspects of the decision situation at hand.

Not all factors that are relevant for the decision can be expressed in numbers and processed in the investment calculation. There are political, strategic aspects that have a complementary significance for the decision. And so we summarise these in a so-called arguments profile or arguments balance. And a decision in the end consists of two components: the yield calculation, linked with payback measures, and these cumulated soft factors (Corporate Controller).

7.16 Rules of the game

Rules of the game have to be distinguished from what has been labelled 'Accounting rules'. This category refers to a rather subtle understanding that is shared by organisational actors, at least in subgroups, about how to behave generally in order to be successful. 'Rules of the game' is an in-vivo code, i.e. a concept that respondents themselves use in their talk, as expressed in the following quote.

Well, the 'chemistry' does play a role, by and large, that's the political element, you can never disregard this. You don't have to think that everything is always only rational... and therefore you have to make sure to hit the right tone while communicating with other people... If you don't follow these rules of the game, then you could land a flop even with a good proposal... (Corporate Controller).

Related to this is what can be labelled 'a sense of normality'. A sense of 'normality' aptly describes one underlying part of 'rules of the game'. It can be defined as a prevailing custom or standard, or the normal state of things, as it is defined and/or perceived by people. The opposite is defined as 'deviation' from this 'normality'. Normality is mostly derived through

rules, goals and cultural aspects. In the sense of customs, it refers to drawing on 'traditional' ways of doing things. For example, when the way to go about a certain information analysis is not clearly defined, people might carry it out the way it was done last time. This complements the clearly defined rules, as it is impossible to define absolutely everything. It similarly provides some continuity of processes. As opposed to accounting rules, these elements are neither written, nor do they have a high level of definition.

7.17 Organisational structures and hierarchies

Organisational structures mainly refer to corporate hierarchies and notably to the aspects of centralisation and power. The company appears to be managed in a centralised way (*high level of centralisation*), the most important or strategic issues being decided by people in the central units. There is a clearly established *hierarchy of decision-makers*. This extends even to the shareholding family who gets involved in highly strategic decisions. Their input is extensive but irregular, and they are rather to be considered as external shareholders (cf. below). *Power* is distributed unevenly, people of high power levels ultimately being located in the centre (corporate) vs. the businesses, and the divisions vs. the affiliated companies in Germany and abroad. The divisions have world-wide responsibility for their business, thus indicating the *increasing globalisation* of the company. This appears to increase the headquarters' responsibility while decreasing the local affiliates responsibility (*shift of strategic responsibility* from local to central). It also has an impact on management accounting, which now stretches its responsibility to a world-wide basis.

The company appears to be striving for an adequate balance between centralisation and decentralisation, or corporate and business responsibility. Whereas some issues are best dealt with at a corporate level, other issues require an in-depth understanding of the operating business. There is scope for conflict, as what is best for a business might not be best for the company as a whole. In order to find that balance, divisional vice-presidents are part of the board of directors, together with corporate directors. Divisional hierarchies thus extend to form part of the corporate hierarchy. Furthermore, all levels are implicated in organisational processes. The annual budgeting for example is a bottom-up and top-down process, leaving space to all levels to express their ideas, even though the decision is ultimately taken at a high level. Generally speaking, these organisational structures and hierarchies need to be known by management accountants, in order to know who to talk to for certain issues, and whose reactions to take into account. They form the context of any process.

7.18 People

This category refers to the way people appear to be in the company and stresses their importance for organisational life. As opposed to the category 'Interaction facilitating cultural traits' (see below), these are general features people in the company appear to possess and which therefore impact on any process, including management accounting.

A concern with the future

People in this company appear to show particular concern with the future. Their thinking leans towards the future, the short and long term future. This can be considered to be based on several interrelated elements. First, most respondents have been members of the company for a considerable time and appear to strive for a *long-term commitment*. This is certainly to a large extent based on the long-term prospects for employees inside the company. The size and complexity of the company offers plenty of career opportunities, meaning that an interesting career inside this one company is possible, as opposed to changing to a different company. People appear to be able to change their position every few years, inside Germany and also abroad. Besides, employees appear to enjoy working for this company. As a consequence, they have thus a prime interest in the company's continuity as well as their own continuity inside the company. Secondly, the concern for the future is based on the long-term commitment of the main *shareholding family*. Whereas 'ordinary' shareholders may tend to focus on short-term issues and results, the family wishes continuity and regular returns on their assets.⁵⁴ There thus appears to exist a shared sense of concern for the future. This assists business processes, pushing people hard to reach their aims and making a forward looking perspective 'usual', which is important for strategic aspects. Linked to this is what is termed an achievement orientation.

An achievement orientation

A concern with the future leads to a tendency towards commitment and an achievement orientation, on a personal as well as on a group basis. The motivation to achieve aims appears very high, as this contributes to the fair workings of the company and thus its survival in the long run. Furthermore, it contributes to the 'survival' of the individual inside the company, one of the concerns of the respondents. The success or achievement of one individual might mean survival of that individual inside the company and also, together with other people, survival of the company as a whole in the long term. Both aspects are of

⁵⁴ Cf. our discussion of German business values in Chapter 6.

interest to a committed employee striving for good job prospects and continuity inside the company.⁵⁵

Personality

Despite the shared characteristics, people do differ, notably by what is here referred to as personality. Personality refers to anything really personal to the participants, such as preferences, self-confidence, persuasiveness, power, their background etc. This ultimately explains people's behaviour. Even though facing exactly the same conditions in terms of rules, culture etc., people can still potentially behave differently according to their personality, and experience and knowledge, which are all very personal. People interpret anything happening on the basis of their personal characteristics. Happenings have thus different meanings to different people.

...I think that it also always depends a bit on the personal way of working. ...for me personally tasks become more difficult when they turn out to be more blurred. That means for example all these strategic problems. Yes, strategic, by this I mean statements concerning the development of strategies and similar things. These are more difficult for me than analyses that include many quantitative issues, where a lot of mathematics is involved, because the latter is more concrete or tangible. But again, this depends on the individual way of working... and on the predispositions or on the individual preferences of different people... (Corporate Controller).

However, ultimately, people are asked to comply with rules and tasks, thus leading to similar behaviour and similar perceived 'normality' (cf. 'Rules of the game'). In terms of hierarchies, lower level actors have to do what they are asked by higher level actors, as this is what they are 'being paid for' and secures their job.

⁵⁵ It needs to be stressed here that this picture is based on a certain class of respondents. However, it appears to be generally shared by other people. The corporate incentive system certainly has an impact on this.

7.19 Interaction facilitating cultural traits

This category refers to cultural traits that are quoted as necessary for interpersonal communication and co-operation. These consist of several interrelated elements. Cultural elements are considerably conditioned by the company's past in general, its people and its situation in the external environment. They are partly defined and written down in e.g. a code of conduct, but also undefined, based on tradition and showing the people's interpretations of these defined features, in their everyday life and interaction. It is thus an evolving and shared notion. Written elements include those mentioned in the corporate principles in terms of the 'tradition of an open family company' (continuity, openness and mutual trust as characteristics of this tradition) and an 'organisation based on confidence rather than control'. The company uses these written principles to actively encourage a culture of trust, respect and open-mindedness. These are clearly defined elements, but the way the organisational actors experience them might be different. Respondents in this study notably refer to issues such as trust, consent, acceptance and common understanding, and a common language.

Trust

Trust in other people appears to be a key concept. There are different interactions where trust plays a role, both across disciplines and across hierarchies. Trust is needed for e.g. the smooth running of information processing activities. People must trust each other for the common goal, i.e., to provide the 'right' information for the 'right' decision. In this context, trust has been named as one of the base for the provision of 'good' information. This appears to be all the more important with interdisciplinary team working, one of the approaches taken to problem solving in a highly complex and rapidly changing environment.

Well, the matter of 'people' is certainly crucial. Mainly because the trust between myself, as central Controlling person, and the applicants is a relatively important basis for the provision of data... As far as the quality of data is concerned... this trust relationship is relatively important (Corporate Controller).

Consent, acceptance and common understanding

Related to this are the issues of consent, acceptance and common understanding. Consent and mutual acceptance is here preferred to enforcement and conflict, even though it is acknowledged to take up more time, based on convincing arguments and negotiation, resulting in a common understanding in the ideal case or just acceptance of different views. Knowing this, participants appear to take these issues into account before doing anything,

e.g. when it comes to the development of new accounting techniques. Again, this appears to be increasingly important with growing reliance on team working and is a necessary condition for that kind of work to be successful.

A common language

Related to this is the issue of a common language. A common language is necessary for communication, also in interdisciplinary teams. The company's particular language used has evolved historically.

One does develop a certain language inside a company... It is the abbreviations that are used, it is simply the history that has been lived and the experiences that lead to it. It is e.g. the particular structure of our profit and loss account that has been formed by our personal history and development (Divisional Controller).

At the same time, there are different technical languages, which, however, appear to be shared to a certain extent. Accounting can be considered a technical language. It appears to be considered important and shared by non-accounting functions.

I would say that Controlling and numbers represent a central part of my way of understanding business (Divisional Manager).

The case company is thus an organisation that appears to be predominantly characterised by high levels of trust, consent and common values. Moreover, employee satisfaction is evident in social measures. These cultural aspects condition to a large extent how people behave in anything they do. They further contribute to a common sense of identity and belongingness. People newly arriving at the company appear to be introduced to them in a socialisation process involving senior people.

To conclude, a comment on the generality of the described cultural traits across the company appears necessary. Generally, they appear to be shared, but some of them are described as a German development, the German '*Henkel Geist*'. Furthermore, there are different micro-cultures inside the divisions. These reflect the different markets they are operating in, e.g. in terms of branded vs. industrial products, but also their different pasts, for example the companies that were acquired and integrated. However, the above named general principles apply to a close degree to all visited parts of the company.

7.20 Complexity and diversity

This category refers to two closely related sub-categories, perceived levels of complexity and internal diversity.

Perceived levels of complexity

The common demand placed on all employees today is the greater complexity of our market place and, as a consequence, our work environment (Company communication, June 2001).

'Perceived levels of complexity' can be related to two main conditions, namely *company size* and *level of diversification of businesses* across the world. The company can be called large, by all means. It has a diversified portfolio of businesses located in numerous countries of the world. This causes high levels of complexity. Complexity can comprise different locations, outside and inside the company. External and internal complexities condition each other, internal complexity reflecting to a certain extent external complexity. External complexity, for example, relates to the different legislation in various countries that has to be complied with. Internal complexity reflects this by the provision of differing products according to external pressures, such as legislation.

So, Henkel is very complex. Not only in the decision making process and in the whole structure, but here, at least in this area, also related to the whole production structure and the product range. And the management of this complexity is a very important aspect and also an aspect linked to profitability... (Divisional Controller).

Perceived levels of complexity appear to increase with projects that are located in a strategic context. This is caused by the specific characteristics by which a strategic context is defined.

So you see, from a very small section of Controlling to strategic Controlling... It is the same way of thinking, that's the bridge between the two. But of course it [SMA] is completely different as far as complexity is concerned (Divisional Controller).

An attempt is made to cope with complexity by managing it and if possible reducing it. Complexity inherent in strategic projects, for instance, is managed by individuals working in groups. As any one person usually cannot know everything, interdisciplinary groups are formed to cope with complexity, thus sharing the task.

Complexity can be perceived as rather problematic, as it can certainly create a cost for the company. And it can be difficult for individuals to cope with it. Reality is composed of a complex web of interrelated events and facts that can at times be difficult to understand.

Amongst others, individuals recur to complexity management activities in order to reach an acceptable level of transparency and understanding. Related to this is what has been labelled internal diversity.

Internal diversity

Even though they are part of one 'umbrella', culturally speaking and also as far as products are concerned, people inside the company have different views and personalities. There appears to be considerable *internal diversity* in terms of people and their different perspectives etc. This is partly a direct consequence of 'perceived levels of complexity', but it is also just obvious, when it comes to different functional perspectives. In terms of *locations* inside the company, people in a local affiliate can supposedly have a different view on business, than people in the headquarters.

Then I came here in the beginning of 1996. When you come from an affiliated company into the headquarters, you see things through different eyes. Instead of focusing on your own country, you then see how international the organisation is, and how the different countries fit in this huge jigsaw puzzle (Divisional manager).

The same applies to people across the same level, but in different divisions, strategic business units etc. This is conditioned by their dissimilar environment. People in different *functions*, such as marketing, technical support, Controlling etc. also have different views on the same business processes. Anything that happens might potentially have different meanings to different people. They focus on different aspects of the same problem.

Internal diversity puts a strain on the common life, as these differences have to be overcome. This is certainly increasingly so with growing centralisation and globalisation, which in turn increases complexity in general and interdisciplinary work. At the same time, different perspectives are perceived as playing a positive role in solving complex problems. Different functions and perspectives complement each other.

The diversity of ideas, emotions and perceptions amongst the employees of our international company presents a valuable opportunity to avoid one-sided, over-simplified solutions. A multitude of perspectives, resulting from e.g. different cultural, professional or personal backgrounds, should be used in new approaches for solutions and decision-making processes (Company Guidelines for Teamwork and Leadership).

7.21 The general external environment

The company is situated in a globalised market, which is subject to diverse pressures, distinguished by macro and micro conditions. Macro conditions are not specific to the company, but they reflect the forces that have an impact on the global economy in general. These may be global forces or forces that only affect certain regions. The *global forces* include notably the development of information technology such as the internet, the high and increasing speed of business processes, partly as a consequence of the development of IT, and the increasing globalisation of business in general and in the company's sector. Furthermore, the company, like the whole economy, is subject to economic cycles, on a global and regional basis. *Regional forces* exist on a European basis, notably the development of the Eurozone and its common currency. The case company's business extends across the whole world; however, about 75% of its turnover is realised in Europe, its main market. These recent developments have put considerable pressures on the company.

... and the problem simply is that in the meantime the requirements have changed. Because we had to include criteria into our job such as 'time to market'. And the faster one is on the market, the more successful and more potentially one can also collect added profits, because one is faster than the market (Divisional Controller).

A further element of the external environment that has an increasing impact on the company relates to tax issues. The growing globalisation of the company has meant that transfer pricing has become a greater concern over the past five years or so. Tax issues are thus taken into account as a criterion for decision making (cf. 'Decision criteria').

Another external element that has been seen as being important to monitor relates to the scientific environment. The company relies on new developments in scientific fields for its product range expansion. These fields have thus to be screened on a constant basis.

And that is obviously the point for us to make sure that we know a lot about the scientific environment, keep up to date with it and realise if there is something happening there... We do have so-called platforms of competency... where we have experts. And if they read everything that is happening in the surroundings, everywhere, and then select those things where we say, that is an important development, there will be a lot going on in the coming years, and we then have to see if there is anything of relevance for Henkel... (Corporate Controller).

7.22 Competitive and customer pressures

This refers to the company's *micro-environment*, namely its product markets, competitors, and customers.

Competitors

Competitors are one focus of attention. The company is facing fierce competition, mainly in its consumer goods markets. As outlined in Chapter 6 and also in section 7.5, competitors are the subject of numerous benchmarking exercises. Any move they make can potentially have an impact on the company as a whole. Market shares figure among the goals to be attained by strategic business units and divisions, and they are shared with the competitors. Competitors are more closely watched in some sub-divisions than others. Notably, those parts of the company that sell branded consumer goods focus on their competitors. In other parts of the company, competitors are not perceived as a problem. The importance accorded to competitors depends thus on the location inside the company. However, as indicated in Chapter 6, competitors are observed at a corporate level, where Henkel as a whole is compared to a group of main competitors, e.g. in terms of financial ratios.

Customers

The end consumer is certainly key to the company's success, whether in consumer goods or industrial goods (B2B) markets. However, in consumer goods markets, the end consumer purchases goods from retailing companies, and these appear to have a much bigger and more direct influence on the company's workings than the competitors and end consumers. The retailing business is similarly affected by globalisation, the internet and, in Europe, the arrival of the Euro. Some of the large retailing companies are becoming increasingly international, expanding their business in different countries, and attempting to work with similarly international companies, such as the case company, in order to globalise their provision network. With the advances of the internet, and the arrival of the Euro, these retail companies (the case sites' customers) can now easily compare prices across countries, and expect to be provided with the same products at the same price across different countries, and certainly so in the Eurozone. They can also more easily compare prices across their different suppliers. This puts price and product harmonisation pressures as much as cost pressures on the providing companies and raises the issues of power and influence. The big retail companies are certainly influential, in the sense that they can potentially affect their providers' sales by delisting products. Those companies wanting to be listed might well have

to adopt to the retailers' wishes. This is what happens in the case study. Even though the power does not appear to be located only on the retailers' side, they are fairly influential. The case company has renowned brands that retailers want to list. However, they are not almighty and there are competitors. The company has thus had to adapt to its external environment.

That means that, with the implementation of the SBU concept, which has been pushed through on a worldwide basis, individual businesses have become more transparent. I.e. as far as data structures are concerned, but also from the possibilities to move inside the market. If I think that today we have customers like 'X' or 'Y', these are of course companies that operate on a worldwide basis. And if you have a worldwide SBU structure, then you can more easily make sure that a company like 'X' gets attended to in the same way in the USA as in South Africa as everywhere... This is the direction that things have gone over the past 10 years (Divisional Controller).

The strategic Controlling, which products, in which countries, how much, with what price, i.e. European pricing, can only be done from a central unit. You cannot fix a price for Italy any more at say 7 Euro 20, and ask 3 Euro 50 for the same product in the UK. That could still work out while our customers were local as well... But now that the customers also expand across Europe... I.e., there isn't any independence any more for price fixing, for strategies (Manager).

7.23 External stakeholder expectations

This category refers to that part of the external environment that is very specific to the company. External stakeholders include the general public and its shareholding and financial communities. The general public's interests are not often mentioned explicitly by management accountants, these do however play a significant role and the corporate image conveyed to these communities is certainly watched very closely by the company. However, most management accountants' talk focuses on the shareholding and financial communities.

The shareholding and financial communities include professionals and private shareholders. The shareholder structure has been laid out in Chapter 6. It was mentioned there that the 'family' holds the majority of voting shares for Henkel. The 'family' thus has the main and a potentially direct influence on the company. At the same time, there remain other 'voting' shareholders and 'non voting' shareholders. Their expectations, as much as those of the financial community and mainly the analysts as major '*opinion creators*' are certainly taken into account at all time.

In whichever part, the company's diverse moves are closely watched by these communities with a focus on financial returns. As the shareholders provide the present and future capital of the company, they are considered very important. The respondents' talk was interspersed with notions such as 'shareholder value', 'EPS' etc. indicating a high concern with such issues, mainly at corporate levels. Again, this leads to *pressures* felt by the corporate managers. These expectations and pressures are felt in an ongoing manner, even though disclosure of information is not permanent. External accounting requirements lead to annual and quarterly reports; added to that are press briefings that can occur when anything important happens. The company uses its web site as an important external information tool.

The shareholding community's expected behaviour is included in major strategic decisions, it is for instance anticipated what the reaction of those groups will be and what this will mean for the share price etc.

That is clear now, Henkel is blowing in the wind of shareholder value, and also what the others are doing, approximately, yes, we orientate ourselves towards the general movements of the economy, and this movement towards shareholder value is part of it. However it is to be defined. It begins with an orientation towards EBIT, with EVA[®] now, with a maximisation of EPS. Rather financial key performance indicators are then set up as goals... (Corporate Controller).

...which consequences does it [the acquisition] have on our key figures. We have communicated key figures to the financial community. And does that fit, then? What is happening? Also with respect to the family or the shareholders generally, we also have to tell them somehow, it's worth it, because chop-chop, yes, our EBIT goes up or our EVA[®] goes up or whatever (Corporate Controller).

7.24 Awareness of reality

This category represents the fact that there might at times be a wide gap between the way the world ideally ought to be (based on textbook knowledge and normative or wishful thinking), and the way it is, when it comes to different *conditions*. These conditions include the availability of organisational resources, information and knowledge and experience. Associated to this are strategic priorities. When there is lack of time to complete a task, it can only be done partly, depending on priorities. Time can be a limiting factor in preparing information, but also in reading information. For example, there might be time to prepare a specific report in much detail, but receivers might not have time to read that much detail. Similarly, the best possible solution to a market problem can be to buy the biggest company in the market. However, this might not be realistic as there is too much money expenditure

involved. This means that considerable information must be available on the context of decisions. External requirements might impose a certain behaviour upon the company, which might not be optimal from its own point of view.

Respondents often stress the fact that their organisational life differs widely from descriptions in textbooks. They seem to be very aware of the theoretical bases of their life, but need to adapt to the situations at hand, thus finding a compromise between the two worlds. It has to be borne in mind that activities take up resources, and that cost-benefit aspects might play a role.

This [harmonising] is very important, because otherwise you cannot compare the different acquisition projects, which are very dissimilar, in a fair way. That is our task. Some textbooks suggest carrying out a ranking of the different acquisition projects. That sounds good, but is unfortunately unrealistic, because you never have comparable projects for one division at the same time and are never able to say, well, if I had to choose now, then I'd take project A, C and F and I'd forget about the others... (Corporate Manager).

[M&A integration...] But one should never forget that it's about people who carry their personal experiences. One never starts from zero, like in a textbook, and is able to design the world in such a way that everything is perfect (Divisional Controller).

7.25 Summary

This chapter has traced the first part of grounded theory analysis, open coding. Altogether, 23 open categories relating to strategic management accounting in the case company were explained. Whereas some concern management accounting very specifically, others are about organisational life more generally, while also linking to management accounting as one function out of many. The categories are the building blocks of the evolving theory, which will be integrated into higher order categories in the next chapter. The aim of open coding was stated as the development of categories in terms of their properties and dimensions and their relationships to subcategories. Even though categories are not interrelated at this stage, the linking of them to a certain extent is unavoidable. However, the effort of relating them will be the focus of the next chapter on axial coding.

CHAPTER 8: AXIAL CATEGORIES

8.1 Introduction

The previous chapter outlined the categories developed during open coding. These were delineated without fully exploring the relationships between them. The grounded theory process includes three different stages, open, axial and selective coding, which can be distinguished to a certain extent, even though they partly occur at the same time. The present chapter moves from the open categories to main or axial categories, which will later be organised around a core category, the main product of selective coding, in Chapter 9. The purpose of axial coding is to begin the process of reassembling data that were fractured during open coding. Axial codes are studied in their context, which is defined by related subcategories and properties. Subcategories denote when, where, why, and how a phenomenon, expressed in terms of a category, is likely to exist. Strauss and Corbin (1998) suggest that the analyst use the paradigm model in axial coding. Its basic components have been outlined before as consisting of conditions, actions/interactions, and consequences. These components are discussed for each category when necessary. However, the definition of the categories depends to a certain extent on the integration of all categories into one whole model, as completed during the selective coding stage. At this stage, categories will be discussed in their context in more general terms, whereas Chapter 9 will provide an outline of an integrated theoretical model in terms of the paradigm.

Open, axial and selective coding were described as closely connected analytical stages. Separating them *ex post* as in this thesis is to a certain extent an artificial task. However, it is necessary if the analytical process is to be understood. It should be noted, though, that a perfect separation of these stages is impossible to achieve. Information given will to a certain extent be repeated from Chapter 7; however, repetition is limited to a minimum. Reducing the number of categories at this stage allows for a higher level of abstraction to be reached. It furthermore simplifies the discussion to a certain extent, thus allowing the integration of all of these categories into one whole. Axial coding is thus a preparation for the final stage of grounded theory, selective coding. It should be noted that the main categories derive part of their meaning through their relationship to each other and the main category. The understanding of their meaning in this case study will thus only be complete after reading Chapter 9. As a consequence, the present chapter is relatively short. It focuses on the

integration of open categories into main categories, commencing with the provision of a so-called code matrix.

8.2 The code matrix

The code matrix shows the relationships of open codes to axial codes, or main categories. All open codes are now subsumed under more abstract labels, the main categories.

No.	Subcategories [open codes]	Main categories [axial codes]
7.21	The general external environment	The external context
7.22	Competitive and customer pressures	
7.23	External stakeholder expectations	
7.14	Organisational visions, strategies and goals	The internal context
7.15	Decision criteria	
7.12	Monetary resources	
7.17	Organisational structures and hierarchies	
7.20	Complexity and diversity	
7.13	<i>Accounting rules</i>	
7.19	<i>Interaction facilitating cultural traits</i>	
7.18	<i>People</i>	
7.16	<i>Rules of the game</i>	
7.19	Interaction facilitating cultural traits	A feel for the game
7.18	People	
7.16	Rules of the game	
7.11	Subjectivity	
7.3	Information collection	Information sets
7.2	Information	
7.10	Knowledge and experience	Professional know-how
7.13	Accounting rules	
7.4	<i>The selection of information</i>	Information processing
7.5	<i>The analysis of information</i>	
7.6	<i>The transformation of information</i>	
7.7	<i>Information distribution</i>	
7.6	The transformation of information	Structuring & harmonising
7.5	The analysis of information	Bridging and contextualising
7.8	Assessment of the past	
7.9	Projections of the future	
7.24	Awareness of reality	Compromising and balancing
7.4	The selection of information	
7.7	Information distribution	Communicating results

Table 3: The code matrix

The code matrix is the result of the axial coding stage of analysis. Upon reading of the code matrix, one can realise that the open categories labelled accounting rules, interaction facilitating cultural traits, people and rules of the game, and the subcategories related to information processing have been mentioned twice and subsumed under two different axial categories. This can be explained by the double impact they have on organisational processes. Each of the ten main categories is now addressed in turn.

8.3 The external context

Subcategories	Main category
The general external environment Competitive and customer pressures External stakeholder expectations	The external context

Table 4: The external context

'The external context' is a main category resulting from the synthesis of three related subcategories, the general external environment, competitive and customer pressures and external stakeholder expectations. Their differences as well as similarities are now discussed in order to integrate them into one category. The three subcategories interrelate to form an external field of pressures that has an important impact on the company. While some of those pressures are perceived as positive or opportunities, others are perceived as negative, or threats and uncertainties. Developments in the general external environment, such as the development of IT and new research findings can be perceived as opportunities. Similarly, the evolution of partnerships with e.g. customers is perceived as positive. On the other hand, a development related to competitors can mean a threat to the company. In any case, all these elements have to be taken into account for any decision taken, mainly if the decision has potentially wide-ranging consequences such as in a strategic context.

The company depends on its external environment. Customers, competitors and shareholders to name just a few can have an impact on the company's survival in the long term. The importance of taking the external context into account is stressed in the following quotes.

We have done this benchmarking last year, strategy benchmarking. We have compared our strategy with a few other companies... and we have positioned ourselves somewhere and we have compared, where do we want to go, where does the competition want to go, you need to know that for certain. Because decisions are not only internal, should not only be decided according to our own strengths and weaknesses, but also in relation to the market. So we wanted to position ourselves (Corporate Controller).

Fast close [is] this project which aims at shortening the closure of annual accounts by several weeks, so that in accordance with shareholder value we can deliver a good image to the financial community and the press, and this consequently creates a very high pressure internally (Corporate Controller).

The contact of the company with its external environment is characterised by a two-way impact relationship. The company certainly does have an influence on its external context. However, it can only change a few aspects, e.g. related to customers and shareholders and by contributing to changes in the macro environment generally. The impact of the external environment on the company is more wide-ranging and powerful, encompassing all of its elements, e.g. the general economic situation.

Of course we cannot change the world economy, we are always reactive on this point. I mean, if there is a crisis coming up in Turkey, then it will come. We are not the dominating market factor to say, just a moment, we are talking the crisis away (Divisional Controller).

Another distinguishing feature is the location of the impact. While the general environment has a potential impact on the whole company, this does not apply to the same extent to the other two subcategories. Market pressures are mainly felt at a divisional level, including mainly strategic business units. Shareholder and financial market pressures are mainly felt at the corporate level. At the same time, these two pressure systems are working in different directions. There is margin squeeze from one side and expectations for returns and earnings per share figures from the other side.

In summary, the external context is certainly an issue closely watched by the company and its constituent parts. It has a major impact on strategic decision making processes and thus also on strategic management accounting. Having to take the external context into account also means that management accountants need the means to understand what is going on out there. This issue links the present category to other main categories such as 'Professional know-how' (cf. below). External pressures merge with the internal context to form a contextual field that underlies all strategic decisions.

8.4 The internal context

Subcategories	Main category
Organisational visions, strategies & goals	The internal context
Decision criteria	
Monetary resources	
Organisational structures and hierarchies	
Complexity and diversity	
<i>Accounting rules</i>	
<i>Interaction facilitating cultural traits</i>	
<i>People</i>	
<i>Rules of the game</i>	

Table 5: The internal context

'The internal context' is a main category created through the combination of nine open categories. These all relate to the internal context in various ways, even though they also reflect the external context to a certain extent. The nine open categories are closely interconnected and together form a web of interrelated internal conditions. Organisational visions, strategies and goals for example lead to the definition of decision criteria. Monetary resources are distributed on the basis of decision criteria and organisational rules etc. Further multiple relationships exist, as already partly discussed in Chapter 7. The internal context can aptly be described as surrounding people at all times, including anything internal to the company.

The internal context includes elements that are perceived as enabling or positive, and others that are perceived as rather restricting and negative. Interestingly, all the above-named subcategories contain enabling and restricting elements at the same time. Monetary resources certainly restrict through limited availability, but also enable organisational survival. Visions, strategies and goals, and decision criteria enable a focused view on the future and where to go; at the same time they restrict possibilities in certain chosen fields. Accounting rules to a certain extent enable the preparation of harmonised accounting processes and resulting information; at the same time they can be perceived as restricting the scope for action.

In a strategic context, some of the underlying categories take on particular properties. As indicated in the previous chapter, a strategic context can be perceived as very complex [high complexity]. There are numerous external and internal issues at stake that need to be taken into account. Furthermore, a strategic context may be characterised by a lack of clearly defined accounting rules and more reliance on 'rules of the game' [relative irrelevance of

accounting rules as compared to rules of the game]. There usually is a shift in terms of decision criteria from clearly defined, quantitative criteria to rather qualitative criteria [relative importance of qualitative criteria as compared to quantitative criteria]. This lack of clear definition is at times perceived as difficult, even though some respondents particularly appear to enjoy those particular circumstances (cf. 'Personality') [consequences for organisational actions and interactions]. Moreover, a strategic context is characterised by actions that are in the company's focus in terms of visions, strategies and goals, while probably involving a high stake in terms of organisational resources [high priority and high resource involvement]. Furthermore, strategic issues by definition involve people that are high up in the organisational hierarchy [high organisational level]. They thereby need to rely on many other people to provide them with information, which raises the issue of trust (cf. 'Interaction facilitating cultural traits') [high reliance on cultural traits]. To summarise the context, it appears to be characterised by organisational actors handling it with extra care [consequence for organisational actions and interactions]. In a strategic context, all the subcategories underlying 'the internal context' are thus located on a dimensional location that lead to perceived added difficulties, but also perceived enhanced interest by some organisational actors.

To conclude, the nine subcategories thus provide structure and organisation, perceived as positive, at the same time as restraining organisational action and in a strategic context giving the feeling of being surrounded by a demanding 'multiplicity of relevant aspects', an idea to be further developed in Chapter 9. Some of its elements furthermore encourage the development of what has been labelled 'a feel for the game'. Similar to the external context, the internal context presents a part of the environment surrounding organisational actors, which has to be constantly taken into account and thus influences actions and interactions.

8.5 A feel for the game

Subcategories	Main category
Interaction facilitating cultural traits	A feel for the game
People	
Rules of the game	
Subjectivity	

Table 6: A feel for the game

The main category labelled 'a feel for the game' is a product of the combination of four subcategories, some of which have already been discussed in relation to the internal context. Interaction facilitating cultural traits, people and rules of the game are part of the internal context, but also lead to this notion of a feel for the game. Moreover, subjectivity is included in this main category, as it contributes to a feel for the game. The resulting main category refers to that internalised feeling for 'how to do things'. Like its underlying subcategories, it is a very subjective concept. There is something the respondents intuitively know about how to analyse happenings and how to go about things etc. This subtle knowledge is based on some past experience related mostly to the internal context. It partly refers to rules of the game, but also to gut feeling and some subtle knowledge about people and shared cultural traits. A feel for the game thus includes notions of what is perceived as normal and links these to issues of common understanding, trust and personality. A management accountant facing a task in a strategic context, for example, has to have a feeling for people in terms of hierarchies and personality, but also needs to know how to achieve an understanding that can be shared by other organisational actors involved. These interrelationships are expressed in the following quote.

...well just because you have a group of human beings, there is a development of a whole own dynamic. Expressions, synergies, what does this mean here, I mean, a certain meaning. There are definitions that have received a particular character here, and these are the kind of things you need to know. If you don't [know] these rules of the game, on the one hand related to language and manners, but also related to contents... That's the way it is, yes, you need to know who decides what, the different hierarchical steps and decision structures need to be known in order to reach something. If you want to carry out a project, then you need to contact the right people, so also these very simple rules of the game related to hierarchies and responsibility structures need to be followed accordingly (Corporate Controller).

While deriving that feeling or understanding, the management accountant cannot draw on anything written, as this knowledge base is very subtle. Like its underlying subcategories, a feel for the game is relatively undefined and unwritten, but shared to a certain extent. This means that it cannot easily be transferred to e.g. new people coming into the company. It can and is conveyed through a lengthy socialisation process, partly involving the help of senior employees, but it is also based on new employees making their own experiences. It can be compared to some subtle knowledge newcomers need to acquire in order to be able to participate in the organisational life.

Contexts where a feel for the game is observed relate to all organisational actions and interactions. It is notably drawn upon in situations where no clearly defined rules are at hand to solve the situation. This is notably the case in strategic and new situations. Some of the characteristics of a strategic context in relation to the underlying subcategories were outlined before. A feel for the game is an essential input in a strategic context in that it contributes to an understanding of the situation at hand, and also provides some subtle guidelines about how to behave, e.g. when facing uncertainty and dealing with this high-pressure environment. This is the main consequence. Further details on the importance of a feel for the game in the overall SMA process will be discussed in Chapter 9.

8.6 Sets of information

Subcategories	Main category
Information collection Information	Sets of information

Table 7: Sets of information

The main category labelled ‘sets of information’ refers to series of incoming information, whether they are of an external or an internal nature. These are unmodified sets of information that arrive to a person in order to be processed. They are equivalent to news or new knowledge that arrives on a constant and ad hoc basis. The combination of information that is already available and the further collection of information leads to sets of information. According to one respondent, quoted in Chapter 7 in relation to information collection, this activity is nowadays less important than e.g. information selection, given the fact that information in terms of ‘any information’ is readily available. Information collection is thus not perceived as a key activity, if compared to information selection and other informational strategies. However, as will be indicated below, this might be perceived slightly differently in a strategic context.

There are no specific contexts where sets of information are observed. They are always there and arriving. Just as information is collected on a constant and ad hoc basis, incoming information sets are processed regularly and for ad hoc purposes. Ideally, the aim is to have sets that consist of the right kind and quantity of information for the problem at hand. For this to happen, the information sets are then subjected to diverse actions (cf. below), while

again creating information sets to be communicated to colleagues and to decision-makers. Information sets are one of the main inputs of the processes to be explained later.

Information sets have a major function in a strategic context. As indicated before, a strategic context is usually characterised by the limited availability of information of the right relevance and reliability. Furthermore, information relating to a strategic situation may well be predominantly of a qualitative type. This is caused by the fact that strategic contexts are concerned with happenings in the future that cannot be known with certainty in advance. As a consequence, a feel for the game becomes an even more important input, compared to non-strategic contexts (cf. the discussion above). Furthermore, considerable effort needs to be deployed to understand what a future event may mean to the company, thus necessitating the use of professional management accounting know-how.

8.7 Professional know-how

Subcategories	Main category
Knowledge & experience Accounting rules	Professional know-how

Table 8: Professional know-how

The main category professional know-how is the result of the integration of two subcategories that were labelled 'knowledge and experience' and 'accounting rules'. It refers to all those rather 'objective' skills a management accountant must possess to be able to contribute to sense making in a strategic context. Drawing the different properties of 'knowledge and experience' and 'accounting rules' together, the following know-how profile can be outlined. Management accountants are supposed to possess a reasonable degree of expertise as well as interdisciplinary know-how. Their expert know-how is based in the field of finance and accounting, while also encompassing accounting rules. At the same time, their position and involvement requires them to have an extensive degree of interdisciplinary knowledge and experience. This extends their expert knowledge and experience in the fields of marketing, research and development, production techniques etc. While respondents usually consider the expert know-how as being rather straightforward, they perceive the combination with interdisciplinary know-how as more problematic, but also appealing. From a management accounting point of view, it extends their know-how to enable them to understand what is going on in the company and the external environment.

This is arguably very important in a strategic context, where generally something happening has to be assessed and translated in management accounting terms. Professional know-how is thus another main input in organisational actions and interactions.

Management accountants do have a certain professional know-how when entering the company, but they also need to expand this on the job. Parts of this know-how are practical and specific to the company, such as the particular reporting structure and investment appraisal techniques that are clearly defined in the accounting rules. Similar to ‘a feel for the game’, this professional know-how can only be acquired through some exposure to the workings of the company. Learning and socialisation processes contribute towards the sharing of know-how amongst organisational members and management accountants. Contexts where professional know-how is required are connected to the informational strategies outlined below.

8.8 Information processing

Subcategories	Main category
The selection of information	Information processing
The analysis of information	
The transformation of information	
Information distribution	

Table 9: Information processing

Information is the input, work in process and output of a set of activities that can together be labelled information processing. These underlie management accounting and ultimately aim at changing the information set that is available to the company, in terms of the right quality of information at the right place and the right time. It should be stressed that management accounting is one of the most important information processing functions in the company (cf. Chapter 6). This category refers to all those actions that involve the processing of information sets between their ‘arrival’ at and ‘departure’ from the company or individuals in the company. It involves the selection of information, its analysis and transformation, while also taking into account the subsequent distribution of information sets. These processes all have in common regular and ad hoc elements, and stand in reciprocal relationships to each other, as shown in Figure 12 below.

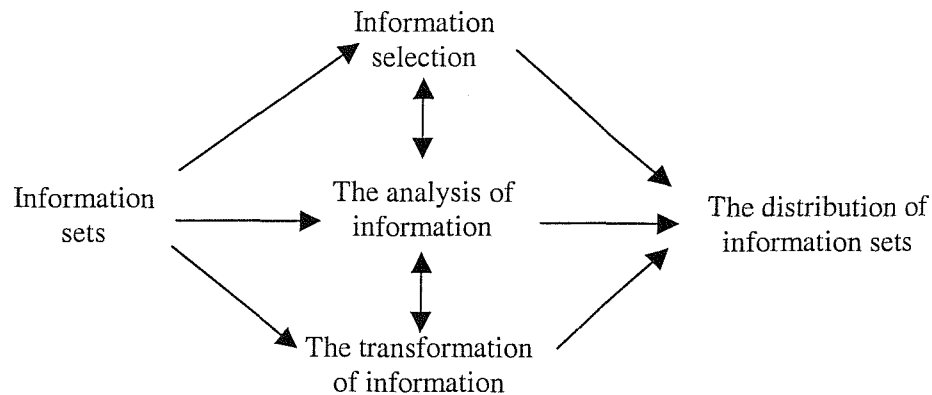


Figure 12: Information processing

As a consequence of information processing activities, the information sets available to the company are changed, in its favour and at a cost. The consequence of one part, e.g. information analysis, can result in another activity happening, e.g. information selection, until a balance is reached, in terms of the availability of the ‘right’ information. Information sets are thus the input and output of this process. Information processing underlies all of the subsequently described main categories. Its underlying parts thus contribute to further organisational management accounting actions and interactions. This category has been created to enhance the understanding of the other processes, as information and management accounting underpins them all. Even though terms such as structuring and harmonising will be used, it should be noted that these refer to some kind of management accounting information processing in a more specific way.

8.9 Structuring and harmonising

Subcategories	Main category
The transformation of information	Structuring and harmonising

Table 10: Structuring and harmonising

The transformation of information was described as including the standardisation, translation and structuring of information. The present main category appears to capture the essence of those processes in a more conceptual sense. Structuring could also be called giving structure to or organising, while harmonising relates to standardisation efforts.

Structuring and harmonising refers to all those actions that lead to structured and harmonised information. These actions aim to transform the information set available to something coherent and understandable. Information can at times reach management accountants in different formats that have to be standardised first in order to allow their analysis. As indicated, this even applies to numerical information. Accounting information is often accumulated according to different interpretations of rules. As indicated in the following quote, even internal information based on rules can be non-comparable and thus has to be structured and harmonised.

Well, one of our tasks is the harmonisation of information..., so that the board of directors can receive the information in a standardised and understandable way. This is one of our tasks. So we collect the information from the divisions, analyse them, question them... (Corporate Controller).

Management accountants use structuring and harmonising strategies when faced with information that is not comparable and can thus not be easily analysed. This is the case when information comes from sources that are external to the company or when internal information is not compiled in exactly the way the rules would prescribe. In order for information to be comparable, it must be organised in the same systematic way. Accounting rules have been discussed as potentially providing a framework for the harmonisation of information. The internal context is thus an important trigger for structuring and harmonising activities. Another instance where this is mentioned relates to perceived levels of complexity. Structuring is mainly resorted to when facing complexity, a condition often encountered in a strategic context.

...complexity... I would say that these two correlate with each other. The higher the complexity, the bigger the need to structure (Corporate Controller).

In a strategic context, information relating to the future might be of a qualitative type. Respondents state that qualitative information can only to a certain extent be harmonised. Structuring or organising then takes over as the main strategy. Structuring and harmonising efforts form one basis for bridging and contextualising efforts.

8.10 Bridging and contextualising

Subcategories	Main category
The analysis of information Assessment of the past Projections of the future	Bridging and contextualising

Table 11: Bridging and contextualising

Bridging and contextualising is a main category resulting from the synthesis of three related subcategories, the analysis of information, assessment of the past and projections of the future. It refers to the bridging of information across time and the contextualising of information across space. This is a very normal human process, as a single event or number does have a limited meaning as such. Sense of a phenomenon is potentially made by comparing it or referring to some similar phenomenon. As indicated, this applies across two dimensions: comparing across parts of the company and relative to other companies such as competitors, and relating the past with the future. The aim is to anchor the phenomenon in its spatial and time-related contexts. Contextualising is carried out in a conscious and unconscious way when comparing an information set with similar information sets relating to internal or external happenings, such as in benchmarking exercises. Bridging is similarly employed when relating actual information to past or projected information, such as in management reporting sheets. Furthermore, the respondents speak of the link between strategic issues and operative issues, or long-term and short-term issues, or the future, the present, and the past. Anything they do is put into the context of e.g. the short-term and long-term planning. One of the respondents mentioned the word 'bridge' in this context, a term picked up for the category.

What you see here are the year to date and monthly figures. Here the previous year, here the actual year, then the plan, so that I've got the bridge here. I always have to present this information in our divisional management meeting. So you can see every month, how far away from it I still am [the plan] and in a short calculation I can show how things look... (Divisional Controller).

Contexts in which bridging and contextualising strategies are employed are characterised by a lack of understanding of what a single number means. Regular bridging and contextualising efforts have been set up in order to prevent this situation. When the future is to be projected, it can only be done in relation to the past and the present. As mentioned before, a prerequisite for this to happen is the availability of comparable information. In a strategic context, both contextualising and bridging are perceived as very important. When

there is a lack of future-related information, these strategies can help understanding what e.g. a future acquisition may mean to the company, as outlined in the following quote.

Well, yes, it is the centrepiece of the actual calculation to ideally see that the data that are included are close to the truth. The truth cannot be known in advance, it is a future-related picture, but via plausibility checks, projections from past data, parallel developments, the market context, the competitors' behaviour, we can derive a whole series of criteria, with the help of which we can test the substance or the quality of the projection, and that's what I'm trying to do (Corporate Controller).

The quote directly acknowledges the difficulties involved in assessing a strategic context, for example linked to a future major acquisition. This issue is partly resolved through compromising and balancing strategies.

8.11 Compromising and balancing

Subcategories	Main category
Awareness of reality The selection of information	Compromising and balancing

Table 12: Compromising and balancing

Compromising and balancing is a main category resulting from two subcategories 'Awareness of reality' and 'The selection of information'. There are two main aspects to it. Compromising refers to the making of compromises. It could also be called 'adaptation to unavoidable circumstances in the best possible way' and has many different facets. It is indicated by respondents when they are e.g. stating that they are 'doing their best'. Balancing relates to the weighing of different issues at stake. It is as such similar to compromising, but is prompted by a slightly different context.

Contexts where compromising is used as a strategy relate to those outlined in Chapter 7 with respect to the two subcategories. They relate to the availability of the right information, the availability of monetary resources and other limiting factors such as time. The consequence of compromising is that a certain balance is reached, which can keep the 'compromiser' and other involved organisational actors happy. This balance is not clearly defined but felt via what has been referred to as 'a feel for the game'. The following quote gives a feel for some contexts where compromising strategies are employed.

And compromising means to say, well, o.k. I'm accepting that we do not have enough money to maintain the market share... Compromising is the acceptance of facts the way they are. And that is an ability... One of my chefs once said: it doesn't make any sense to hope to roar like a lion, if you were born a rabbit. That's compromising... So, compromising means, accept that you are born a rabbit and not a lion (Manager).

Contexts where balancing can be observed are mainly related to the selection of information, when for example too much information is available and a choice has to be made on which information to choose. It furthermore stresses the importance of focusing on the most relevant aspects of a problem, while not neglecting the overall big picture. The right balance between focus and big picture has to be found. This also relates to what has been labelled the cost and benefit of information.

Compromising and balancing strategies are very closely related and blend to one main strategy. They are an important part of the respondents' life and allow them to pursue their aim while balancing the different issues at stake. They know their aim and the restricting conditions, while trying to come to the best possible solution in each situation, which might not be optimal but sub-optimal. This involves considerable judgement on their side. This appears to be even the more so in a strategic context. As indicated above, a strategic context may be characterised by a lack of relevant and reliable information and the fusion of a multiplicity of relevant aspects to be considered at the same time. Compromising and balancing are hereby drawn upon to a large extent. It should be noted, though, that these two strategies appear to be generally employed by respondents and do not relate to management accounting more specifically. Whereas 'Structuring and harmonising' and 'Bridging and contextualising' refer directly to management accounting practices such as benchmarking, reporting etc., 'compromising and balancing' relates to a more general pursuit, which is, however, very important to the other strategies.

The link between compromising and balancing and the other main processes has been outlined above. The present main category is similarly closely related to the next one to be discussed, labelled 'communicating findings'. Findings may have to be communicated in a certain way, and adapted to the audience, which may at times deviate from the preferred communication of the management accountant who is preparing the information, thus necessitating compromising actions. It should be noted, though, that respondents stress that compromising is only possible up to a certain limit, which is partly defined by 'rules', if existent, and furthermore felt by 'a feel for the game'.

8.12 Communicating findings

Subcategories	Main category
Information distribution	Communicating findings

Table 13: Communicating findings

Communicating findings is a more general term for the distribution of information. Main properties of the category ‘the distribution of information’ were named as ‘the target of information provision’, ‘the powerful decision making elite’ and ‘the role of persuasion’. Communicating findings similarly relates to the sharing of information with an audience, other management accountants or managers, up the hierarchy, but also laterally, while using some persuasion to get one’s argument through.

Contexts where findings are communicated are very straightforward and link to the other interactional strategies discussed before. Communication happens on a regular, but also ad hoc basis. Among colleagues, communication is an important tool to exchange ideas and findings about the current situation and task at hand. It helps to clarify situations and tasks, and is thus employed when facing a problem. In a different context, communication is used to share findings up the line. It happens when an information set is ready for distribution. Numerous respondents stress the importance of the ‘right’ communication.

And then you realise how important communication is. I wouldn’t have believed it, how important these formal things are, that our charts really have to look perfect, that errors are ruled out, that the colours are acceptable, all this plays a big role, at the end of the day. So, not only the content, [that is] the numbers themselves [count], but also how they are presented. ...it’s really how you deal with people and how you communicate things, which is at least as important as the information presented. Or, let’s put it this way, if the form isn’t right, then the numbers might not be taken in like they must or should be taken in... This is also important at lower levels, not only for the board of directors. Similar scenarios happen at divisional, sub-divisional and SBU levels (Corporate Controller).

In a strategic context, findings need to be communicated well and fast. The importance of being able to communicate findings to high-level manager is even more important in this context. Management accountants thereby appear to anticipate the communication of findings while carrying out the other above-mentioned strategies. The next chapter will provide further detail on these issues.

8.13 Summary

The present chapter has narrated the stage of axial coding within the three stage grounded theory process. The resulting axial or main categories were described, while relating their underlying subcategories and focusing on the context in which they were observed. As it has already been indicated, in grounded theory research reality, it is not possible to completely distinguish between open, axial and selective coding. While the output of the first stage is easily described, with increasing abstraction, it gradually becomes more difficult to separate the stages. As a result, the present chapter has been relatively short, while only revealing part of the picture. The full meaning of the main categories will be revealed in the next chapter on selective coding.

CHAPTER 9:

TOWARDS A GROUNDED THEORY OF STRATEGIC MANAGEMENT ACCOUNTING AND SENSE MAKING

9.1 Introduction

The previous chapters have outlined parts of the grounded theory without focusing on any particular category. Different categories playing a part in strategic management accounting in the case company have been addressed. The present chapter is the result of the final selective coding stage of the analysis and provides a focus on the core category. Selective coding was explained as the process of integrating and refining theory. In the course of it, all categories are unified around a core category.

Another important part of selective coding was described in Chapter 5 as involving the validation of the theoretical scheme developed. According to Strauss and Corbin (1998), this can be done by comparing it to raw data or by telling the story to respondents. For the present piece of research, both strategies have been employed. In a first stage, the developed paradigm model was compared to raw data. The researcher went back to the original interviews on numerous occasions while actively seeking to validate the paradigm model. When this first strategy was successfully completed, a last field trip was organised involving repeat interviews with some of the main respondents. During these interviews, the findings were narrated to the respondents and their reactions recorded. Furthermore, the main informant and one of his colleagues were provided with a draft version of Chapters 5 to 9 just prior to submission. All of them declared the story told to closely resemble their experience of strategic management accounting in this particular context and the scheme was thus validated.

Consistent with grounded theory methods, the theoretical output of the present chapter will focus on the core category as the main phenomenon, and its structural environment. Parts of this environment have already been discussed in detail and will only be reiterated in relation to the core category. This will be done with the help of the paradigm model, whose constituent parts for this study, i.e. core, actions and interactions, contextual conditions, and consequences, will be addressed in turn. But first, the main activities underlying selective coding, and the paradigm model are explained in more detail.

9.2 Selective coding and the discovery of the core category

The core category represents the central phenomenon of the study and is as such the main theme of the research. It is able to explain succinctly what the research is all about. Strauss and Corbin (1998, p. 146) note that the core category may evolve from the list of existing categories. But they also believe that a researcher may decide that, even though each existing category tells part of the story, none appears to capture it completely. In that instance, a new, more abstract term is needed to subsume all other categories. This was the case in this study.

Sense making has been selected as the core category, as it answers the question of “*what is the main issue or problem with which these people seem to be grappling*” (Strauss and Corbin, 1998, p. 148). While coding and analysing the data, one major activity appeared to underlie strategic management accounting. This activity turns around the understanding of organisational life and was subsequently labelled sense making. This label appears to aptly capture the essence of the main activity that respondents appeared to be grappling with in relation to strategic management accounting. It is reflected in the numerous actions and interactions, such as structuring and harmonising, that have been discussed. These are the strategies through which sense making is accomplished. Sense making is thereby a basic social process that is drawn upon by management accountants when carrying out SMA activities. It is not specific to management accounting, but also employed by other functional groups. However, as indicated above, the focus here is on strategic management accounting and how certain of its practices interconnect with sense making processes.

9.3 An overview of the paradigm model

The paradigm model is proposed by Strauss and Corbin (1998) as a tool devised to help analysts integrate structure with process. Structure or conditions set the stage or circumstances in which problems, issues, happenings or events pertaining to a phenomenon are situated. Process denotes the action/interaction over time of persons, organisations and communities in response to certain problems and issues. These elements are not always easy to recognise and the paradigm model is proposed as the main tool to distinguish between them. Strauss and Corbin (1998) explain the basic components of the paradigm model as follows (p. 128). There are conditions, which are a conceptual way of grouping answers to the questions why, where, how come, and when. These form the structure or set of circumstances in which phenomena are embedded. There are actions/interactions, which are strategic or routine responses made by individuals or groups to issues, problems, happenings,

or events that arise under those conditions. These are represented by the questions by whom and how. Further, there are consequences, which are outcomes of actions/interactions. These are represented by questions as to what happens as a result of actions/interactions or the failure to take actions/interactions. The paradigm model is constructed around what is considered the core category, i.e. the main theme of the research. These parts are depicted in Figure 13, which also indicates the sections of this chapter in which they will be addressed.

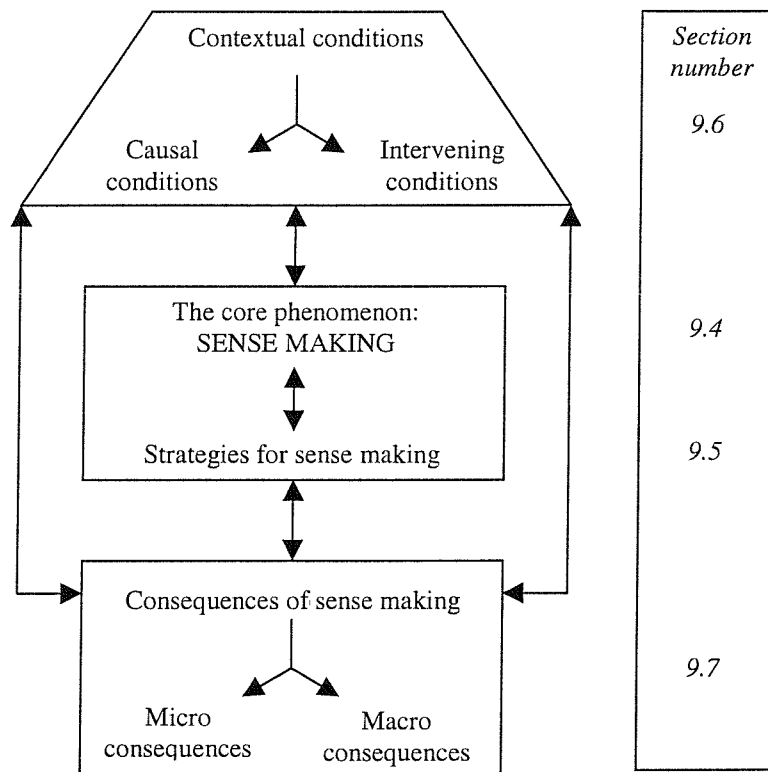


Figure 13: The paradigm model

At the centre of the paradigm model is the *core phenomenon*. The core phenomenon underlying the present study has been labelled sense making. Sense making refers to those mental activities management accountants resort to in a strategic context when attempting to understand the situation they and the company are facing. They make sense of the situation through various underlying *strategies* that have been labelled ‘structuring and harmonising’, ‘bridging and contextualising’, and ‘compromising and balancing’ (cf. Chapter 8). The core and its underlying strategies are addressed in detail in sections 9.4 and 9.5.

Contextual conditions are located in the top part of the paradigm model. *Causal conditions* are those contextual conditions that trigger the occurrence of the core phenomenon. In the present study, these were labelled ‘the external and internal contexts’ and ‘a multiplicity of relevant aspects’. The latter is a new category, which has been created to conceptualise the

feeling of management accountants, who perceive their internal and external contexts to be composed of many aspects to be taken into account when making sense of a situation. *Intervening conditions* refer to those contextual conditions that facilitate or restrain the core phenomenon. They were labelled 'sets of information', 'professional know-how', and 'a feel for the game' (cf. Chapter 8). Contextual conditions will be addressed in more detail in section 9.6.

Consequences refer to the outcomes of the above-mentioned activities in their specific context. In the present study, a distinction is made between micro and macro consequences. *Micro consequences* were labelled 'sense communication' and 'strategic decision making'. *Macro consequences* refer to 'the required management accountant's skills profile' and 'related learning and socialisation processes', which are outcomes of the core phenomenon in the long run. Consequences will be outlined in section 9.7.

The underlying parts of the paradigm model are now discussed in turn. The core category represents the focus of this chapter and will be considered first. The other paradigm components are then discussed in relation to the core category and as such define it further.

9.4 The core phenomenon: sense making

Sense making is the main phenomenon underlying strategic management accounting processes in the case company. Sense making can be defined as the process employed "*to show or find the meaning of*" (Oxford Dictionary) a phenomenon. As indicated, it refers to those mental activities management accountants resort to in a strategic context when attempting to understand the situation they and the company are facing. It is an activity that revolves around an organisational search for transparency and the understanding of situations. Sense making aims at increasing organisational transparency and understanding. This issue is raised first, before providing details of sense making activities in the subsequent section.

9.4.1 An organisational search for transparency and understanding

An organisational search for transparency and understanding is a quest resulting directly from the situation in the external and internal contexts. These have been explained as being composed of 'a multiplicity of relevant aspects', which have to be taken into account when making sense of a strategic situation. As a consequence, people inside the company appear to be driven by a search for transparency and understanding. Facing a multiplicity of relevant

aspects for strategic decisions, they strive for an understanding of them in order to be able to assess the situation. Management accounting is the main organisational function for creating transparency and understanding in 'routine' and 'strategic' situations (cf. the discussion in Chapter 7). Routine management accounting tasks serve to create transparency on a day to day basis, which then serves in ad hoc or strategic situations. Transparency is thus sought ex post and ex ante. The following quote serves as an illustration of the importance of transparency after an acquisition has taken place.

And the task then, from the management's point of view, is to define a reporting structure that contains transparency. And the problem with acquisitions always is, it [the acquired company] is combined with the existing business and one has to integrate it. And the danger is that one loses track of the results, costs and sales that are made in the core [existing] business. And of course we want to see which results we really achieve with the acquired businesses. And it is then [our] task to create transparency through different means and to constantly inform the management about where we stand, and if we have really achieved what we originally aimed for, e.g. cost savings through integration. And that is actually the core topic of it (Divisional Controller).

A search for transparency and understanding extends across two dimensions, which have been labelled 'understanding cause-effect relationships and linkages', and 'grasping the wholeness of what is going on'. These will now be addressed in turn.

Understanding cause-effect relationships and linkages

Management accountants are in search of understanding and mapping the complex cause-effect relationships that are underlying organisational action. Anything happening might cause other things to happen and these relationships and linkages are not always clear-cut in a complex organisation such as the case company. However, the impact of organisational actions on the performance and profitability of the company needs to be understood if these are to be maximised. The importance of such issues is highlighted by a current project carried out by the corporate Controlling unit. The aim of this project is to assess whether a company-wide standardised key performance indicator (KPI) system can be set up that provides information on key issues and their linkages to each other. One question is whether the impact of happenings related to e.g. distribution reliability can be linked to changes in EVA[®]. If this can be determined, then different foci can be established and measures taken on issues that have a big leverage on EVA[®], the key goal.

The question is... whether we can define a few key performance indicators that can be linked to the financial key figures. (...) We want these definitely to be linked, not just define fifteen, which are essential, but also the linkage. So that we can see, which key indicators are important, which ones have a high influence on EVA[®], which ones don't. Yes, where is it worthwhile getting managers to change something... The question of the board of directors was, is there a possibility to define fifteen really 'crisp' core KPI's, which are standardised for all divisions, and which are visible for the top management and useable (Corporate Controller).

Yes, the topic is very complex, it is definitely the case that there are connections between the different processes, and, yes, interdependencies, which cannot be ignored. That means, if one gets better in one process, maybe the next process will be negatively influenced, i.e. it is definitely difficult to develop a key performance indicator system in such a way that it takes all this into account... So that one is able to understand, why does one go up and the other down, at the same time... (Corporate Controller).

This quest for understanding cause-effect relationships and linkages is an ongoing activity, and can also underlie a strategic project, as outlined in the quotes. The ongoing activity is necessary for sense making in a strategic context. The transparency and understanding created through these ongoing activities is drawn upon when a strategic situation has to be assessed by a management accountant. Linkages need to be understood, while also grasping the 'wholeness' of what is going on, as explained in the next sub-section.

Grasping the 'wholeness' of what is going on

Management accountants appear to be focusing on the 'wholeness' of issues, including internal and external events. Anything happening has to be captured as a whole, whether it is related to financial matters or non-financial matters. Given multiple linkages, events and actions cannot be considered in a vacuum. However, often only parts of the whole are known. Respondents have compared the company to a jigsaw puzzle, whose underlying parts may not be completely known, but the big picture is always searched for. At the same time, the most important aspects of happenings need to be identified and focused upon.

And that is what I mean by complexity: it is a picture, or it is many different pieces of a mosaic, which one has to try to somehow put together (Corporate Controller).

And again, our Controlling department is very similar to us. They have got lots of pieces of a jigsaw puzzle, which has to make one big picture (Divisional Manager).

In a strategic context, the management accountant might be the person checking that everything is included in the assessment of the situation, as expressed in the following quotes.

...and I am the one, in the context of an acquisition, who is supposed to try the prepared menu, in order to see if it tastes well and if it's complete. Maybe the dessert is missing, then we have to ask for it (Corporate Manager).

And then the Controller can help, of course, when he collects which costs will occur in the project. Has he [the project manager] thought of everything, how do we present it all, which groups does he need, what are their costs etc. (Corporate Controller)?

Sense making activities focus on resolving the organisational search for transparency and understanding. The multiple interrelationships between the subcategories are outlined in the following figure.

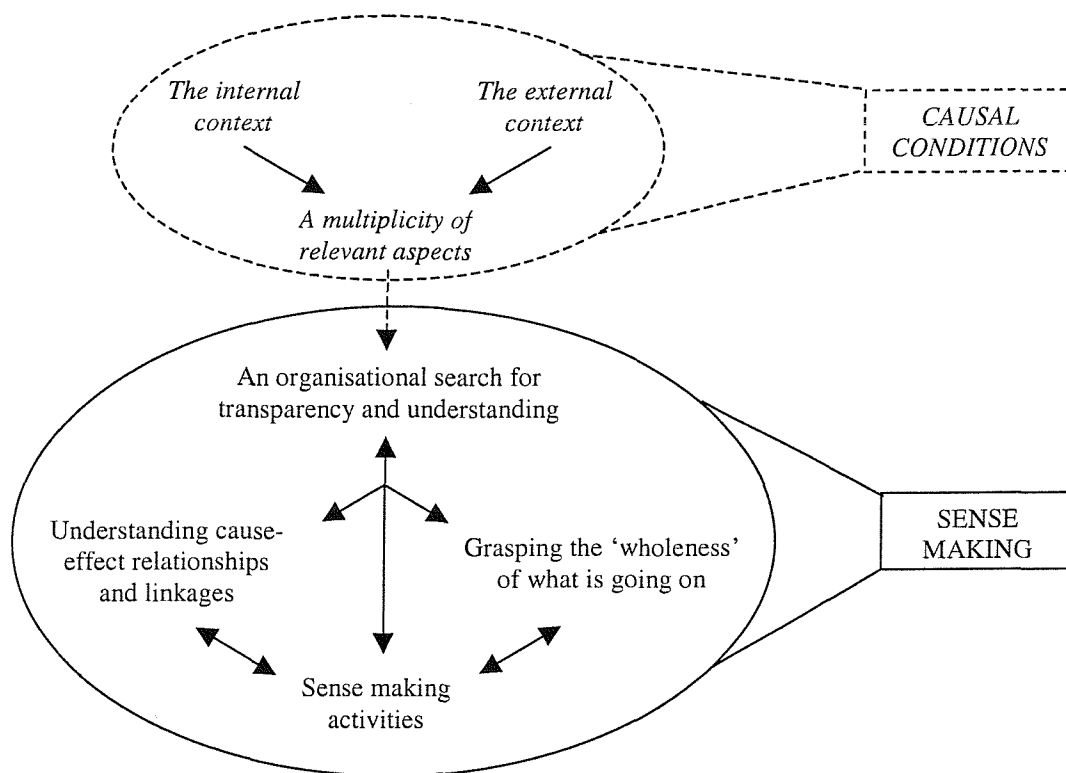


Figure 14: The core phenomenon: sense making

Sense making activities are discussed next.

9.4.2 Sense making activities

...and it is obviously also very important to deliver the right numbers and facts, that is precisely the difficulty involved, in such a complex firm, to recognise the most important issues and to then prepare them in such a way that the board, or whoever, is able to also understand them and to act accordingly (Corporate Controller).

In the specific strategic management accounting context, sense making refers to those purposive actions management accountants resort to in order to understand what is going on and to attach meaning to those things going on. Even though involved on a purposive basis, respondents appear to have difficulties speaking about sense making, as they do not actively reflect upon these activities. This issue has been discussed in Chapter 5. Sense making is certainly an activity that is to a certain extent taken for granted. However, it is possible to extract some of its properties from the respondents' accounts.

Sense making happens on a *constant and ad hoc* basis. Constant sense making activities refer to those routine management accounting practices such as reporting and the analysis of cost reports that were described in detail in section 6.4. They also contribute to an enhanced understanding of what is going on in ad hoc situations. The focus here is on those ad hoc strategic situations. In ad hoc strategic situations, management accountants are asked to make sense of the particular event. For example, if the meaning of the potential acquisition of a competitor is to be assessed, management accountants need to make sense of what this means to the company, thereby drawing both on internal information (such as the above-mentioned reporting and cost information) and external information. Management accounting's main role was described in Chapter 6 as management support. Most ad hoc sense making activities are thus triggered by somebody asking the management accountant to carry them out. In this context, there are different *types of* sense making. It is possible to distinguish between two sense making types.

The first type, which is labelled sense making I, includes the understanding of what the particular situation means to the individual facing it. It involves assessing consequences of the task to the individual, as much as actually getting an understanding of what the task is trying to achieve, as expressed in the following quote.

So the questions asked by the board of directors are, how to explain this, are often expressed in a relatively open way, so that we first have to think about what it is that they really want to know... Where we first have to consider or somehow try to understand the discussion that has been led [by the board] before raising the question, in order to get a feeling for the purpose of the question, or for knowing what they exactly want to know (Corporate Controller).

This understanding of the task appears to be mainly important in strategic situations, which are by their very nature relatively undefined and new. Sense making I is an important part of the Controllers' overall sense making activity. It is often drawn on at the beginning of a particular task, but also resorted to in later phases. Sense making II on the other hand focuses on the situation the company as a whole or relevant parts of it are facing. It refers to what management accounting and also this research is all about. The relationship between the two sense making types can be conceptualised in the following figure.

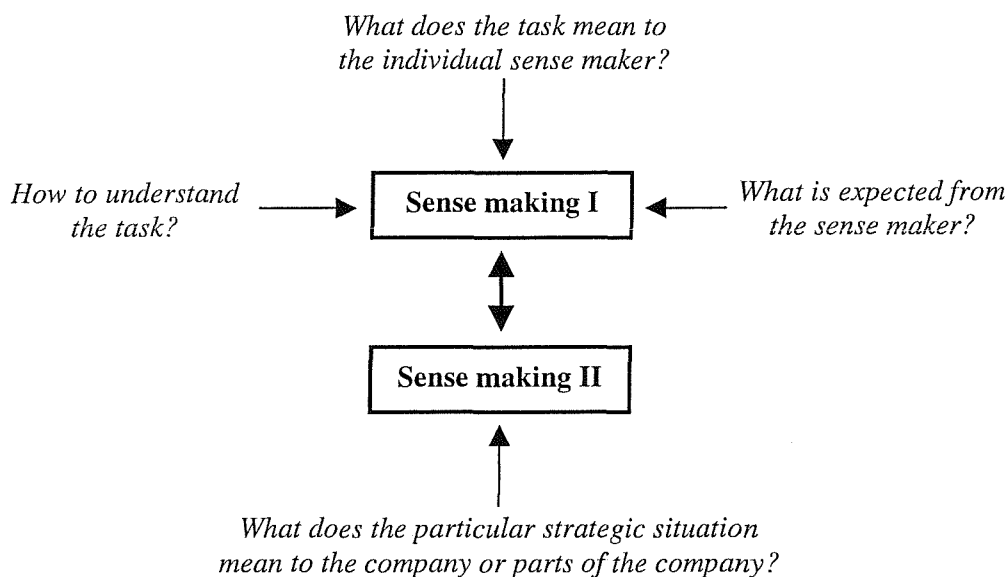


Figure 15: Sense making types

The second type is at the centre of this study. However the first stage should not be neglected, as it determines to a certain extent how the following stage is approached. The two types were collapsed into one category, sense making generally, as the distinction is vague and both are part of the same activity.

The above discussion raises the issue of *audiences* of sense making results. Sense making I consciously and unconsciously anticipates the consequences of sense making II, i.e., what happens as a result. Sense making is a means to an end, the discovery of what something probably located in the future may mean to the company. This sense is ultimately communicated to management. Management is the driving force of sense making activities via the tasks that are distributed to management accounting. Its expectations are thus an integral part of the whole process.

Sense making happens 'inside' the individual, but also in groups (*personal vs. interactive*). Any person in the company is involved in sense making activities, in the broadest sense. However, management accountants particularly resort to sense making activities, this is explicitly stated as their job. As indicated, they approach this from a specific financial point of view, which is complemented by other functional perspectives. It partly means translating the findings of other functional groups into financial terms. A good example of sense making in a strategic context is provided by the following quote, where the management accountant assesses what a potential acquisition can mean to the company.

...what we also do on a regular basis is to... intensely examine potential acquisition candidates. Yes, we calculate everything, what if we buy company x... what is the impact on our equity, debt, how would the EPS go up or down, how would the sales look, what world market position would we then have, and all these consequences. We calculate all this for the board, so that they can actually assess if this acquisition corresponds to our strategic goals. I.e., we prepare the relevant numbers, the relevant facts, in order to provide the board with a basis on which to decide (Corporate Controller).

Sense making in a strategic context is not a straightforward matter, as the sense making task and the situation may be completely new and no guideline may be available about how to go about it. The following quote gives an example of such a situation, while again stressing the importance of know-how and a certain feeling for the resolution of such a problem.

...on the one hand, depending on the task, one is able to fall back upon old analyses... one approaches it [the task] with a certain overview and good sense, looking at what has been done in the past. This can be used as a clue. Now, let's take the situation, which is the one you are asking about, where there are no clues about an approach, either from the past or from some colleagues, then, yes, those are the tasks that are fun... where one has to conceptually think about it... we have developed these three structures... on the one hand searching the literature, i.e. a more theoretical basis, also drawing empirical results from the literature, that is the second part, recounted experiences from other companies... and then also some own experiences, here... And from this, these three, to write a synopsis, a summary and a recommendation for Henkel. ...then we simply have to develop something sensible ourselves. For this we have to, well, yes, from my point of view, [have] a mixture of experience at Henkel and of experience in business life. On the other hand also simply approach things with common sense, what is sensible, what would one do, what can one do... (Corporate Controller).

There is little direct reference to sense making as such. It is a process that is partly done unconsciously and considered normal, taken for granted. However, certain management accounting actions and interactional strategies actively contribute to sense making, thereby further defining the concept. They were labelled 'structuring and harmonising', 'bridging and contextualising', and 'compromising and balancing'. These strategies are an underlying

part of sense making in a strategic context, even though not all of them are always employed to the same extent. They appear to be used in a circular, iterative way. As indicated in the previous chapter, information processing underpins all these. It is important to note that it is management accounting practices that underlie both of them. The three main strategies are now discussed in turn.

9.5 Strategies for sense making

Strategies for sense making explain the detailed 'how' of sense making activities. The following strategies all contribute to sense making in diverse ways. While the first two are definite inputs to sense making and relate closely to management accounting, the third one is of a rather auxiliary nature, which is notably resorted to in the strategic context that underlies this discussion. There are multiple relationships between sense making and notably the two management accounting strategies. While sense making is a basic social process underlying all organisational life, it is also more specifically drawn upon by management accountants when carrying out their tasks. The two main management accounting strategies, which were labelled structuring and harmonising and bridging and contextualising thereby contribute to sense making. At the same time, management accountants make sense of the information available to carry them out.

9.5.1 Structuring and harmonising

Structuring and harmonising were referred to in Chapter 8 as all those actions that management accountants resort to in order to obtain structured and harmonised information. These activities contribute directly and indirectly to sense making efforts. In a rather indirect way, they contribute to it by rendering information comparable, thus allowing bridging and contextualising to take place (cf. below). At the same time, they allow information to become more understandable. The structuring of information for example has been named as an important strategy to reduce some of the complexity inherent in a strategic context, thus contributing to sense making in a direct way, as explained in this quote.

Structuring...is for me the most important thing. But, as indicated, this also depends on the personal way of working. I'm a rather analytical type. And this is why I tend to decomplex things, i.e. capture things of big complexity in their wholeness, and then try to structure them and get them smaller. And then put them together again at the end, when I know the pieces (Corporate Controller).

The direct link to the core search for transparency and understanding is evident in this quote, which draws structuring, the focus on wholeness and the jigsaw analogy together.

It can be argued that management accounting practices are particularly suitable to structuring and harmonising activities. Accounting provides structure to organisational life by organising activities in relatively clearly defined ways, such as in cost centres and positions in the profit and loss account. At the same time, accounting information is usually harmonised to a certain degree, if drawing on accounting rules. It thus poses less difficulty than qualitative information. It should however be borne in mind that information is often of a qualitative type in a strategic context and thus structuring and harmonising activities show their importance. Even though management accountants draw predominantly on quantitative information, they have to be able to make sense of qualitative information and thereby draw on structuring and harmonising strategies.

Structuring and harmonising contribute directly to the organisational sense making activities. They are thereby employed for two main purposes. One, they are useful for the primary sense making activities, which were described above, and two for the communication of sense, an issue further discussed later. However, another set of sense making strategies is the ultimate 'provider' of sense, namely bridging and contextualising.

9.5.2 Bridging and contextualising

Bridging and contextualising strategies are in themselves the most powerful management accounting contribution to sense making activities. They were referred to in Chapter 8 as the bridging of information across time and the contextualising of information across space. Bridging and contextualising contribute to firmly anchoring single events in their context or into streams in time, thus giving them more meaning than they would have if viewed in isolation. For this, information needs to be comparable to a certain extent, whether it is of a financial or qualitative nature.

Bridging and contextualising efforts are partly carried out unconsciously. They are to a large extent taken for granted and not necessarily reflected upon. However, they are a very important sense making tool. As indicated before, respondents refer to such activities on numerous occasions, when for instance outlining benchmarking and competitor analyses (cf. Chapter 6). In a strategic context, management accountants seek to capture situations in their 'wholeness', while attempting to make sense of the situation as a whole as much as of its

underlying parts. There is only limited understanding of the parts, if the 'wholeness' or big picture is unknown. Contextualising is thus of prime importance. Furthermore, some aspects of the situation may well have occurred already in the past, and the sense maker actively seeks to relate the current situation to a past situation (bridging). The past may be the only information source available, as the situation usually relates to an event of strategic scope in the future. As indicated in Chapter 7, the future cannot be known in advance and projections of the future often rely on the past.

At the same time, there may be instances where the context can provide explanation of what is going on. The importance of constant information collection efforts was discussed in Chapter 7. It is essential for management accountants to be aware of the general happenings in the world economy if they want to make sense of a single event in time. Contextualising is thus an ongoing effort, which obtains its full potential in strategic situations.

To conclude, there appears to be no sense making without contextualising and bridging activities. These provide the core sense making tool in strategic situations. At the same time, there are limits to these activities related to e.g. the availability of information. These limits are the topic of the last strategy to be discussed, compromising and balancing.

9.5.3 Compromising and balancing

Compromising and balancing are auxiliary strategies to sense making activities. They do not directly contribute to sense making, but are a part of the underlying processes. Compromising and balancing are answers to the situation that surrounds sense making activities in terms of intervening conditions. When assessing a strategic situation, management accountants draw on information sets, their professional skills and 'a feel for the game' (cf. below). In a perfect world, these are available without limits. However, in reality this is rarely the case. Notably there are gaps in the information sets that are available for the future and for external entities (such as an acquisition target). Management accountants thus have to find a compromise or balance that allows them to make sense of the situation in this setting.

...of course we try to be as precise as possible... But there are certain areas, where we have to be happy with knowing tendencies, or plausibilities, because one simply cannot be more precise (Corporate Controller).

Well, I believe that it [estimated competitor information] will never be accurate, and therefore there is a reserve. On the other hand, figures in this kind of estimation have to give you a certain direction, and help you to steer you in a certain direction. So at the end of the day, I don't care if they are not absolutely accurate, as long as I can trust the direction that they give (Divisional Manager).

At the same time, related to sense communication (cf. below), management accountants have to find the right balance between conveying the big 'sense' picture and focusing on particular aspects of it. Furthermore, sense making activities need to take into account the external and internal contexts, which can also limit the scope for action, e.g. in terms of rules and monetary resources.

Compromising and balancing activities draw heavily on the management accountants' professional know-how and also on their 'feel for the game'. They need to know from some past experience and also some feeling how to go about such a sense making situation. As indicated above, a strategic situation might be characterised by a multiplicity of relevant aspects, some or all of which need to be taken into account in sense making activities. At the same time, there may be instances which are characterised by 'non compromising' strategies. Respondents stress the importance of staying within certain limits of compromises. A feel for the game and professional know-how determine the location of these limits in ever changing situations. These are part of the contextual conditions of sense making, which will be outlined next.

9.6 Contextual conditions of sense making

Contextual conditions represent the structures surrounding any phenomenon. They form the backdrop of actions and interactions, and also to a certain extent cause a phenomenon to take place. For ease of understanding, a distinction is made between causal and intervening conditions. Both types are now addressed in turn.

9.6.1 Causal conditions

Causal conditions can be defined as those contextual elements that somehow lead to the occurrence of the core category. At the same time, they have an ongoing influence on the core, similar to the intervening conditions. A straight line cannot be drawn between the two types of conditions. In the current thesis, causal conditions refer to the external and internal context, which together create what has been labelled 'a multiplicity of relevant aspects'.

The external and internal context

The external context was explained as containing opportunities, threats and uncertainties. It is thus a force that can be and is perceived as positive and negative. Its relationship to the company is two-way: it definitely has a major impact on the company, but the company is also potentially able to have an impact on parts of the external environment. However, the impact of external happenings on the company is more powerful. The internal context does reflect the external context to a certain extent. The company is adapting to the external environment. The external and internal context merge to a complex field of pressures and influences that is characterised by 'a multiplicity of relevant aspects'.

A multiplicity of relevant aspects

The internal and external contexts are characterised by a melange of different conditions that lead to a perception of them containing a multiplicity of relevant factors for any action. Organisational visions, strategies and goals, and decision criteria merge to form a web of objectives to be attained. At the same time, restrictions in terms of limited availability of monetary resources need to be taken into consideration at all times. Organisational structures and rules similarly contribute to an internal situation that is multiple at all times. People and cultural traits also have to be taken in account in organisational actions. All this happens against a background of external forces. Some of these elements are not easily represented in numbers.

Individuals in the company thus face a multiplicity of relevant aspects at all times, and even more so in a strategic decision context. These have a common property: they all restrict the scope of action, even though some aspects enable the company as a whole to survive, such as visions, strategies and goals and shared cultural traits, to name just a few. Organisational processes are characterised by many interrelationships and linkages, and anything happening might be caused by several other events, which in turn causes a multitude of other things to happen. These linkages are not always clear, as they may be hidden in the complexity of underlying structures. The above-mentioned organisational search for transparency and understanding that is thus solved by sense making.

9.6.2 Intervening conditions

Intervening conditions can be defined as those contextual elements that facilitate or constrain the interactional strategies taken. Three differing types have been found to play a role in sense making activities, labelled 'sets of information', 'professional know-how', and 'a feel for the game'.

Sets of information

'Sets of information' have previously been defined as referring to series of incoming information. These relate to any information that reaches the company or a sense maker inside the company and serve as an input to sense making activities. As indicated, they can be of a quantitative (e.g. financial), and also a qualitative nature. The external and internal contexts consist of numerous information sets that can change the company's information base at all times. Information is one of the main resources that is drawn upon in everyday organisational life. It is key to the functioning and survival of the company.

Information is the key, yes. And it will be an even more important key in the future (Divisional manager).

Information is a straightforward input to sense making, even though the actions targeting the transformation of information into something more valuable, sense, are not straightforward. While information sets are the input to sense making and its underlying strategies, their output can be another set of information, which potentially can be called 'sense'. A further rather straightforward input into sense making is called professional know-how.

Professional know-how

The management accountants' professional know-how is another main input to sense making activities, together with information sets and a feel for the game. Professional know-how is the main pillar upon which sense making and its underlying strategies are supported. It is in turn affected by any sense making going on, and usually increased by it, through diverse learning processes. The most important aspect of professional know-how in use in a strategic context is its extension across management accounting expertise as well as interdisciplinary fields. While the expert know-how relates to accounting techniques and rules that are needed for structuring and harmonising and bridging and contextualising strategies, interdisciplinary know-how complements this for an overall understanding of what is going on. If management accountants are to make sense of happenings in the company context, they need

to have at least a basic understanding of what can be considered other disciplinary fields, such as marketing and production. After all, management accountants make sense of things happening in those other fields, while using their specialist know-how to translate these happenings in their accounting language. Furthermore, they need to be able to communicate with people from other disciplines and thus have to understand what they are talking about.

Well, it is complex indeed, as I, in my job, have to show an interest in politics, in economics, have to perfectly master the vehicles and tools of economics, and have to be a respectable management expert, who doesn't only refer to the calculation of production costs, but to the whole bridge of our calculation, accounting and invoicing methods (Divisional Controller).

This interdisciplinary aspect of professional know-how is often perceived by respondents as tricky, but also interesting. It is perceived as giving an added dimension to their work that is expressed in a high perceived status and importance. Management accountants who are able to cope with this can potentially have very interesting careers. At the same time, they need to have a feel for the game, as explained next.

A feel for the game

'A feel for the game' is the least straightforward intervening condition to sense making activities. It refers to a rather subjective input to sense making that is however perceived as very important and as complementary to information sets and professional skills. A feel for the game is drawn upon when facing situations that are not clearly defined, such as in a strategic context. It furthermore is important for sense communication (cf. below). As indicated, management accountants are confronted with a multiplicity of relevant aspects to make sense of in strategic situations. Sense of some of these aspects cannot be made and communicated if only drawing on sets of information and professional know-how. A feel for the game is needed to e.g. know how to interpret aspects related to people and hierarchies. The importance of some feeling for the sense making of situations is expressed in the following quote.

And that is also related to logic, one has to think logically, be able to draw logical conclusions in order to hit the right thing, to hit the correct facts, because they can at times be extremely concealed. When some numbers are overlapping, or facts influence each other and cover each other, then one has to be able to pick the right thing. Somehow, there is often some kind of gut feeling involved, one has to often also judge things on the basis of feeling.... [E.g.] One may not be able to tell exactly why [something is wrong], but one has a certain feeling and acts according to it (Corporate Controller).

Furthermore, there are instances, where sense is made by management accountants when facing a new sense making task. For example, the question of what is really to be done is asked by central Controllers when facing a new task that is not completely defined and new.

...whenever there is something new coming up, say a new project or a new question or a request for an analysis, then we usually have a meeting, hm, we look at the question again in detail, think through the problem, i.e. we develop a feeling for where to go. Which direction does this question aim for, what do we want to say, what do we want to show and how do we go about it. So, we kind of [carry out] a mini-brainstorming before starting, where we fix the aim and the method of the analysis (Corporate Controller).

In that context, sense is made (and developed) by drawing on a feel for the game, but also some prior experience. This shows the close interrelationship between this category and experience, which is here defined as belonging to professional know-how, even though it certainly might be considered as having a subjective component. This raises the issue of the interrelationships between the different intervening conditions.

9.6.3 The relationship between the contextual conditions

The intervening conditions are closely interrelated and together form a web of inputs that are needed for sense making and its underlying strategies to be possible. All three are to a varying extent drawn upon in sense making actions and interactions. Information sets are not always referred to, these being perceived as a 'normal' input, but respondents stressed the importance of professional know-how and a feel for the game on numerous occasions. The following quote gives a flavour of the importance of these.

It is a mixture of experience, of, yes, simply curiosity, in a certain respect also a detective's approach, well, yes, one has to sometimes explore things in depth. We have to be ready to get into subjects that are completely out of our field, sometimes even just briefly, to then do something different again on the next day. And we definitely also have to have a good feeling for numbers... (Corporate Controller).

Management accountants are not the only organisational actors who carry out sense making activities, and similar scenarios take place in different functional areas, based on the management accountants' sense making activities. This is expressed in the following quote, which again acknowledges the general importance of information sets, professional know-how and a feel for the game.

Well, yes, everybody who is involved in this decision process... the managers, whose task it is to decide on these projects. And there everybody has their own information 'radar', in their surroundings, and also a certain feeling, what he has read, in the press and specialist literature, where he says, that is important. Of course they all have extensive experience, they also know Henkel very well, they know the context, where we have problems, and decisions are taken on the basis of this (Corporate Controller).

The so-called causal conditions were defined as somehow leading to the occurrence of the core category. At the same time, they underlie sense making on a permanent basis. E.g. information sets are generated about the internal and external contexts, those being the subject of sense making activities. A feel for the game is partly based on the sense makers' exposure to organisational rules, people and shared cultural traits, and these form part of the internal context. To conclude this section on contextual conditioners, it appears appropriate to state that these conditions form the structure in which sense making activities are located. They have an important impact on how sense making is carried out and what consequences it has. The consequences are now considered next.

9.7 Consequences of sense making

Consequences refer to the outcomes of sense making activities and their underlying strategies. For the present study, two levels of consequences can be distinguished. These relate to micro and macro levels, in particular distinguishing the consequences of sense making for a distinct situation (micro) and consequences of sense making activities carried out over time (macro).

9.7.1 Micro consequences

Micro consequences relate to the process of sense making on a day to day basis. Sense making is only one of a number of processes happening in organisations, and management accountants are only one function involved in sense making. The process described so far thus only gives part of the picture. Micro consequences of sense being made are sense communication and ultimately strategic decision making by other functional groups.

Sense communication

Sense communication refers to those actions that follow the sense making activities in order to share the sense being made. Sense making and sense communication are very closely linked activities. Sense communication to other sense makers is part of the whole sense making process and also contributes to the understanding of what is going on. Working in groups has been named as one strategy for understanding complex situations, thereby drawing on the group members' diverse know-how bases. The individual's assessment of the situation is communicated to other members via sense communication, thereby contributing to the sense made by the whole group.

On another level, once a certain sense level is achieved, it is communicated to the ultimate decision-makers (who might then make further sense of it etc.). Sense communication to decision makers is the ultimate aim of management accounting sense making activities, i.e. it corresponds to fulfilling the task that the decision-makers have set up. It is an anticipated consequence and underlies sense making activities. Audiences of information distributed were described in Chapter 7 as an important underlying factor for the way this activity is carried out. Knowledge about the target of sense communication is essential for the successful completion of the task. The sense communicated must be understandable to the audience. It must furthermore be adapted to that audience.

...it is clear that, for the board of directors, it has to be management information. That means that it has to be information, which they can easily assimilate, and which is precise and well structured... So, we've got to provide decision relevant information and this is a thing where one has to accumulate some experience related to the wording and presentation [of information] etc., until one is able to sell one's product, as I would call it... in a reasonable way (Corporate Controller).

When sense making is carried out in a group, there may be different understandings of the situation to be investigated. However, the decision process does not allow for several decisions to be taken, and a shared view has thus to be found. This is achieved through negotiation, in the process of which a shared meaning evolves or at least the decision for a certain approach is chosen, via various compromising strategies. This raises the issue of strategic decision making.

Strategic decision making

Once the meaning of a particular situation has been discovered and communicated, decision making can take place. Decision makers rely on diverse sense makers to make sure that the assessment of the situation is complete. However, management accountants often present the last sense making instance before strategic decisions are taken, e.g. in the context of acquisitions and divestments. This central position can be explained by their focus on a financial evaluation. Even though many elements that are relevant for the decision cannot be expressed in numbers, they may ultimately have an impact on the bottom line in financial terms. Management accountants thus make sense of the particular situation, while attempting to translate their findings into accounting terms. Associated with this is that accounting is perceived as the common language of business. The relationship between the different issues is expressed in the following quote.

The general due diligence includes usually the legal and tax related aspects... The second part, the marketing due diligence, deals with the position of the company in its market... Technical due diligence, that's clear, deals with the technical issues, including production, research and development. And the essential part, I would call it the centre piece, and in the past actually the only element of the due diligence, that's the financial part, which is still important today, but is not that significant on its own any more. Because, at the end of the day, the numbers only express the failure or success of these other things (Corporate Manager).

Different sense makers thus have their say on the situation, but these opinions are then included in the final assessment of the management accountant, if possible in financial terms, also in order to allow for future performance measurement, bridging and contextualising, and organisational learning. However, as explained in Chapter 7, some items are included in qualitative terms. The decision makers then make the final assessment of the situation as it has been presented to them and take a decision. The board of directors or even the family committee usually takes decisions that are considered strategic.

After having outlined the consequences of sense making processes on a micro basis, the next section narrates the macro consequences that can be observed over time.

9.7.2 Macro consequences

Macro consequences relate to the consequences of sense making activities in the long run. These are structural consequences that potentially change some conditions of sense making over time. They notably refer to the requirement of a management accountant's extensive skills profile and learning and socialisation processes.

The required management accountant's skills profile

This category includes elements that have been described in 'Professional know-how' and 'A feel for the game'. There are two discernible aspects to management accounting skills or abilities. One is that they stem from a rather objective point of view and relate to techniques, knowledge and know-how (cf. 'Professional know-how'). The second is that they relate to a rather subjective point of view, related to people, subjectivity etc. (cf. 'A feel for the game'). Management accountants were described as one of the main sense makers of the organisation. Their need for professional know-how was outlined and is rather straightforward. Added to this is a need for a feel for the game, which is a rather subjective input to sense making activities.

Respondents in the company stress the difficulty of being a management accountant in this context. A management accountant needs not only to know everything about management and financial accounting, but also needs to have a fair amount of interdisciplinary knowledge in order to be able to understand the external and internal contexts. Management accountants thus need to be capable of interdisciplinary thinking and communication and also need to be able to understand the complex linkages and interrelationships inside the company. This is even more the case in a strategic context. According to some respondents, Controllers need to be competent enough in these areas to challenge other functional specialists. On top of that, a feel for the game needs to be developed, for all those subtle rules and ways of doing things. These aspects are aptly expressed in the following quotes.

He [the Controller] must know his environment. Because he loses credibility the moment he doesn't know his environment. He has to be credible in marketing, i.e., he has to know the marketing environment. He has to be able to argue against the marketing people, critically argue. He has to be able to argue against the management's vision... And he has to obviously know the company, in order to be objective enough to say, yes, there it no point for us to double our output, or what, when the financial situation simply isn't such. He always has to... have the feeling for what is feasible... (Manager).

... he [the Controller] has a different audience. In a strategic context, he has the top management, because they do the strategy, and in an operating [context] he rather has the middle management. But the topic is the same. He has to challenge the strategy, with substance, but he also has to challenge the daily business with substance. But challenging the daily business with substance is easier... simply because it is mostly numbers and he doesn't have to work with his feeling. And strategy, strategy is a matter of feeling, because you are looking into the future... In a strategic context it's a matter of projecting the future on the basis of past numbers... And that is why junior Controllers are often located in operating Controlling, and senior Controllers, because they are senior, rather more in strategic Controlling (Manager).

This is partly caused by the particular role that management accountants fulfil. They were characterised in Chapter 6 as having a focus on alarm and deviation and as having to be critical. As noted in the quote, they have to challenge the decisions of managers, and for this they need the right know-how, but also a feel for the game to e.g. find the right way to communicate their findings. The importance of being able to have a certain posture and position is expressed in the following quote.

So that in the end the approval documents contain a normal scenario, which is the one the project manager believes to be able to achieve, and this is the business goal. And [there is] a risk scenario [prepared by Controlling], which relates to, I wouldn't say the worst, but yes, the worst expectation and this is evaluated drawing on financial aspects... It is our task to provide that 'heavyweight', which is something that isn't always viewed that positively. You can imagine that. That is the role of the brakeman, who's calculating the project into 'ruin' etc. Ok, one has to simply endure that... But I think, when one has good arguments, then one realises quickly, from the operating colleagues, but also the directors, it is in the interest of all parties, I don't simply walk around and play 'torpedo' in order to shoot [projects] down (Corporate Manager).

The above-described skills profile is needed for Controllers to succeed in these sense making and sense communication activities. This also means that there is an evolving organisational function that is carried out by management accountants and which in most cases does not quite correspond to their education. As a consequence, there is a need for an increased learning and socialisation process that involves exposing new management accountants to a diverse set of situations, thereby allowing them to increase their technical as well as soft skills. There is thus a process of 'becoming' a management accountant.

...and if you want to become a real Controller, I mean, for the top business people, then you must know all this. And this includes that you need a lot of experience and training also in these fields (Divisional Controller).

Related learning and socialisation processes

Learning and socialisation processes in this context rely mainly on 'learning by doing', or 'learning by others' experiences'. While socialisation refers to those rather subtle things that a management accountant needs to know about people, cultural traits etc. (cf. a feel for the game), learning refers to professional know-how. Expanding professional know-how to other functional fields such as marketing and production is related to technical learning and can to a certain degree be learned from a book. This does not apply to the same extent to the socialisation processes referred to earlier. None of the things related to a feel for the game are defined or written in books and as such cannot be easily picked up. They can be learned by experiencing them or through stories told by other people. In interviews, most respondents rely on stories to relate their accounting experiences. Similar tools appear to be employed for socialisation processes. The Corporate Controlling department has developed a system they call the 'junior-senior principle', where junior Controllers are allocated to a senior Controller for some kind of mentoring activities involving the sharing of knowledge about important but subtle things, such as networking issues. This idea is echoed in the following two quotes.

Luckily we have this junior-senior principle in Corporate Controlling, a very useful principle as far as I am concerned. This means that newly arrived Corporate Controller have a so-called senior at their side. The senior is a Corporate Controller who already has some experience... So, as indicated, the senior... has the task to introduce contact persons to the junior so that he gets to know people whom to address if necessary. The senior also has the role to introduce the novice Controller into this, yes, how to say, as I expressed before, into this issue of the way of working.... So that he [novice Controller] can develop this certain feeling for it, for what is behind certain enquiries, how are things formulated... (Corporate Controller).

...one does get feedback, if one doesn't quite hit the political tone in certain statements, that something should not or cannot be told or at least not in this way. And these are also interesting experiences, where one learns something new and where one is able with time to increasingly better hit the tone or the message of these presentations or statements... Sure, you have to develop a feeling for this. And this is what I meant, at the beginning, why this junior-senior-principle is so important, at least for me. Because you cannot have this feeling as a junior. Well, where from, anyway. And because one has the time to develop it while working with a senior (Corporate Controller).

Above all, Controllers in this context have to be able and ready to learn new things. They are confronted with a variety of issues that they can only pick up as they go. As indicated above, this again draws heavily on their capacities.

The detailed outline of the main categories underlying the emergent theory is now complete. The next section draws all of these together in an integrative model of sense making in a strategic context.

9.8 An integrative model of sense making in a strategic context

At this point, all of the above-mentioned categories can be integrated into one model showing the process of sense making in a strategic context. Figure 16 below provides such an overview model of the different main categories and their interrelationships.

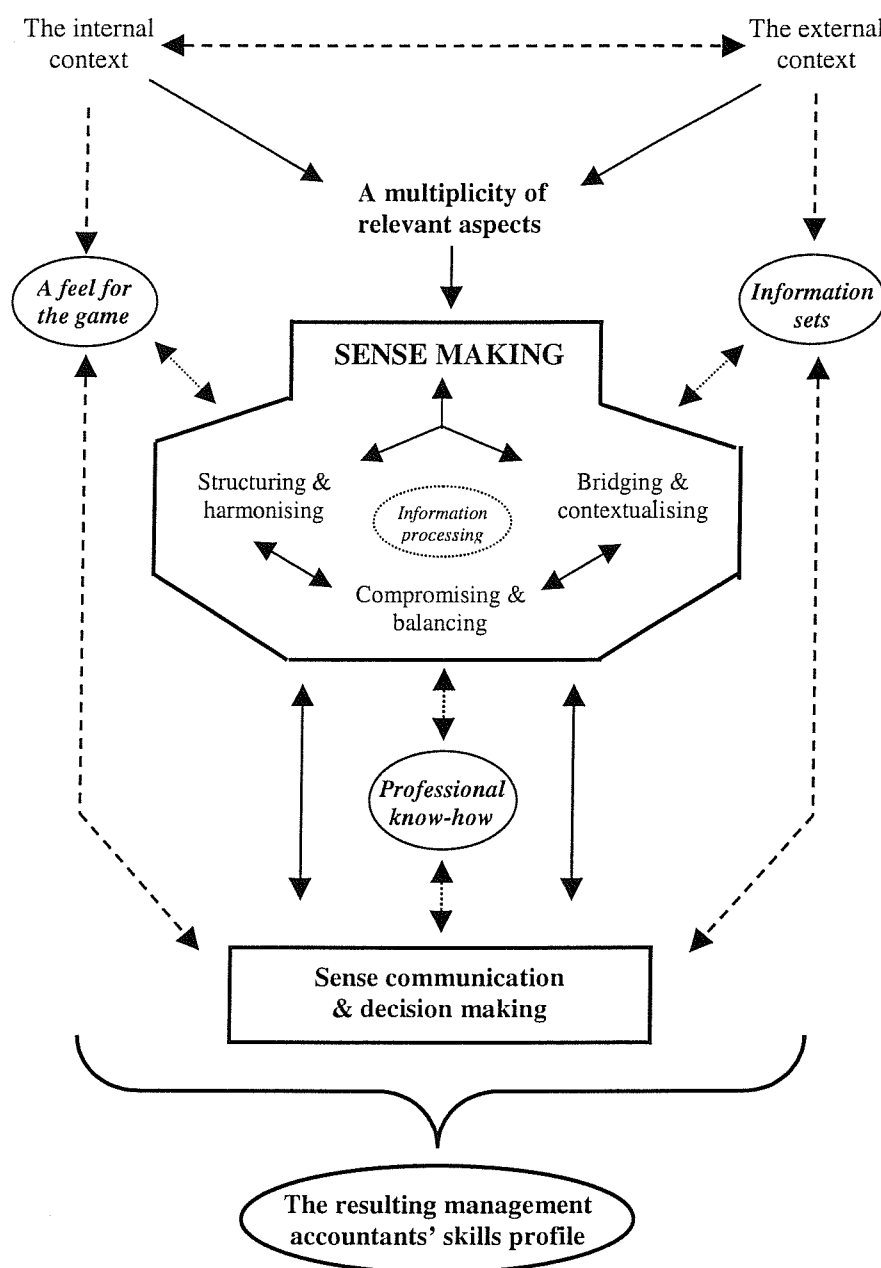


Figure 16: The paradigm model of sense making in a strategic context

The paradigm model summarises the sense making activities carried out by management accountants, while showing their contextual conditions and their multiple consequences in a schematic way. The most important relationships are depicted, even though not all categories have been linked by arrows. To conclude this chapter, an overview of strategic management accounting and sense making is given.

Sense making is situated in a context that is characterised by contextual conditioners. These include the internal and external contexts, which together merge to form what is perceived as a multiplicity of relevant aspects. Sense making activities are carried out as a response to this contextual situation, which is translated into an organisational search for transparency and understanding. Another part of the context refers to conditions that intervene in sense making activities. They were referred to as information sets, professional know-how and a feel for the game. These intervening conditions are an important input to sense making activities, but they also become transformed through those activities, as indicated in the consequences.

Management accountants carry out sense making via three related sub-processes, labelled structuring and harmonising, bridging and contextualising, and compromising and balancing, which turn around information processing activities. It needs to be stressed that, while compromising and balancing does not refer to management accounting particularly, the other strategies do. Management accounting underlies the Controllers' sense making activities, allowing sense making to happen. And even though sense making is carried out variously in the company, management accountants perform it in the very specific, above-mentioned way.

As a consequence, sense is made and communicated to other (accounting and non-accounting) audiences, who then in turn carry out sense making activities before taking various decisions. Another overall consequence of sense making in this strategic context is that there is a resulting management accountants' skills profile that is developed inside the company through various learning and socialisation processes. This raises further issues of strategic management accounting education that will be discussed in Chapter 11.

The framework that has been devised refers to sense making in a strategic context. However, it can also partly apply to sense making generally. Its value as a theoretical construct will be discussed in Chapter 10, together with some further issues of interest.

9.9 Summary

This chapter has outlined the final stage of the grounded theory analysis, selective coding. Sense making was described as the core phenomenon underlying management accounting in a strategic context. All other main categories were related to sense making in terms of contextual conditions, strategies and consequences, consistent with the paradigm model proposed by Strauss and Corbin (1998). The emergent theory of sense making in a strategic context has then been summarised in an integrative model that shows the relationship between the underlying parts of the paradigm model. Chapter 10 next serves to outline the position of this emergent theory in relation to other theoretical developments discussed in the literature.

CHAPTER 10: THE EMERGENT THEORY WITHIN EXTANT LITERATURE

10.1 Introduction

This chapter places the emergent theory that was outlined in the previous chapter within the broad extant literature. Strauss and Corbin (1998, p. 52) suggest that bringing the literature into the writing allows for extending, validating, and refining knowledge in the field. According to Eisenhardt (1989b), this is essential for theory building. Locke (2001, pp. 121-124) discusses the issue of where to 'write in' the literature. She suggests that it can be integrated in the presentation of the theory, or that it can be incorporated in a separate chapter. The latter option has been chosen for the present thesis. It was felt that integrating the extant literature into the previous chapters would distract from the development of the theoretical model, while also unnecessarily lengthening those chapters, which are already very long.

The present chapter thus compares the emergent grounded theory to the extant literature that it relates to. It should be noted that the extant literature referred to in what follows was not necessarily identified known as being relevant at the outset of this study. Locke (2001) notes that the literature that is relevant for some of the elements of the grounded theory developed may not be the literature towards which the research's theoretical contribution is directed. This is the case here, where very little accounting research refers to notions such as sense making, compared to other fields. Some of the publications that were discussed in the literature review are referred back to. However, the findings of the case study have necessitated the exploration of a whole new literature turning around the main issues of the theoretical model outlined in Chapter 9. These will now be discussed in turn, while commencing with an exploration of the literature relating to sense making. Sense making was discussed as the core category and a substantial part of this chapter is dedicated to it. Then, issues relating to information, professional know-how and a feel for the game, labelled intervening conditions in Chapter 9, are addressed. It has been demonstrated in the previous chapters that the issues discussed are closely interrelated and thus the subsequent sections will, even though focusing on one notion at a time, also include multiple references to other related notions. The literature that is drawn upon refers to numerous contributors at a time, with the exception of the subsection relating to 'a feel for the game'. This subsection draws mainly on the writings of Pierre Bourdieu.

10.2 Sense making

The concept of sense making has been extensively discussed in diverse organisational fields.⁵⁶ The accounting literature is an exception to this. Hardly any research appears to have focused on sense making in relation to accounting. However, both fields are reviewed, starting with a more general discussion of sense making as explored in diverse fields of organisational research.

10.2.1 Sense making and organisational research

Sense making, and to a lesser extent also sense communication, appears to have produced a large interest in the field of organisational research generally. Sense making has been discussed in connection to strategic management (Steinthorsson and Söderholm, 2002), culture (Harris, 1994; McLarney and Chung, 2000), and various other management-related issues (Eisenhardt, 1989a; Hasan and Gould, 2001; Hill and Levenhagen, 1995; Daft and Weick, 1984). Furthermore, the concept has been explored in the context of strategic change (Ericson, 2001; Gioia and Chittipeddi, 1991; Gioia et al., 1994; Gioia and Thomas, 1996; Isabella, 1990) and organisational disasters (Gephart, 1993; Weick, 1993). Even though often focusing on the sense making activities of managers in different contexts, these studies to a certain extent provide extensions and comparisons to the emergent grounded theory of sense making in an accounting context and will therefore be briefly discussed.

10.2.1.1 Definitions of sense making

Sense making has been defined as “*the discursive process of constructing and interpreting the social world*” (Gephart, 1993, p. 1485). In a case study by Hasan and Gould (2001, p. 78), sense making is variously referred to as “*understanding the situation*”, “*being informed*”, “*knowing where the organisation is going*” and “*getting the picture*”. In the context of strategic change, sense making has been illustrated as having to do with meaning construction and reconstruction by the parties involved in the change as they attempt to develop a meaningful framework for understanding it (Gioia and Chittipeddi, 1991, p. 442).

⁵⁶ Note that the term is variously spelled sense making, sensemaking or sense-making. Some papers also refer to interpretation and interpretation systems.

In the same context, Gioia and Chittipeddi (1991) refer to 'sense giving' as an activity concerned with the process of attempting to influence the sense making and meaning construction of others toward a preferred redefinition of organisational reality. Sense making and sense giving are hereby carried out in an iterative and sequential manner, and involve periods dominated by understanding (sense making) and influence (sense giving) respectively. Daft and Weick (1984, p. 286) define interpretation as the process of translating events, of developing models for understanding, of bringing out meaning, and of assembling conceptual schemes. They contend that interpretation processes in organisations are neither simple nor well understood, and that the interpretation images used in the literature include inter alia scanning, sense making and understanding. The above-named definitions are similar to the one employed in the emergent theory with reference to sense making and also sense communication. The only difference is their focus on the sense making and communication activities of managers, whereas the emergent theory focuses on management accountants. However, the activities carried out have a close resemblance.

Weick (1995b, p. 6) distinguishes 'sense making' from 'interpretation'. He provides us with an extensive overview of sense making in his book entitled 'Sensemaking in organisations', which is now briefly discussed in relation to the emergent theory. Weick suggests that interpretation is a component of sense making, the latter being a higher level abstraction. Sense making is characterised as being about authoring as well as reading or interpreting. Weick (1995b, p. 15) further notes that "*to talk about sensemaking is to talk about reality as an ongoing accomplishment that takes form when people make retrospective sense of the situations in which they find themselves and their creations.*" He discusses seven main properties of sense making. These refer to sense making as a process that is: grounded in identity construction, retrospective, enactive of sensible environments, social, ongoing, focused on and by extracted cues, and driven by plausibility rather than accuracy (Weick, 1995b, pp. 17-62). While it is not possible to do justice to all of them in the context of this chapter, those properties that link to the emergent theory are briefly iterated. 'Grounded in identity construction' points to individuals making sense of what happens around them by asking what implications those events will have on them. 'Social' refers to the fact that sense making is never solitary, as even what an individual does internally is contingent on others. It always takes into account the actual, imagined or implied presence of others (p. 39).

'Extracted cues' refers to "*simple, familiar structures that are seeds from which people develop a larger sense of what may be occurring*" (Weick, 1995b, p. 50) Here, contexts are important as they provide meaning to the cues. Furthermore, cues cognitively tie elements together. Finally, 'driven by plausibility rather than accuracy' refers to the argument that accuracy is nice, but not necessary. This links partly to the fact that most organisational action is time sensitive, resulting in managers favouring speed in a speed/accuracy trade-off. Weick (1995b, p. 60/61) stresses that what is necessary in sense making is "*something that preserves plausibility and coherence, something that is reasonable and memorable, something that embodies past experience and expectations, something that resonates with other people, something that can be constructed retrospectively but also can be used prospectively, something that captures both feeling and thought, something that allows for embellishment to fit current oddities, something that is fun to construct*". This lengthy quote together with the other properties mentioned reflects the discussion of sense making in the previous chapter. Notably the importance of social aspects to the different sense making stages and their mental processes can be stressed. As a next point, the role of sense making in organisations can be raised.

10.2.1.2 The role of sense making in organisations

According to Hasan and Gould (2001, p. 71), managerial sense-making activities have a pivotal role in linking the processes of knowledge management and strategic decision-making in their case organisation. Daft and Weick (1984, p. 293) similarly stress the importance of sense making by stating that interpretation may be one of the most important functions organisations perform and that scanning and sense making activities are at the centre of other organisational activities. Weick (1993, p. 636), drawing on a case study of the Mann Gulch fire disaster, contends that organisations can be good at decision making and still falter, because of deficient sense making. Other researchers similarly stress the importance of sense making in organisations, a point that has also been made in the emergent theory. Furthermore, sense making has been described in the emergent theory as also including the understanding of the task. This is mirrored in Steinthorsson and Söderholm (2002, p. 244), who note that "*because of the ad hoc nature of the organisational task, participants constantly have to formulate and agree on what the tasks are, how and with whom they organise their activities and what resources they use to do so*". Gioia et al. (1994, p. 365) contend that people in organisations take into account the realised or likely outcomes of their actions or those of significant stakeholders in trying to understand what to

do next. Moreover, they stress that sense making and influence are interdependent and reciprocal processes during the launching of strategic change (p. 378). Similar findings have been discussed in relation to the emergent theory, with respect to sense making and sense communication. Weick (1995b, p. 63) stresses the pervasive need for accounting, justification and rationalising in organisations. This makes sense making in organisations different from other settings. He contends that viewing organisations as open systems means that they are characterised by structures, processes and environments that are ambiguous, which puts a greater premium on sense making activities. This mirrors findings of the emergent theory in relation to the context surrounding sense making. After this outline of the role of sense making in organisations, different sense making strategies are discussed.

10.2.1.3 Sense making strategies

The question arises as to how sense making is achieved. This question is often examined in the extant literature, some of whose findings show parallels to the sub-processes discussed in relation to the emergent literature. Strategies for sense making were outlined in the previous chapter as including ‘structuring and harmonising’, ‘bridging and contextualising’, and ‘compromising and balancing’. Brown and Eisenhardt (1997), Eisenhardt (1989a) and Weick (1993) similarly stress the importance of structures for sense making activities. Eisenhardt (1989a) suggests that fast decision-makers use structures to create an understanding of their surroundings. Weick (1993, p. 634) contends that it was the interrelated collapse of sense making and structure that produced the Mann Gulch fire disaster. The fire fighters appear to have lost structure, thus becoming more anxious and finding it harder to make sense of what happened. This is arguably a very different situation to the ones investigated in the present case study, however, it indicates the importance of structures for sense making activities in another context. On a more general note, Gioia and Thomas (1996, p. 370) suggest “*that under conditions of change, top management team members’ perceptions of identity and image, especially desired future image, are key to the sense making process and serve as important links between the organisation’s internal context and the team members’ issue interpretations*”. Gioia et al. (1994, p. 378) argue along similar lines that key symbols and metaphors were central to the construction of meaning and the communication of understanding.

'Bridging and contextualising' was a second set of sense making strategies discussed in the previous chapter, referring to the investigation of information across time and space. Similar suggestions have been made by Brown and Eisenhardt (1997), Eisenhardt (1989a) and Isabella (1990). For instance, Eisenhardt (1989a, p. 557) stresses that alternatives are difficult to assess in isolation. Brown and Eisenhardt (1997, p.29), in their article on relentlessly shifting organisations note that one of the characteristics of organisations that can continuously change is what they term "*links in time*", these being "*the explicit organisational practices that address past, present, and future time horizons and the transitions between them*". Isabella (1990, p. 14), in a grounded theory study of a company involved in change, suggests that interpretations of key events evolve through a series of stages, which she labelled anticipation, confirmation, culmination and aftermath. She uses the jigsaw puzzle analogy also referred to in previous chapters to explain the anticipation stage (p. 16). In this stage, managers analyse information fragments, which, according to her, are analogous to randomly arranged pieces of a puzzle. She further contends that, as managers try to develop understanding, they must piece together ill-fitting information into a coherent and convincing frame of reference (p. 17). These activities bear a close resemblance to 'contextualising'. The second stage, confirmation, contains elements similar to what has been labelled 'bridging', while also including 'harmonising' elements. In this stage, managers construct reality with reference to conventional explanations and past events. (p. 22) Isabella (1990, p. 23) labels the primary interpretive task of that stage 'standardisation'.

The third sense making strategy, 'compromising and balancing' has been defined as an auxiliary strategy. Little reference to it is made in the sense making literature. One exception is Brown and Eisenhardt (1997), who refer to improvisation as an organising strategy of "*making it up as you go along*". Brown and Duguid (1991) mention the gap that can be encountered in organisations between espoused work practices such as they are described in manuals and job descriptions, and actual practices. They state that the organisational actors that they analysed, developed "*sophisticated noncanonical practices to bridge the gulf between their corporation's canonical approach and successful work practices, laden with the dilemmas, inconsistencies, and unpredictability of everyday life*" (Brown and Duguid, 1991, p. 42). This mirrors closely the above description of compromising activities. As indicated before, 'compromising and balancing' is as such not an activity directly related to strategic management accounting and sense making, but has a rather secondary role.

Altogether, the cited references provide useful extensions to and comparisons with the emergent theory of sense making and its underlying strategies.

The previous chapter outlined various contextual conditions of sense making activities. Contributors to the extant literature notably refer to culture as a phenomenon that helps individuals make sense of their world (McLarney and Chung, 2000, p. 410). Hasan and Gould (2001, p. 81), refer to a person's 'baggage' that they bring to sense making activities and which affects how they approach them. The 'baggage' they refer to includes previous experience, cognitive skills, personality and culturally determined traits. These parallel some of the intervening conditions discussed in relation to the emergent theory, notably 'a feel for the game' and 'professional know-how'. These are to be further addressed in a later section.

To conclude, a little reflection on the sense making roles of management accountants may be of interest. In the emergent theory, management accountants are conceptualised as the main, but not the only organisational group that is involved in sense making activities. Other disciplines are similarly recognised as sense makers, but with a different focus. Daft and Weick (1984, p. 294) reveal managers, and especially top managers, as the main group responsible for sense making in companies. They suggest managers should think of organisations as interpretation systems and that they should take their roles as interpreters seriously. The same applies to management accountants in the different setting described here.

After this outline of sense making and sense communication, as it is seen from the viewpoints of various researchers in the organisational fields more generally, a focus on sense making and accounting is provided.

10.2.2 Sense making and accounting

Far fewer publications have explicitly provided explanations of sense making in the context of accounting. Exceptions are provided by publications by Boland (1984, 1989, 1993), Boland and Pondy (1983, 1986), and Jönsson (1987). Other accounting articles implicitly mention sense making or interpretive activities, without however focusing on them. Llewellyn (1994, p. 20) for instance notes *that "accounting information is implicated in the construction of environmental realities in order to aid organisational understanding of both what to attend to and how to interpret it"*. The most relevant publications are now discussed in turn, while again comparing and relating them to the emergent theory.

Boland (1984) reports an experimental study of managers' sense making of accounting data. He contends that accounting systems have an important role in ordering naturally occurring sense making activities in an organisation. Furthermore, he describes the perspective provided by sense making activities in his study as "*view-of-the-whole-in-context*" (p. 881), a concept that appears to have a close resemblance with the 'wholeness' category in the emergent theory. In an earlier publication, Boland and Pondy (1983, p. 224) stress that accounting is one of the major formal sets of symbols available to organisational actors for ordering and interpreting their experience. They further note that accounting is used to make sense of the frames of reference that characterise an organisation. The importance of accounting for organisational sense making is thus confirmed. However, the use of sense making in the emergent theory is broader, encompassing the understanding of organisational and external events by management accountants, who then provide the sense made to other organisational actors. Boland and Pondy (1983, p. 233) show in one of their short case studies how "*accounting is used as one voice in an interactive problem-solving dialogue that included qualitative, natural system components as well*". This finding appears to confirm some elements of the emergent theory. However, in the case informing this thesis, management accountants were also involved in qualitative evaluations. Boland and Pondy (1986, p. 412) argue along similar lines in stating that "*instead of merely being an input to a decision, accounting appears to be more of a central staging ground for the travel to and from other frames in constructing a complete decision.*" This parallels findings in the present case study.

Jönsson (1987) provides a case study of the organising efforts of two employees in a Swedish local government board, which, inspired by Boland and Pondy (1983, 1986), investigates sense making and accounting. He notes how, given the complexity surrounding the organisation's situation, "*actors try to establish islands of meaningfulness and to create links between such islands*" (Jönsson, 1987, p. 290). The two (non-accounting) actors perceived accounting as useful to make sense of the world, but it was not found to be of primary importance. Jönsson (1987) notes that accounting appears to serve as an ordering instrument in the organising process and that it can serve as a bridge in the establishment of a common interpretive scheme. Even though the role of accounting is not clear in the particular context described, Jönsson's (1987) findings parallel the thesis writings, particularly on the 'wholeness' issue and structuring activities.

Boland (1989), in a theoretical article, discusses the usefulness of hermeneutics for accounting research. He argues that taking a hermeneutic turn means approaching the social world as a text that is alien and unfamiliar, a text with significance and meaning that will emerge only through interpretation. Boland (1989, p. 595) further states that “*the process through which we come to an understanding of the world is an interplay of our tradition and the world-as-a-text, an interplay known as the hermeneutic circle. The hermeneutic circle is the recognition that in understanding a text, we depend on a theory of the whole to understand the parts, and, at the same time, we depend on a knowledge of the parts to guarantee our theory of the whole*”. The emergent theory parallels this understanding of the hermeneutic circle. Boland (1993) similarly includes elements of hermeneutics in a study of managers reading management accounting reports. While he notes that accountants make interpretive readings of an organisational situation as a basis for writing reports (the focus of the emergent theory), accounting reports in turn are read by managers and others as they try to make sense of organisational situations (the focus of his study). He suggests that readers use accounting texts to give meaning to an organisation and its history, but they also use them to give meaning to their own selves and worlds (Boland, 1993, p. 140). Boland (1993, p. 126) draws on Giddens’ structuration theory, which he characterises as a hermeneutic theory, “*in that it emphasises the actor’s continual effort at sense making at the instantiation of social structure*”. The usefulness of Giddens’ structuration theory in this context is now briefly discussed.

10.2.3 The potential contribution of structuration theory

Numerous accounting researchers have explicitly or implicitly drawn on Giddens’ structuration theory to inform their research (see notably Macintosh and Scapens, 1990; Boland, 1993; Scapens and Macintosh, 1996; Boland, 1996; also Roberts and Scapens, 1985; Roberts, 1990; Scapens and Roberts, 1993; Scapens, 1994; Dirsmith et al., 1997; Burns and Scapens, 2000; Granlund, 2001; Ahrens and Chapman, 2002). They find that structuration theory provides a useful perspective from which to approach accounting research.⁵⁷ However, the named authors’ interpretations of structuration theory differ widely. The subsequent discussion will not delve into all of those differences, but focus on the contribution that structuration theory can provide with respect to the emergent theory.

⁵⁷ Note that some of the above-mentioned papers more explicitly draw on institutional theory. Soin et al. (2002, p. 250) note how their “*paper is informed by that strand of institutional theory that has developed out of the concept of structuration*”, thereby discussing the close relationship between the two. See also Scapens (1994), Burns (2000) and Burns and Scapens (2000).

Macintosh and Scapens (1990, p. 459) contend that structuration theory is “*concerned with the interplay of agents’ actions and social structures in the production, reproduction, and regulation of any social order*”. They propose that two concepts contained in structuration theory, the “*duality of structures*” and “*structuration*”, illuminate the various roles management accounting systems perform in organisations, and thus provide a useful perspective from which to investigate management accounting. The “*duality of structures*” refers to structures being both the medium and the outcome of interaction (Macintosh and Scapens, 1990, p. 457), or to put it differently, the relationship between subject and object is described as dialectic, these two presupposing each other (Roberts and Scapens, 1985, p. 445). The second concept, “*structuration*” refers to the process whereby agents reproduce social practices across time and space.

Macintosh and Scapens (1990) outline Giddens’ suggestion that three dimensions of social structure are to be considered for purposes of analysis. These are labelled signification (meaning), legitimation (morality) and domination (power). Signification structure is of particular interest with respect to the emergent theory. Macintosh and Scapens (1990, p. 460) note that human beings draw upon interpretive schemes in their daily interactions, which are the cognitive means by which they make sense of what others say and do, and which also serve the communication of meaning and understanding. They refer to management accounting systems as such interpretive schemes, as management accounting provides managers with a means of understanding the activities of their organisation and allows them to communicate meaningfully about them (p. 460). Organisational actors are referred to as making sense of actions and events by drawing upon meanings embedded in management accounting concepts and theories (p. 457). Macintosh and Scapens (1990, p. 462) note that management accounting provides for the binding of social interactions in organisations across time and space. These various conceptualisations of management accounting appear to confirm some of the findings that were outlined with respect to the emergent theory. The binding of interactions across time and space, as provided by accounting practices is necessary for the ‘bridging and contextualising’ strategies discussed in relation to sense making to be carried out.

Roberts and Scapens (1985), similarly informed by Giddens’ structuration theory, provide some interesting findings that show how accounting information not only reflects, but through different forms of use also shapes organisational reality (p. 455). They stress that accounting as a language provides organisational actors with a set of categories, in terms of

which they can make sense of what has happened, anticipate the future, and plan and assess action (p. 448). Accounting is thus perceived as an important sense making tool, which is mirrored in the emergent theory. Roberts and Scapens (1985, p. 448) also argue that the practice of accounting involves notions of what should happen and that it is only on the basis of these notions that sense is made of what has happened. They further contend that the potential of accounting systems lies in the way they reduce information about a whole variety of situations to a common and hence comparable form (p. 451). This has been similarly stressed in the emergent theory and provides another argument for the importance of accounting for organisational sense making.

Ample insights into sense making have been provided in relation to accounting and organisational settings in general. These appear to confirm the major findings discussed with respect to the emergent theory. The importance of accounting and management accounting for organisational sense making activities has been stressed. Furthermore, the described sense making strategies and facilitators appear to be referred to along similar lines in the extant literature. This chapter now moves on to a discussion of the importance of information, professional know-how and 'a feel for the game' for sense making activities.

10.3 Information, professional know-how and 'a feel for the game'

Information, professional know-how and 'a feel for the game' were named as the main input factors to sense making in a strategic context. These concepts have been explored in the extant literature in relation to various contexts and activities. Information, professional know-how and 'a feel for the game' are not only important for sense making, but also more generally for diverse organisational activities. The extant literature often jointly explores issues related to information and professional know-how or knowledge. These will therefore be addressed in one subsection. The subsequent subsection then provides theoretical insights concerning 'a feel for the game', mostly drawing on the writings of Pierre Bourdieu.

10.3.1 Information and professional know-how

The recent past has shown an increasing interest in issues of knowledge and knowledge management both in organisations and in the research community (for a review, see Alavi and Leidner, 2001). Most publications exploring knowledge management also include a focus on the related issues of data and information. The emergent theory uses the terms information and know-how (the latter drawing on knowledge and experience) to refer to

'items of knowledge and news' and 'a theoretical or practical understanding of a subject' respectively. It is important to note that these terms were used with a certain meaning, as a reflection of the data, a meaning that may not correspond to the way these terms are normally used in the extant literature. The next paragraph will first provide an overview of the definition of these terms in the literature.

Specialists in the above-mentioned knowledge management field refer to data, information and knowledge as three closely related concepts. Tuomi (1999, p. 1) notes that "*the generally accepted view sees data as simple facts that become information as data is combined into meaningful structures, which subsequently become knowledge as meaningful information is put into a context and when it can be used to make predictions*". This amounts to saying that data is a prerequisite for information, and information a prerequisite for knowledge, a view Tuomi (1999) questions by reversing the knowledge hierarchy. In the reversed knowledge hierarchy, data emerges after there is information, and information emerges after there is knowledge. Alavi and Leidner (2001, p. 109) argue that "*information is converted to knowledge once it is processed in the mind of individuals and knowledge becomes information once it is articulated and presented in the form of text, graphics, words, or other symbolic forms*". This definition is close to the meaning in which the terms information and knowledge were used in the emergent theory. Added to those was the term 'sense' as the outcome of sense making activities, which is similar to 'articulated information'.

Another distinction that is often referred to is the difference between what has been labelled explicit and tacit knowledge. Nonaka (1991, p. 98) defines explicit knowledge as knowledge that is formal and systematic and can easily be communicated and shared. Tacit knowledge on the other hand is highly personal and difficult to communicate to others, consisting partly of technical skills or know-how. It also has an important cognitive dimension, consisting of mental models and beliefs that are partly taken for granted (Nonaka, 1991, p. 98). For the emergent theory, different levels of knowledge and experience have been included in the notion of 'professional know-how', which reflect partly the discussion led around explicit and tacit knowledge. It is felt that both 'types' of knowledge, together with information, are an important input into sense making activities, which are complemented by 'a feel for the game'. Tuomi (1999, p. 8) argues that "*only if we can take for granted that there is available background knowledge that is required to make sense of information, we can forget this*

background knowledge, and focus on the information itself", thus noting the general importance of knowledge for sense making activities.

The discussion also raises issues of learning and socialisation. A management accountant's extensive skills profile and related learning and socialisation processes were named as macro consequences in the emergent theoretical framework. These were considered very important, as they ensure the existence and ongoing development of the necessary professional know-how and of a feel for the game. Even though including 'a feel for the game', these issues are briefly discussed now. The knowledge management literature provides extensive discussion around learning processes. One of the big issues is related to the question as to how tacit knowledge can be shared and managed. It was argued in Chapter 9 that, what has here been labelled explicit knowledge, can reasonably easily be shared, and thus learning processes related to this kind of knowledge are rather straightforward, even if demanding, because of interdisciplinary issues. However, as far as tacit knowledge is concerned, this was related to socialisation processes, which can be more difficult. This includes the learning and sharing of a feel for the game and the rather subjective aspects of the management accountants' skills profile.

Chapter 4 outlined findings by Coad (1996) in his article entitled 'Smart work and hard work: explicating a learning orientation in strategic management accounting'. Coad (1996) argues that a learning orientation is necessary for strategic management accounting, which motivates hard work and smart work. While hard work relates to the expenditure of effort in the performance of tasks, smart work is defined as a tendency to select clever and ingenious approaches to deal with a given task, and to modify these approaches, intelligently and resourcefully, where necessary. This confirms the thesis findings related to professional know-how.⁵⁸

The above-mentioned extant literature provides some useful comparisons to the emergent literature, while providing some extensions to it in terms of the findings relating to information and know-how, and learning processes. Next, the issue of 'a feel for the game' is outlined in more detail.

⁵⁸ For further evidence on the learning and performance orientations of management accountants more generally, see Coad (1999).

10.3.2 'A feel for the game' and related cultural issues

'A feel for the game' was explained as another important input factor to sense making activities. It is a key category that was created through the integration of several subcategories, including amongst others 'interaction facilitating cultural traits' and 'rules of the game'. The notion of 'a feel for the game' was inspired by the writings of Pierre Bourdieu, whose theory of practice is discussed in the following subsection. At the same time, it includes aspects that have been discussed in the extant literature under the notion of culture, which is then addressed next.

10.3.2.1 *The contribution of Pierre Bourdieu*

Pierre Bourdieu (1930-2002) was a French sociologist, who, like Giddens, considered the dialectic between structure and agency (Mahar et al., 1990, p. 21). He proposed a theory of practice located within the context of real lives and offers a methodology anchored in ethnographic research, while giving researchers a conceptual apparatus with which to analyse a complicated reality (Mahar et al., 1990, pp. 21/22). According to Acciaioli (2000, p. 96) Bourdieu proposed a theory of practice in order to account for social behaviour "*as a continual accomplishing of actions in the implementation of natives' strategies in accordance with their practical mastery of situations*". Mahar et al. (1990, p. 5) contend that the main conceptual terms crucial to Bourdieu's work are the terms habitus and field. Closely associated with these are the concepts of a feel for the game, practice and strategies.⁵⁹ These are five particularly useful concepts with respect to the emergent theory. It should be noted here that these notions are closely interrelated, while also drawing on other concepts discussed by Pierre Bourdieu. The key notion, habitus, is addressed first, before discussing the remaining four notions and exploring the usefulness of Bourdieu's writings for accounting researchers.

Habitus

Liénard and Servais (2000, pp. 86/87) argue that it is thanks to the mediating concept of *habitus* that Bourdieu manages to overcome the theoretical obstacles of objectivism, subjectivism, structuralism, phenomenology or interactionism. A key idea is that there is perceived to be an adjustment between the individual's hopes, goals and expectations on the one hand, and the objective situation in which they find themselves (Jenkins, 1992, p. 28).

⁵⁹ It should be noted here that there is a certain danger inherent in the use of some of Bourdieu's theoretical concepts outside of his total theory. However, it is our feeling that the notions mentioned provide some useful understanding of the emergent theory, even if addressed in relative isolation to the rest of Bourdieu's theory of practice.

Different contributors have differently defined habitus, while drawing on various publications of Pierre Bourdieu. Mahar (2000, p. 76) refers to habitus as “*a set of dispositions, created and reformulated through the conjuncture of objective structures and personal history*”.

Bourdieu himself provides several definitions of the term, which is consistent with his aim to increasingly develop the main notions over time. In ‘The Logic of Practice’ (1990a, p. 53) Bourdieu defines habitus as “*systems of durable, transposable dispositions, structured structures predisposed to function as structuring structures, that is, as principles which generate and organise practices and representations that can be objectively adapted to their outcomes without presupposing a conscious aiming at ends or an express mastery of the operations necessary in order to attain them*”.⁶⁰ Bourdieu (1990b, p. 131) notes that the habitus is at once a system of models for the production of practices and a system of models for the perception and appreciation of practices. He further contends that it is via the habitus that there is a world of common sense that seems self-evident (Bourdieu, 1990b, p. 132). This is so, because the habitus, which can be defined as the mental structures through which social actors comprehend the world, is the product of the internalisation of the social world (Bourdieu, 1990b, p. 130/132).

Jenkins (1992, p. 78) notes that it is the habitus that disposes actors to do certain things, thereby providing a basis for the generation of practices. He stresses the importance of the transposable quality of these dispositions, i.e. they have the capacity to structure and create relevance in social contexts and fields other than those in which they were originally acquired (Jenkins, 1992, p. 78). Acciaioli (2000, p. 100) argues that “*although the schemes of the habitus enable members of a culture to generate an infinity of practices adapted to endlessly changing situations, they are never cognised by these agents as explicit principles*”. The generation of practice is thereby not derived from a code, but from a feeling of appropriateness (Acciaioli, 2000, p. 100). Schatzki (2000, p. 303) refers to ‘practical intelligibility’ as being what it makes sense for someone to do.

⁶⁰ Note that this book was originally published in France in 1980 as ‘*Le sens pratique*’. Most chapters included in Bourdieu (1990b) on the other hand were published in France in 1987 under various titles. Considerable time has thus passed by between the publication of those books, a fact which is easily overseen if only looking at the English-language publication dates.

Bourdieu (1990a, p. 55/56) notes that *“being the product of a particular class of objective regularities, the habitus tends to generate all the ‘reasonable’, ‘common-sense’, behaviours [...] which are possible within the limits of these regularities, and which are likely to be positively sanctioned because they are objectively adjusted to the logic characteristics of a particular field, whose objective future they anticipate”*. Another important aspect of the notion of habitus is expressed in the following quote. *“The habitus, as a system of dispositions to a certain practice, is an objective basis for regular modes of behaviour, and thus for the regularity of modes of practice, and if practices can be predicted [...], this is because the effect of the habitus is that agents who are equipped with it will behave in a certain way in certain circumstances. That being said, this tendency to act in a regular manner [...] is not based on an explicit rule or law. This means that the modes of behaviour created by the habitus do not have the fine regularity of the modes of behaviour deduced from a legislative principle: the habitus goes hand in glove with vagueness and indeterminacy”* (Bourdieu, 1990b, p. 77). Thus, the habitus allows for continuous improvisation in the face of changing circumstances (Schatzki, 2000, p. 301). It is a ‘virtue made of necessity’ (Bourdieu, 1990a, p. 54).

Further notions: field, a feel for the game, practice and strategies

As far as the term ‘field’ is concerned, Jenkins (1992, p. 84) describes it as *“a social arena within which struggles or manoeuvres take place over specific resources or stakes and access to them.”* Bourdieu understands the notion of field as being a ‘field of forces’, and social space as a series of fields of forces, at a higher level of abstraction (Mahar et al., 1990, pp. 8/10). Further, each field has *“a different logic and taken-for-granted structure of necessity and relevance, which is both the product and producer of the habitus, which is specific and appropriate to the field”* (Jenkins, 1992, p. 84). Bourdieu uses the analogy of games to provide an understanding of the properties of fields. Mahar et al. (1990, p. 7) note that *“entering the game implies a conscious or unconscious acceptance of the explicit and/or implicit rules of the game on the part of the players. These players must also possess a ‘feel’ for the game, which implies a practical mastery of the logic of the game – what Giddens calls ‘practical consciousness’”*. This ‘feel for the game’ is what allows habitus to generate an infinity of strategies, which are adapted to an endless number of possible situations (Mahar, 1990, p. 44). The discussion raises two other issues, the notions of practice and strategies.

According to Jenkins (1992, p. 70), Bourdieu uses the concept of *practice* as something that is not wholly consciously organised and orchestrated, as indicated by his notions of practical sense or practical logic. It is here that ‘a feel for the game’ is a central metaphor. Another term raised in this context refers to strategies. Griller (2000, p. 190) notes that *strategies* are neither the conscious choices of subjectivist philosophy nor the rules or norms of structuralist objectivism. Along similar lines, Lee (2000, p. 257) contends that, in Bourdieu’s theory of practice, the system of rules that is produced by interpretive models is substituted by strategies. Bourdieu argues that rules are explicitizations of habitus and that they can only orient practice, not determine it (Schatzki, 2000, p. 306). Bourdieu further suggests the impossibility of having ‘on file’ a rule or prescription for every conceivable situation that one might encounter in routine social life (Jenkins, 1992, p. 71). Furthermore, Jenkins (1992, p. 72) notes that “*the notion of strategising, to encompass the fact that actors do have goals and interests, is also designed to locate the source of their practice in their own experience of reality – their practical sense or logic – rather than in the analytical models which social scientists construct to explain that practice*”.

Bourdieu and accounting

Numerous accounting researchers have drawn on Bourdieu, albeit in a different context (see for example Ahrens, 1997b; Dezalay, 1995, 1997; Kurunmäki, 1999; Lee, 1997, 1999; Oakes et al., 1998; Thompson, 1999). Their use of Bourdieu’s theory is limited to some concepts that are of no further interest here. Bourdieu’s numerous concepts can certainly be of interest to accounting researchers. As far as the emergent grounded theory is concerned, the concepts mentioned above can surely provide some understanding of what has been labelled ‘a feel for the game’. It should be noted that, even though it was inspired by Bourdieu’s writings, the use of the term ‘a feel for the game’ for the emergent theory does not reflect his definition to the full extent. Of main interest for the emergent theory is the notion of habitus, together with a feel for the game and the other notions. One key question is whether the notions Bourdieu develops have any usefulness in an organisational setting.

Jenkins (1992, pp. 79) notes that one of the characteristics of dispositions is that they are durable, which is a reflection of their foundation in learning during the early years of life. This aspect is of less relevance in the case study setting. However, a distinction has to be made between the habitus as embodied in individuals and the habitus as a collective phenomenon (Jenkins, 1992, p. 79), the latter being of more interest in an organisational setting. Bourdieu (1990a, p. 60) argues that “*class (or group) habitus, that is, the individual*

habitus in so far as it expresses or reflects the class (or group), could be regarded as a subjective but non-individual system of internalised structures, common schemes of perception, conception and action [...]". This closely approximates the use of the term 'a feel for the game' in the emergent theory. Lee (2000, p. 262) argues that because the concept of habitus is differentiated, it can be employed in a plurality of class and ethnic contexts. It is a notion that is general enough to be useful in different concepts, and yet it is sufficiently defined to contribute to our understanding of social practice, including accounting practices.

The emergent theory noted an increasing need for 'a feel for the game' in a strategic context, which is by its very nature relatively undefined and not as clearly regulated by rules as a non-strategic context. Bourdieu (1990b, p. 76) draws similar conclusions, stating that: "*Notions that I developed gradually, such as the notion of habitus, came from the desire to recall that besides the express, explicit norm, or the rational calculation, there are other principles that generate practices. This is especially true in societies in which there are very few things codified; so that, to explain what people do, you have to suppose that they obey a certain 'feel for the game'...*". This certainly approximates the findings of the emergent theory, albeit in a very different context. A feel for the game can here be understood as a guiding principle that substitutes to a certain extent clearly defined rules. Bourdieu (1990b, p. 80) goes on to state this more explicitly in noting that: "*Societies in which the degree of codification is slight, in which the essential things are left to a feel for the game and to improvisation, have a tremendous charm about them, and in order to survive in them, above all in order to dominate in them, you have to have a certain genius for social relations, and an absolutely extraordinary feel for the game.*" This is certainly also the case in the strategic context that underlies the emergent theory. The importance of a feel for the game in such a context was stressed before.

To conclude this section on Pierre Bourdieu's theory of practice, it appears pertinent to state that it provides a useful comparison with the thesis findings, as far as the category 'a feel for the game' is concerned. This notion is an important input into sense making activities in a strategic context. Bourdieu's writings, developed during at least 40 years of his life, can be considered a meta-theory, which certainly has the potential to be more often used to inform accounting research. The next section looks at cultural issues that can further our understanding of a feel for the game and sense making.

10.3.2.2 Cultural issues

Numerous organisational researchers raise the issue of culture. Geertz (1973, p. 5) defines culture as “*webs of significance*” surrounding human beings. Pettigrew (1979, p. 574) defines culture as the system of publicly and collectively accepted meanings that are operating for a given group at a given time. Gephart (1993, p. 1469) refers to culture as the sense of intersubjective meanings that members of a group develop and use. Furthermore, he notes that the intersubjective or cultural world is constructed through sense making, i.e. the process whereby people interpret their world to produce the sense that shared meanings exist (Gephart, 1993, pp. 1469/70). The organisational literature abounds with contributions, either focusing on culture or informed by a cultural perspective. It has, however, been argued that there is no consensus on the meaning of the term culture (Czarniawska-Joerges, 1992, p. 160; Smircich, 1983, p. 339). Numerous accounting researchers have similarly drawn on various concepts of culture to inform an understanding of accounting (see the discussion in Chapter 3). Ansari and Bell (1991, p. 4), for example, attempt to understand “*how culture shapes the values and meaning frames of organisational participants and provides them with interpretive schemes for processing information.*” Their article, albeit interesting, does not provide a further understanding of these issues with respect to the emergent theory.

An article of particular relevance to the present discussion of a ‘feel for the game’, but also linked to information and knowledge issues and sense making, has been published by Harris (1994) and is discussed in some detail below. Harris (1994, p. 309), drawing on the social cognition literature, argues that an organisational culture’s influence on individual sense making is revealed in the operation of a patterned system of organisation-specific schemas. He suggests that “*individuals’ organisation-specific schemas are the repository of cultural knowledge and meanings and the source of the consensual sense making characteristic of culture*” (Harris, 1994, p. 309). There are five categories of schemas that appear to capture the amount of knowledge needed for sense making efforts in organisations. These are referred to as self schemas, person schemas, organisation schemas, object/concept schemas, and event schemas (Harris, 1994, pp. 312/13). Harris (1994, p. 313) argues that these schemas capture the range of information individuals use to make sense of organisational life, and that, from a cultural perspective, “*they serve as individuals’ repository for organisational culture knowledge including the values and beliefs attributed to various individuals and collectivities, appropriate behaviours for various situations, traditional ways of doing things, reinforcement contingencies, peer and normative pressures, role knowledge,*

the meaning ascribed to verbal, physical, and behavioural artefacts, and the defining characteristics of the organisation and its subgroups". This appears to closely mirror the finding that a feel for the game is an important input to organisational life generally and sense making more specifically.

Harris (1994, p. 313) goes on to note that schemas need to be similar across organisational members or subgroups. He argues that schemas become similar because of shared experience, which explains why organisational subgroups develop more generally shared schemas. Furthermore, Harris (1994, pp. 315/16) contends that the sense makers' search for meaning is egocentric and that they engage in internalised conversations between themselves and the 'generalised other'. He argues that a 'mental dialogue' mode of social cognition offers a useful perspective on the process by which the broader cultural context of the organisation manifests itself in the sense making efforts of organisational members, and that *"the arguments supplied for each of the parties to the conversation are basically the verbalisation of normative and cultural pressures"* (Harris, 1994, p. 316). Again, this confirms findings of the emergent theory, whereby sense makers were argued to carry out different sense making stages, the first of which focuses on the sense maker as a person.

The previous account of cultural elements provides useful understandings of sense making and a feel for the game in the emergent theory. The discussion has raised numerous issues that would be worth following up in another research project. It also addresses the issue that knowledge, or know-how and a feel for the game are closely interrelated aspects of organisational life.

10.4 Summary

The present chapter has outlined the extant literature that can provide extensions to and comparisons with the emergent theory of sense making in a strategic context. It was argued that carrying out this task is essential for theory building, while validating and refining the theoretical findings. Issues relating to the core category, sense making, and the conditions intervening in sense making and its underlying strategies, information, professional know-how and 'a feel for the game' have been addressed in turn. The extant literature relating to these theoretical concepts has thereby provided useful comparisons and extended understanding of these terms in an organisational context. The findings concerning the elements of the emergent theoretical model have altogether been confirmed as having been determined as interesting and useful concepts in other research studies. Various contributors have found sense making to play an important role in organisational settings. Furthermore, the importance of professional know-how and 'a feel for the game' for organisational processes has been demonstrated. The final chapter continues this discussion, while addressing overall conclusions and contributions of this thesis.

CHAPTER 11: CONCLUSIONS AND CONTRIBUTIONS

11.1 Introduction

This final chapter provides final conclusions to the research project, while also outlining the contributions it makes to the research community. Reflecting on overall conclusions and contributions is an activity that is necessary to draw the research to a close. To commence, principal research findings are outlined. Then, theoretical contributions are discussed. These are addressed in terms of the contributions this thesis provides to the body of interpretive literature generally, and to the field of strategic management accounting more specifically. Methodological contributions are then outlined in a subsequent section, before making suggestions for future research.

11.2 Summary of the principal research findings

The review of the literature has demonstrated that our knowledge of how accounting and management accounting practices are employed in a strategic context has been limited. The present thesis has addressed this gap and provided explanations of strategic management accounting in one research setting, a large multinational company in Germany. The principal research findings relate to one core activity that was labelled sense making. Sense making is a basic social process that revolves around organisational actors' attempts to understand happenings that may have occurred in the past, that might be occurring in the present, and that may also be anticipated for the future. The research thereby focuses on the sense making activities of management accountants in a strategic context, while linking these to some of the SMA techniques that have been discussed in the literature.

Management accountants consciously and unconsciously undertake '*sense making*' activities to understand anything happening and construct these 'happenings' meanings for the company and themselves. Sense making was found to be carried out through two main strategies and one auxiliary strategy. The first two were labelled structuring and harmonising; and bridging and contextualising. These involve the structuring and harmonising of information, which is a way of understanding information, and also the bridging and contextualising of information, as any single piece of information has limited meaning if it is not put in relation to other instances in time and space. It was noted how the two main strategies relate to management accounting more particularly, while for instance including benchmarking and competitor accounting activities. The third, auxiliary strategy

was labelled compromising and balancing and reflects the context of sense making, which is often characterised by a lack of information, time, organisational resources etc., all of which are needed for these sense making activities. Sense making is thus an activity that is carried out through related strategies, and that is located in a very particular context. The context conditions how sense making is carried out and it is essential to know it in order to understand sense making. There were found to be two different types of contextual conditions, identified as causal and intervening conditions.

The '*external and internal contexts*' were found to be the main causal conditions. They were in this large and complex company characterised by what has been labelled '*a multiplicity of relevant aspects*'. Management accountants dealing with happenings in a strategic context have to cope with a multitude of aspects and factors that are relevant for the assessment of the situation. They resolve this problem with their sense making activities. At the same time, there are intervening conditions that have an impact on the sense making activities. These were labelled '*sets of information*', '*professional know-how*' and '*a feel for the game*'. Noteworthy is here that professional know-how does not only include management accounting knowledge and experience, but also know-how of a more interdisciplinary nature. Furthermore, a feel for the game refers to that rather subtle feeling of how to approach different situations that may not be clearly defined by rules. It was found that particularly these two intervening conditions were of immense importance to sense making in a strategic context.

Furthermore, there are both micro and macro consequences of sense making. Micro consequences were defined as relating to what happens after management accounting sense making on a micro basis. These were labelled '*sense communication*' and '*strategic decision making*'. While the latter is outside the scope of this thesis, the former is of notable importance to management accountants. It was found that sense communication was anticipated during the sense making process and provided one of the worries of management accountants. Communicating the sense found and constructed in an appropriate way was key to the success of the process and of the individual sense makers. The macro consequences were the results of the process in the long run. These were labelled '*the required management accountants' skills profile*' and '*related learning and socialisation processes*'. As indicated above, professional know-how and a feel for the game can be considered of prime importance for sense making in a strategic context. As a consequence, management accountants are required to develop an extensive skills profile that encompasses both

aspects. It has been found that this cannot fully be learned in the conventional way, for instance via textbooks, but mainly requires on-site learning and socialisation processes.

The above reiteration of the main research findings has focused on the emergent theory that was outlined in Chapter 9 of this thesis. Chapter 10 provided a discussion of this emergent theory in comparison with relevant extant literature. The main findings, related to sense making, information, professional know-how and a feel for the game were thereby set against the findings in the literature. It was found that these reflect an interest in the organisational, and to a lesser extent, the accounting fields. The next section addresses the theoretical contributions the research makes to accounting and management accounting knowledge.

11.3 Theoretical conclusions and contributions

Theoretical conclusions and contributions can be outlined in terms of (management) accounting research in general, and strategic management accounting research more specifically. This thesis contributes to accounting knowledge by providing a rich insight into accounting in an organisational setting. The existing accounting literature has been depicted as lacking rich insights, and this research is thus a contribution to fill that gap to some extent. Not only does it provide an interpretive study of accounting generally, but also more specifically in a strategic context *and* in a large multinational company in Germany.

The review of interpretive research in accounting that was provided in Chapter 3 covered several topics outside SMA, some of which this research can contribute to in more general terms. Accounting was for instance described as both shaping and in turn being shaped by organisational reality (Nahapiet, 1988). Similar observations were made in the case company. It was noted in previous chapters how accounting functions were involved in assessing 'organisational reality' through sense making activities. The outcome of this sense making in turn shapes the way organisational reality is perceived by other functional groups. This contributes to the discussion held by Nahapiet (1988), and also Dent (1991), who notes how, in his case study, accounting actively shaped the dominant meanings that were given to organisational life. In the present case, the management accountants ascribed meaning to past and potential future happenings, while translating these into accounting language, if possible. However, accounting provided only one perspective for viewing 'reality', albeit an important one. Respondents argued how, after all, anything happening will be translated into

monetary terms in the long run, thus justifying their preoccupation with financial evaluations whenever possible.

Along similar lines, Morgan and Willmott (1993, p. 10) note that accounting produces visibility in a distinctive manner, because, as it gives phenomena attention, it simultaneously translates and transforms them into a numerical value. In the case company, respondents thereby perceived accounting information as potentially hiding some aspects of problems. It was noted above how there was 'a multiplicity of relevant aspects' to be considered for any situation, and how not all of them could possibly be expressed in numbers. Interestingly, management accountants in the case company were aware of these issues and accepted them, while also contributing to a non-accounting assessment of situations. This enlarged their roles in the organisation, an issue to be further explored below. At the same time, it integrated management accountants into interdisciplinary groups, thereby providing interesting insights into other functional groups' ways of working. These insights contribute to our emergent understanding of accounting processes in organisational settings.

The above discussion raises the issue of the meaning of accounting and accounting information, an issue that has also been variously debated in the literature. In the case company, the meaning of accounting information was to a certain extent taken for granted. For instance, one respondent commented on the change from one performance measure to another. It appears that the existence of the old performance figure was taken for granted and deviations from it were in the past discussed in considerable detail. However, after a period of transition to a new figure, the old measurement was suddenly removed from standard reporting printouts, thereby creating considerable unrest for some management accountants, for whom one way of assessing 'organisational reality' had disappeared. This provides some insight into how accounting information provides views of reality that become taken for granted, thereby contributing to our understanding of accounting in companies. It furthermore highlights how some accounting techniques are taken for granted and not questioned, an issue that may also be raised in terms of accounting education.

This research thus contributes to accounting research more generally by adding insights into accounting in an organisational context. As far as strategic management accounting more specifically is concerned, similar conclusions apply. The research contributes to the growing SMA literature that was discussed in detail in Chapter 4. It was noted that little was known about the actual use of SMA in organisational settings. The present thesis lessens that gap by providing descriptive detail about SMA techniques used (Chapter 6) and by furthermore developing a theoretical framework of SMA in action (Chapters 7 to 9), thereby answering the research questions that were stated in Chapter 4. It has been demonstrated that organisational actors even inside one company perceived the meaning of the term 'strategic' differently, thus contributing to confusion about what SMA might mean. This confirms findings of survey based investigations into SMA (e.g. Guilding, 1999 and Guilding et al., 2000). The meaning of 'strategic' and 'strategic' management accounting has been found to be very much dependent on the actual organisational context. Furthermore, it has been demonstrated that even though strategic management accounting techniques may be perceived as important by organisational actors, there is more to SMA than just techniques. The research has shown the basic social process, labelled sense making, which underlies and is solved by management accounting in a strategic context.

Ashton et al. (1995, p. 20) state that management accounting research appears to recognise that the use, role and significance of accounting is often more subtle and complex than seems to be appreciated in most textbooks. This statement is certainly confirmed by the findings at Henkel. The normative SMA literature outlined in Chapter 4 drew an idealistic picture of how SMA ought to be performed, thereby not fully taking real organisational settings into account. Some empirical studies on the other hand were able to draw a fuller picture of the use of SMA techniques in companies. This research contributes to that understanding of SMA in a specific organisational context, while including its complexities. It should be noted that the modern 'organisational reality' in a large organisation such as the case company may not be conducive to the often rather simplistic techniques that have been advocated by some accounting researchers in normative ways. Some of the less recent SMA literature has thus to be framed by today's business environment.

Whatever the difficulties encountered in carrying out some of the SMA techniques advocated, it can be agreed, along with Hergert and Morris (1989), that it is the carrying out of some SMA analysis, even if without good results, that matters. The case respondents appeared to stress the importance of thinking through some analyses, even if the results may be incomplete and fraught with uncertainties. This means that knowing about SMA techniques is important, as they provide organisational actors with tools and views that may contribute to their understanding of what is going on. My discussion around 'compromising and balancing' contributes particularly to this debate, as it shows the importance of those activities in a strategic context, while stressing that plausibilities are better than nothing. Along similar lines, Roslender and Hart (2002, p. 262) note, in the context of strategic cost management, that there are now more things to cost, many of which do not promise the same degree of calculational accuracy as was the case with more traditional approaches. This links with the discussion around 'a multiplicity of relevant factors' and the external environment.

Complexity was one of the issues often named by respondents in relation to the internal and external contexts. Management accounting in a strategic context in a modern multinational company is a highly complex activity. This confirms Dent's (1996) account on global competition and the challenges it creates for management accounting and control, and Seal's (2001) observation of an "*emerging complexity associated with new technology and globalizing competition*".⁶¹ It was stressed in the emergent theory that sense making is a key activity in such a complex context as it is via sense making that an understanding of organisational 'happenings' is achieved. What is specific about this finding is that it treats management accountants as human, and not necessarily always rational actors. This is important, as it is after all human beings that carry out management accounting in a strategic context, and that this task cannot be accomplished by computers. Closely related to this are what have been labelled intervening conditions of sense making in a strategic context. The research contributes to the knowledge in the area by explicitly naming the importance of the management accountants' extensive professional skills profile that needs to include interdisciplinary know-how and a certain feel for the game. In this specific context, it is not enough to 'simply' know accounting or management accounting techniques, but there is a need for a much broader know-how. This raises the issue of the roles of management accountants in companies.

⁶¹ See also the discussion in Chapters 1 and 4.

The question of the roles of accounting and accountants in organisations has been raised in relation to accounting generally (e.g. Burchell et al., 1980), but also strategic management accounting more specifically (e.g. Dixon, 1998; Lord, 1996; Rickwood et al., 1990). This thesis' findings also contribute to that discussion. Management accountants in the case company were depicted as key 'sense makers', whose assessment of strategic situations was a significant input to the decision making process. Furthermore, most management accountants were closely related to their business managers, and thus became involved in everyday business life. This discussion also raises learning and socialisation issues. It was noted that some of the skills that management accountants needed to possess in this strategic context could only be developed through organisational learning and socialisation on the job. However, some skills, mainly related to general management accounting and also further interdisciplinary know-how can be learned in theory. This raises important issues for the education of management accountants, as it can be argued that non-accounting disciplines should be part of any management accountants' qualifications. Accounting is not a 'reality' in itself, but part of broader organisational realities, for whose understanding some non-accounting knowledge is needed. This concurs with the view of professional accounting bodies, that accounting work is becoming increasingly multidisciplinary and that both generalist and specialist knowledge is needed (Parker, 2001a).

In summary, this thesis thus contributes to the accounting and strategic management accounting literature in numerous ways, by demonstrating how management accountants in a multinational company shape 'organisational reality' and provide visibility in a mainly accounting-based way. The meaning of accounting information was found to be to a certain extent taken for granted. Management accountants' roles were found to be broad and their involvement central in a strategic context. This drew on their interdisciplinary knowledge, but also put a premium on what has been labelled a feel for the game. Furthermore, sense making was found to be the key activity underlying strategic management accounting. These findings are felt to be key contributions to an academic, but also practical audience. The research provides a contribution to practice in that it has captured and organised the knowledge and experience of people in the case company in a theoretical way, thereby making their know-how transferable. Even though of a theoretical nature, the content of the research should be understandable to practitioners in companies. An issue raised in previous chapters was how grounded theory could contribute to solving this particular problem. Methodological reflections and contributions are discussed in the next section.

11.4 Methodological reflections and contributions

The research has been informed by grounded theory, thus following the calls for its adoption by management and accounting researchers (e.g. Parker and Roffey, 1997; Locke, 2001). It thereby contributes to the growing organisational literature that is drawing on this methodology.⁶² This section seeks to reflect on the use of grounded theory and furthermore aims to thereby state methodological contributions. Reflections on the research process can contribute to our understanding of the use of such a methodology in practice. These are addressed first, before discussing methodological contributions more specifically.

11.4.1 Reflections on research methodology

“Indeed, it seems that the more deeply we probe into this field of organisations, the more complex we find it to be, and the more we need to fall back on so-called exploratory, as opposed to ‘rigorous’ research methodologies” (Mintzberg, 1979, p. 584). The advantages, but also difficulties associated with research designs that are considered less ‘rigorous’ and objective than mainstream functionalist research were discussed in previous chapters. It has been argued that the choice for this thesis was sensible, given the theoretical stance and the nature of the research problem, but it is important to be aware of and reflect on limitations. Issues related to reliability, validity, generalisability and grounded theory evaluation and credibility have been raised before (see the discussion in Chapter 5), but it is felt that notably the issue of generalisability deserves a concluding thought. It should be noted that utmost care has been taken to provide a theoretical contribution that is reliable, valid and to a certain extent generalisable to other settings.

This thesis proposes a substantive grounded theory of strategic management accounting and sense making in a German multinational company. As the label ‘substantive’ indicates, it is a theory that is based on a specific research setting that has, however, some level of generality. Further related investigations could in the long-term lead to the development of a ‘formal’ theory with higher generality (see the discussion in Chapter 5). Grounded theory, by conceptualising data in an increasingly abstract way, provides knowledge that, even though reflecting empirical detail, has a relatively high level of generality.

⁶² In the field of management, grounded theory has informed research investigating various issues such as organisational change (e.g. Ardern, 1999; Brown and Eisenhardt, 1997; Eisenhardt, 1989a; Isabella, 1990; Orlikowski, 1993; Prasad, 1993), organisational death (e.g. Ross and Staw, 1993; Sutton, 1987; Sutton and Callahan, 1987), post-merger integration (Lowe, 1998) and organisational creativity and innovation (Andriopoulos and Lowe, 2000; Lowe, 1995). For accounting, see the discussion in Chapters 2 and 3.

In this context, it might be useful to utilise the arguments of Laughlin (1995) for 'middle-range' thinking. Inter alia, middle-range thinking suggests that skeletal theories of phenomena are possible, but that these require empirical detail to be complete in particular contexts. It could be argued that the theoretical framework provided in Chapter 9 takes a first small step towards such a skeletal theory, whose understanding in its particular context is enhanced by the empirical detail that was given. Future research can further develop this modest theory, as indicated in the suggestions for future research (see below).⁶³

The above discussion also raises the question of the meaning of the word 'theory'. Sutton and Staw (1995, p. 372) note that there is conflict about what theory is and should be, even though there appears to be more consensus about what theory is not.⁶⁴ They argue that theory is the answer to queries of 'why'. It was noted before that Strauss and Corbin (1998, p. 15) define theory as "*a set of well-developed concepts related through statements of relationship, which together constitute an integrated framework that can be used to explain and predict phenomena*". In those senses, this thesis provides theory, albeit one that is to a certain extent context-specific and would require more development in the future. After these reflective thoughts on methodology and theory, the next subsection discusses methodological contributions.⁶⁵

11.4.2 Methodological contributions

Methodological contributions refer to the experience with an interpretive case study, but also grounded theory more specifically. It was argued above that an interpretive case study informed by grounded theory could provide important contributions to the field of accounting. At the same time, the execution of a grounded theory study provides contributions to this methodology. The contributions are threefold. First, this thesis contributes to the grounded theory empirical literature by providing another example of the use of this methodology in the field of management accounting. Considerable detail of the treatment of the different grounded theory stages and their outputs was thereby offered.

⁶³ On the other hand, Sutton and Staw (1995, p. 382) note that major contributions can also be made when data are more illustrative than definitive. This reflects the discussion around e.g. the construction of narratives as a research output. See for instance Llewellyn (1999).

⁶⁴ They contend that references, data, lists of variables or constructs, diagrams and hypotheses are not theory. (Sutton and Staw, 1995). For a subsequent discussion of their article, see Weick (1995a) and DiMaggio (1995).

⁶⁵ For a good reflective account on the undertaking of various interpretive research projects see Covaleski and Dirsmith (1990).

It has been argued in Chapter 5 that writing grounded theory is difficult. However, it was also noted there that providing some written detail of the process is important, if the reader is to understand the development of the emergent theory. While it was noted that a complete distinction between the open, axial and selective coding stages is impossible, this task was carried out in the present thesis. It is felt that this should help readers trace the different stages to a certain extent, thereby also providing illustrations for future grounded theorists.

The second main methodological contribution is in terms of the usefulness of certain procedures. It was noted how Strauss (1987) and Strauss and Corbin (1998) view the grounded theory procedures as rules of thumb and not commandments. At the same time, carrying them out in similar ways as described in their books is argued to lead to a 'good' grounded theory. My experience is that sticking too much to the procedures can stifle creativity, causing the researcher to fail to discover important aspects of the data. Strauss and Corbin (1998, p. 129) advise the grounded theorist to first "*let it happen*" to a certain extent, saying that "*rigour and vigour*" will follow. I would like to stress this point, as it does not seem to be emphasised in much of the grounded theory writings. The researcher needs to be able to strike a balance between relaxing the rules, while still following the procedures. In my experience, it is thereby useful to regularly step back and reflect on the grounded theory process in order to get that balance right.

The third methodological contribution relates to the usefulness of certain grounded theory processes and tools, particularly axial coding and the paradigm model. Strauss and Corbin (1990, 1998) advocate the use of the paradigm model for the development of axial categories. In my opinion, the usefulness of this tool is limited in the axial coding stage. While it does provide an interesting perspective on the data and is certainly useful for the integration of the final emergent theory, I did not use it for axial coding to its full potential. This is reflected in the treatment of Chapter 8 ('Axial categories'), which is relatively short as it was viewed as just one step towards the final integration of the theoretical framework.⁶⁶ Furthermore, I modified the structure of the paradigm model for the emergent theoretical framework to a certain extent, by emphasising the numerous two-way relationships between the main categories. Consequences of sense making thereby related to the main intervening

⁶⁶ Readers might remember the discussion in Chapter 5 around the differences between a Straussian and a Glaserian approach to grounded theory. It was decided to pursue the former approach, mainly on the basis of its apparent increased manageability in the context of a PhD project. On the other hand, the above discussion around axial coding indicates that, with hindsight, the Glaserian approach may have its values, as it allows for more flexibility when moving from substantive to theoretical coding.

conditions, professional know-how and a feel for the game, as they were input to, but also 'modified' by, the depicted processes.

To conclude, the research provides contributions by presenting a grounded theory study in detail, while also reflecting on methodological issues. Morgan and Willmott (1993, p. 6) argue that "coming to grips with very challenging forms of social theory *and* conducting empirical research *and* mobilising the theory to direct and interpret the empirics is, to say the least, an extremely taxing process" (emphasis in original). It is felt that carrying out such a project is difficult, but possible and rewarding, even in the constraints posed by the PhD process. Certain boundaries thereby had to be drawn around the research. However, numerous further possibilities for extending this research have been found. These are addressed next.

11.5 Suggestions for future research

Hopper et al. (2001, p. 282) argue that "*there has perhaps been a lack of theoretical and empirical consolidation that compares and contrasts results in an attempt to derive a more integrated programme of research*". They note that replication studies might be difficult to conduct within the prevailing case study approaches, but that these nevertheless have many benefits. The approach employed in this thesis has been to relate the findings to the extant literature, an effort that was reported in Chapter 10. This thesis' and other researchers' theoretical findings were thus to a certain extent cumulated. Even though an exact replication of the study would be difficult, there are many different ways in which this thesis' findings can be drawn upon and extended in future research. Suggestions for future research thereby relate to further developments of and extensions to the model. For instance, future research could investigate management accounting and sense making in different contexts, such as different organisational settings and forms, and different countries. Furthermore, different contexts could include non-strategic contexts, non-complex contexts and higher speed contexts more specifically.

Added to that could be future research that extends the model. Particularly, research that investigates links between management accountants' and managers' sense making activities could be useful, while extending my model to non-accounting recipients. There have been calls for researching management accounting in relation to management support (Jönsson, 1998) and for integrating the fields of management accounting and marketing (e.g.

Roslender and Hart, 2002; Foster and Gupta, 1994). These calls are shared and it is suggested that potentially interesting findings can be provided by research in these areas. Foster and Gupta (1994, p. 72) argue that researching at the interface of management accounting and marketing can be challenging, but I think that it is feasible and worth the effort. I am not suggesting that accounting researchers investigate marketing, but that they research management accounting in an interdisciplinary context, similar to this study.

Furthermore, other elements of the findings could see additional developments. Of particular interest would here be the notion of 'a feel for the game'. Also, other issues underlying the main findings would be worth investigating further. For instance, the importance of trust in social relations has been briefly discussed in Chapter 7, which is an issue that has also been raised by other accounting researchers (e.g. Seal and Vincent-Jones, 1997; Tomkins, 2001). Furthermore, I would like to encourage accounting researchers investigating such issues as 'a feel for the game' and trust to also inform their understanding by non-accounting theories. I have partly drawn on Pierre Bourdieu's theory of practice and future research could enhance that understanding, by also including other theories. For instance, the above-mentioned structuration theory (Giddens) and also institutional theory could prove useful for the further understanding of accounting practices.

APPENDICES

Appendix I: Internal Income and Asset Statements (E6 and E7)

E6

1 EXT SALES QUANTITY
2 GROSS EXT SALES
3 NET EXT SALES
4 TOT SALES QUANTITY
5 GROSS TOTAL SALES
*REBATES/DISC/ALLOWANCES
9*NET TOTAL SALES
10 COMMISSIONS
11 TRANSPORT, WAREHOUSE
14*TOTAL MANUFACTURING COST
15*CONTRIBUTION 1
16 UNUSUAL MANUFACTURING COST
17 ADV + MKT RESEARCH
18*CONTRIBUTION 2
27*SUM SELLING/TECH/ADMIN
29*PROFIT CONTRIBUTION
30 OTHER OPERAT INCOME
31 OTHER OPERAT CHARGES
32 RESTRUCTURING
33 GOODWILL AMORTIZATION
34 DEPR ASSETS SIMILIAR TO GOODWILL
35*EBIT AC
39*DIVISIONAL/CORPORATE
R+D/SERVICES
40 DIVISIONAL OVERHEAD
41 CORPORATE OVERHEADS
42 ROYALT EXPENSE TO AC
43 ROYALT INCOME FROM AC
44 MARK UP CHARGES
45 MARK UP INCOME
46*EBIT

E7

52*TANG+INTANG FIXED ASSETS
56 INVENTORIES
57 VAT, ACCT REC EXTERNAL
58 ACC REC EXTERNAL W/O VAT
*OTH ACCTS RECEIVABLES
66*CAPITAL DEDUCTION
67 GOODWILL
68 ASSETS SIMILIAR TO GOODWILL
69*OPERATING ASSETS EBIT AC
70 ASSETS OF CORP OH
71*OPER ASSETS EBIT
72 GOODWILL COST VALUE
75*EVA
73*CAPITAL EMPLOYED
74*COST OF CAPITAL
*NET WORKING CAPITAL

<u>Objective</u>	<u>Goals</u>	<u>Strategies</u>	<u>Measurements</u>
<p>Be recognized as a premier consumer goods company by producing and marketing value-added products that are consistently preferred by consumers.</p>	<ul style="list-style-type: none"> • generate total shareholder return in the top x of our peer group only on group level • achieve year 200x sales of y-billion Euro • exceed x% sales growth over time • achieve ROS of y% and ROCE of z% in 200x • have at least x% of our volume in products that are no. 1 or no. 2 in the market 	<ol style="list-style-type: none"> 1. Grow our strong leadership positions in established brands by product innovations and superior performance/cost ratios. 2. Aggressively increase total-company growth through geographic and product-line expansion. 3. Improve organization effectiveness with „best people“. 4. Offer unique customer satisfaction. 	<ol style="list-style-type: none"> 1. <ul style="list-style-type: none"> • market share / position by brand • strength of brand equities relative to competition • no. of product innovations 2. <ul style="list-style-type: none"> • percent of sales outside region x • an average of x% of volume from new products created or acquired in the previous y years 3. <ul style="list-style-type: none"> • Sales and profit per employee • biennial employee opinion survey • Management Competencies Assessment/ Management Grid 4. <ul style="list-style-type: none"> • customers satisfaction/ loyalty survey/retention rate • Quality control indicators

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