

University of Groningen

## Human agency in management accounting change

van der Steen, M.P.

**IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.**

*Document Version*

Publisher's PDF, also known as Version of record

*Publication date:*

2006

[Link to publication in University of Groningen/UMCG research database](#)

*Citation for published version (APA):*

van der Steen, M. P. (2006). *Human agency in management accounting change: a cognitive approach to institutional theory*. [Thesis fully internal (DIV), University of Groningen]. s.n.

**Copyright**

Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

The publication may also be distributed here under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license. More information can be found on the University of Groningen website: <https://www.rug.nl/library/open-access/self-archiving-pure/taverne-amendment>.

**Take-down policy**

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): <http://www.rug.nl/research/portal>. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.

# 1 Introduction

When addressing changes in the management accounting *system*, one can be lured into thinking that management accounting *practices* are prone to change in similar ways. This would assume that changes in the structural features of the accounting system would be followed by changed organisational practices that fit the structural features once again. However, this link between systems and organisational practices is not this unambiguous. Rather, management accounting practices and the formal accounting systems affect each other in rather unexpected ways. Therefore, one needs to focus explicitly on the conditions under which changes in the accounting system emerge, and how they become embedded in day-to-day practice. The study at hand will provide a perspective on changes in management accounting procedures and practices that accommodates the unexpected ways in which management accounting practices can undergo change. This perspective is rooted in ongoing efforts that are inspired by various forms of institutional theory. The management accounting literature has recognised that the relation between structural organisational arrangements and day-to-day practices is an important domain for providing explanations of the emergence of management accounting change. An increasing number of explorations of the introduction of new management accounting instruments and techniques have explicitly focused on both formal structure and informal practice. This work will draw on the resulting insights, and will attempt to contribute in various ways that will be briefly addressed in paragraph 1.2 below. The next section will first introduce the view of management accounting as a social practice, which is being used throughout this thesis. From this view, institutional theories are considered appropriate theoretical frameworks for studying such social practices and changes therein. The final paragraph of this chapter will provide an outline of the thesis and a description of its chapters.

## 1.1 Management accounting: a social practice in organisations

Management accounting has changed very swiftly over the last decades and it is still changing (Ezzamel et al., 1997, p. 461; Vaivio, 1999; Dugdale & Jones, 1998; Bjørnenak & Olsson, 1999, p. 336; Burns et al., 1999; Scapens & Jazayeri, 1998). Miller and O’Leary argue that accounting expertise has gone through major changes in response to the changing demands of contemporary organisations. They argue that ‘whilst it is too early to assess fully the extent and implications of such changes, it is none-the-less evident that accounting expertise, at least in the American setting, no longer holds untrammelled sway’ (1993, p. 203). This has also been recognised by the accounting research community, as the research agenda has broadened considerably since the eighties, taking explicitly into account the social and institutional context (Miller, 1994).

## 1. Introduction

'Old accounting is proclaimed dead, but simultaneously *accounting* is proclaimed alive and well, albeit in a 'new form' (Ezzamel *et al.*, 1997, pp. 460-461, emphasis in original). Certainly, the belief in the ideal of managing complex organisations by the numbers, which contributed to the popularity of management accounting, is declining (Miller and O'Leary, 1993). Yet, the standing view is that the purpose of accounting is to 'facilitate rational decision making by faithfully representing the task technology or economic reality of the organisation' (Covaleski *et al.*, 1993, p. 65). While this purpose may indeed be the goal for a system of accountability, it diverts attention from the fact that management accounting is in essence a ubiquitous human practice (Arrington and Francis, 1993a; 1993b). It touches the lives of many, and it provokes reactions on the part of the people subjected to its standards. The emphasis on accounting as a rational description of economic reality could lead us to neglect the essential role that accounting plays in our human existence. This interconnection between accounting practice and the wider context of organisations is well recognised. 'Organizations, and accounting practices within them, are intrinsically dynamic and social entities. Organizations are reciprocally linked to a multiplicity of interests' (Miller, 1994, p. 6). Writers such as Arrington & Francis (1993a; 1993b), Macintosh & Scapens (1990), Covaleski *et al.* (1993), Carruthers (1995) and Boland (1993) have indeed recognised that accounting cannot merely be seen as a technical activity that operates outside of social structures, but that it is an essential part of those structures. It influences and is influenced by the social context in which it operates and the operators within that context. This recognition has had a major influence on recent management accounting research.

Mainstream management accounting research has remained relatively insulated from these post-modern intellectual developments (Shearer & Arrington, 1993). Especially the research tradition of the US has continued to focus on an accounting view that has been rooted in the neo-classical theory of the firm. It has viewed management accounting as being determined by an (internal) trade-off of demand and supply of accounting information. Through this trade-off, an equilibrium state of management accounting content would arise that provides optimal information. The theoretical basics of this stream of research rely strongly on assumptions of market equilibrium and economic rationality (Scapens, 1994, p. 302). It is these assumptions that are increasingly being challenged, as it is questionable to suppose that economic agents have a full grasp of all available alternatives when they make utility maximising choices (Vanberg, 1993). In fact, it is argued that people do not maximise every moment, 'they rather satisfice, because they have not the wits to maximise' (see Scapens, 1994, p. 309). Furthermore, it would seem likely that economic phenomena are caused by a dynamic process which Scapens described as evolutionary (but not necessarily in the Darwinian sense of evolution as optimisation). The study of accounting change envisaged in this thesis does not regard accounting solely as part of firm behaviour, as mainstream economics frequently does, but also as behaviour of its participants.

This thesis uses the proposition that the normative description of management accounting rooted in the neo-classical theory of the firm does not match the accounting practices that are observed in practice (Johnson & Kaplan, 1987; Scapens, 1994). Therefore, the thesis regards accounting practices to be resultants of social processes within the organisation. In order to do so, there is a clear need for alternative modes of research that accommodate this view. A number of studies have been done, drawing on a variety of social theorists, and ‘...this literature has problematized the history of accounting, revealing its interested nature, challenging claims to an inherent accounting rationality and neutrality, providing alternative insights into the functions of accounting and offering new explanations of the forces giving motion to processes of accounting change’ (Humphrey & Scapens, 1996, p. 87). Examples come from sociology (Macintosh & Scapens, 1990), accounting as cultural practice (Arrington & Francis, 1993b) and accounting views that are related to broad social movements such as the feminist movement (Shearer & Arrington, 1993).

## **1.2 Management accounting change**

One strand of these alternative modes of research is known as institutional theory. Institutional theory is not one theory, but a wide range of different views of organised human behaviour. These have in common that they assume that human action is in some way constrained by social structures that are the product of past social interactions. Institutional theories challenge the idea of the economically rational actor, who can freely select the optimal action alternative, without considering the restrictions posed by the social environment of which the actor is a part. Institutional theories regard the actor’s action choices for a large part contingent on the norms, values and habits embedded in his social setting. This focus on the constraining dimension of the social context has led to criticism that institutional theories under-emphasise human agency (DiMaggio & Powell, 1991; Seo & Creed, 2002). Therefore, what is needed is an approach that reconciles the constraining properties of social context, with the continuing ability of individuals to decide on their own actions and to have a real stake in their fate. For, if there were not an ability of individuals to go beyond the institutions that constrain them, change of these institutions would be impossible. Although individuals are constrained by institutions, they are able to escape these constraints. Therefore, this thesis will present a framework that is compatible with institutional theory, but which gives explicit attention to individual behaviour under the constraints posed by the institutional arrangements belonging to their social setting. The framework will help to address how institutional change is possible, using a micro perspective; the level of the individual person in the organisation.

The research focuses on the introduction of a new accounting practice: Results Oriented Management (ROM) at the Rabobank, one of the major banks in the Netherlands. The ROM program was an attempt to introduce a new method of strategic planning and control. Moreover, most banks belonging to the Rabobank Group used the ROM program to introduce a cultural and behavioural change. The management of these banks felt that

## *1. Introduction*

their employees needed to have a more result and risk orientation in their day-today work. As such, ROM was not only intended as a change in structural features of the bank, but also as a change in behaviours. In all, this thesis addresses a basic research question: using an institutional and cognitive perspective, how can we explain the process of structural and behavioural change, resulting from the introduction of Results Oriented Management?

This thesis will explore this process of accounting change using an institutional/cognitive perspective. Basically, it will use insights from earlier institutional explanations of the process of accounting change, but it will do so from a behavioural perspective. The thesis will present a framework that illuminates how institutions present themselves to individual actors. In light of question posed above, this focus on individual experiences of accounting changes is not surprising. For, although institutional theories have elaborated on how individuals are constrained by institutions, they have not discussed how people can escape them. A more detailed individual oriented perspective is needed. A micro perspective on the process of institutionalisation addresses concerns relating to the lack of attention to human agency in institutional theory. This thesis strives to contribute to institutional theory in a number of ways: firstly, as noted above, it provides a possible reconciliation of human agency and institutional determinism. The thesis proposes that under some circumstances people are able to act wilfully, and defy institutional influence, while in other circumstances, they are heavily influenced by those same institutional arrangements. It attempts to uncover the process leading to institutional change. Secondly, through its use of insights from cognitive psychology, it provides a conceptualisation of how institutions present themselves to individuals. Thirdly, it allows for the idea that only specific elements of practices can become institutionalised, and that it is virtually impossible to predict which elements that will be. Fourthly, the thesis forges ties between elements in institutional theory and cognitive science, as it observes that these can be complementary. They both deal with representations of the world and perceived regularities, although on a different level. In all, the thesis uses the research question to obtain knowledge about the intricate relations between institutions and individual behaviours.

### **1.3 Thesis outline**

The next chapter will present an overview of a number of influential institutional theories. As this study seeks to address institutional change, it needs to introduce some of the basic features and concepts found in the different institutional theories. Chapter 3 then presents the theoretical framework that will be used in the study reported in this thesis. The chapter explores the theoretical insights that have a bearing on how individual organizational participants address institutional change. The chapter results in a micro model of institutional change. Chapter 4 introduces the setting in which the study is conducted. The cooperative Rabobank is one of the largest banks in the Netherlands, and strives for a high market share in the worldwide food and agricultural businesses. For reasons disclosed

later, the Rabobank has been selected to track a complex change project that can be regarded as a management accounting change. Chapter 4 will also discuss some of the bank's features. Chapter 5 discusses the study's methodological underpinnings. The chapter will propose a two-stage structure for the empirical study: a first-order analysis of the cases, which is a discussion of how the events under study present themselves to the participants in the bank, and a second-order study, which consists of active analysis of these events by the researcher. Chapter 6 will present the first-order analysis. This chapter discusses in a chronological order how the change program presented itself to the participants. Chapters 7 to 10 present the second-order analysis. These chapters focus on four phases of institutionalization, which were derived theoretically in chapter 3. Chapter 7 will focus on the emergence of a need for change, while chapter 8 will discuss how institutionally constrained individuals make action decisions. Chapter 9 builds an argument on the routinization of these newly devised actions and finally, chapter 10 discusses the conditions under which institutionalisation is likely to take place. The insights obtained are used to propose a revised framework of institutional change that is presented in chapter 11. The framework includes insights that result from the case study at the Rabobank. The thesis concludes with an evaluation and conclusion in chapter 12. As noted above, the next chapter will introduce the three most relevant streams of institutional theory in current management accounting research.

