THE ROLE OF MANAGEMENT ACCOUNTING IN ORGANIZATIONAL CONTROL SYSTEMS: PRELIMINARY EVIDENCE OF AN ORGANIC APPROACH

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Abstract

There seems to be recognition in the literature that traditional management accounting and control systems (MAC) have limitations. However, there is limited knowledge about the practices organisations with a strategic focus adopt in relation to the development and operation of MAC systems. The purpose of this paper is to report the findings of a study designed to observe and codify MAC practices and their interface with strategy within the natural setting of an organisation. The research is based on a case study of a New Zealand based food manufacturing company. The findings provide evidence of an organic approach in the development and support of a strategic focus to MAC. This suggests an innovative style of performance management in a contemporary organisation.

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Introduction

Otley et al, (1995) highlight how the field of management accounting and control (MAC) continues to develop and evolve and that it is important to understand its operation within a modern organisational context. They point out that,

> Traditional approaches to management control have been valuable in defining an important topic of study, but they have been predicated on a model of organizational functioning which has become increasingly outdated… Contemporary organizations display flexibility, adaptation and continuous learning, both within and across organizational boundaries, but such characteristics are not encouraged by traditional systems. There is considerable anecdotal evidence to suggest that organizational practices are beginning to reflect these needs, so a key task for MCSs [management control systems] researchers is to observe and codify these developments (Otley, Broadbent & Berry, 1995, p.S40).

While there seems to be acceptance that traditional MAC systems have limitations, the nature and form of any possible change remains open to debate (Otley, 2001; Chenhall, 2003; Nixon & Burns, 2005). In this regard the MAC systems that contemporary organisations adopt to deal with an external environment that may be increasingly unclear, turbulent and subject to rapid and unpredictable change is an area that could be examined (Otley, 1994; Otley et al, 1995; Langfield-Smith, 1997; Otley, 2003; Nixon & Burns, 2005). Of particular interest in this context is how MAC is focused on organisational strategy:

> Management accounting must serve the strategic objectives of the firm. It cannot exist as a separate discipline, developing its own set of procedures and measurement

> systems and applying these uniformly to all firms without regard to the underlying values, goals and strategies of particular firms (Kaplan, 1984, p.414).

Based on a review of the strategy and management control literature, Langfield-Smith (1997) argues that conceptual understanding of the relationships between strategy and management control systems remains underdeveloped. In this regard she concludes: "…our knowledge of the relationship between management control systems and strategy is limited, providing considerable scope for further research" (Langfield-Smith, 1997, p.207).

The purpose of this paper is to report the findings of a study designed to observe and codify MAC practices and their interface with strategy within a contemporary organisational setting. The study contributes to the literature dealing with the changing and evolving role and purpose of MAC in contemporary organisations. A focus mainly on conventional financial and non-financial based measurement and control is considered too narrow in scope (Otley, 2003, 2001). There is an increasing expectation that MAC systems should be innovative in design, flexible in operation, and should enable rapid organisational change in response to capricious environmental circumstances (Otley, 1994; Otley et al, 1995; Otley, 2001; Nixon & Burns, 2005). This implies an extension beyond traditional ideas of management accounting and organisational control.

The research presented in this paper examines the interface between MAC and organisational strategy by means of a case study of a New Zealand manufacturing business operating in a turbulent environment. Key findings relate to the important role of an organic approach in the development and support of a strategic focus to MAC. A relatively small privately owned business was selected for the research because it has been suggested that, unlike large public corporations, such organisations often have strong visionary management and may adopt a broader and more inventive management accounting focus (Mitchell & Reid, 2000; Dillard et al, 2005). Further, such organisations could be seen as potential innovators in relation to MAC practices.

The remainder of the paper is organised into five sections. The next section discusses literature relating to a contemporary MAC framework, which underpins the focus of the case study. The third section outlines the research design and methodology including a description of the case study organisation. The fourth section presents the case study findings. The fifth section discusses the case study results. The sixth and final section contains a summary and conclusion.

Literature Review

Traditionally, the field of MAC has been focused predominantly on accounting controls orientated towards the monitoring of short-term activities (e.g. budget goals) (Rotch, 1993; Otley et al, 1995; Langfield-Smith, 1997; Otley, 2001). However, a key problem with traditional MAC tools, such as budgets, is that they generally concentrate only on short-term financial measures and do not enable managers to assess sufficiently organisational performance in the context of broader strategic and competitive factors, which may provide a better indication of long-term performance and success (Roberts, 1990; Nixon & Burns, 2005). This approach may have been influenced by early definitions of management control which did not explicitly emphasise monitoring the attainment of strategic goals (Otley et al, 1995; Langfield-Smith, 1997).[1] In this paper it is argued that three aspects – flexibility, alignment and fit, and a strategic focus – represent core attributes that should be evident in the design of contemporary MAC systems. These attributes are interrelated in scope and encompass a focus on linking MAC and organisational strategy, and reflect a performance management thrust (Otley, 2001).

Flexibility

Conventional MAC systems often lack flexibility. In the main, they are highly formal in structure and may inhibit change (Kaplan 1983; Johnson & Kaplan, 1987; Elliott, 1991). While traditional systems arguably provide a degree of stability and consistency to organisational operations and procedures, these could act as powerful impediments to timely and rapid organisational change (Greenwood & Hinings, 1996; Foster & Ward, 1994; Van

[1] For example, Anthony (1965) defined management control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives" (p.17).

de Ven & Poole, 1995). Generally, the focus of such systems is limited to a control framework incorporating a mix of financial and non-financial measures. This will, however, possibly hinder the ability of managers to comprehend the impact of relevant factors that are not captured by the measures chosen. This in turn could restrict or slow organisational change in response to these factors. In other words, due to relatively rigid (rather than flexible) MAC systems, managers might not adequately comprehend events occurring in the organisational environment. Ideally, MAC systems should help organisations to adapt and evolve by providing information highlighting that change may be required (Elliott, 1991; Atkinson et al., 1997; Shields, 1997; Chenhall, 2003; Nixon & Burns, 2005). For example, Atkinson et al, (1997) state that there is a need for flexible MAC systems that enable managers to manage organisational direction more effectively:

> …the "optimal" [MAC] system must provide the stability necessary to meet users' needs efficiently, while simultaneously creating an information environment that permits managers to envision, and respond to, new directions for the firm (pp.85-86).

In particular, flexible systems are likely to be valuable when the operating environment is unclear and turbulent and therefore difficult to predict, comprehend and manage (Fiegener, 1997; Chapman, 1998; Chenhall, 2003; Otley, 2003; Nixon & Burns, 2005). It has also been pointed out that MAC systems should enable rapid recognition of and response to changing environment conditions (Shields, 1997; Otley et al, 1995; Otley, 2001), and that they should highlight when organisations need to review strategic plans, monitor external conditions, and help to assess strategic priorities (Santori & Anderson, 1987; Elliott, 1991; Vokurka & Fliedner, 1995; Atkinson et al, 1997; Otley, 2001; Chenhall, 2003; Aherns & Chapman, 2004).

Alignment and Fit

Historically, MAC systems have been comparatively generic in nature and designed to help managers maintain hierarchical control over subordinates (Meyer, 1994; Atkinson et al., 1997; Shields, 1997). Conventional ideas of control fit best in the context of hierarchical

organisational structures. Arguably, the balanced scorecard merely represents a more recent and modern system of hierarchical control (Norreklit, 2003). Contemporary organisations, on the other hand, are increasingly adopting flatter team-based and networked or boundaryless structures, where organisation members have greater control over their actions and are less reliant on management for direction and support (Meyer, 1994; Atkinson et al, 1997; Shields, 1997; Goold & Campbell, 2002; Nixon & Burns, 2005). In this regard, organisations are configured in various ways depending on the environmental and competitive pressures they face, in order to achieve particular goals. Accordingly, a relatively narrow and hierarchical 'one-size-fits-all' approach to MAC is arguably no longer appropriate.

On the issue of how to design MAC systems to support the information needs of an organisation according to its particular structure and environmental pressures (Elliott, 1991; Atkinson et al, 1997; Otley, 2001; Chenhall, 2003), various solutions have been proposed. For example, it has been suggested that organisations consider adopting approaches such as horizontally aligned accounting systems, which are designed for flat and decentralised organisations utilising team-based operating structures (Shields, 1997). Other suggested design innovations include organisational accounting or virtual accounting (e.g. Elliott; 1991; Shields, 1997) and various organic, socio-ideological and informal approaches (e.g. Frow et al, 2005; Pierce & Sweeney, 2005; Alvesson & Karreman, 2004). These suggestions extend the focus beyond the (management) accounting *function* and involve a shift towards greater employee ownership of (management) accounting *information*. Such a shift implies the compilation of MAC accounting information by non-accountants, and accounting assuming a more ubiquitous nature in organisations (Cooper, 1996, Shields, 1997; Parker, 2001; Byrne & Pierce, 2007). It has also been suggested that in this situation the demand for, and use of, MAC information is likely to increase but the need for management accountants may decline (Cooper, 1995; 1996). The information provided by such systems will increasingly become integrated with non-accounting information (e.g. human resources, marketing) (Elliott, 1991; Shields, 1997). As a result, standardised and regularly produced accounting reports may have less usefulness in the future or may even cease to exist.

While the approaches described above are arguably useful, they often remain situated within traditional notions of organisational control (Bhimani & Langfield-Smith, 2007). Flatter and more innovative organisation designs may well require a greater focus on performance management, rather than solely traditional control, as a core thrust of contemporary MAC systems (Otley, 2001; 2003). Reinforcing a need for a lesser emphasis on traditional notions of organisational control is the increasing turbulence and unpredictability of the external organisational environment (Otley, 1994; Otley et al, 1995; Lissack & Roos, 2001; Eisenhardt, 2002; Quinn, 2002; Nixon & Burns, 2005).

Strategic Focus

MAC systems have traditionally tended to concentrate mainly on tactical and operating decisions. The information provided for such decisions has been based largely on events and activities internal to the organisation (Elliot, 1991; Drucker, 1992; Drucker et al, 1997). In other words, the emphasis has been on the control of events and activities that can be readily measured and observed. The linkages to longer term strategic decisions have been relatively weak (Santori & Anderson, 1987; Bromwich & Bhimani, 1989; Young & Selto, 1991; Langfield-Smith, 1997). This reflects an approach that is short-term and in essence neglects the critical relevance of various external environmental factors and their impact on an organisation's future. For example, it has also been pointed out that areas such as non-customers, new and emerging technologies and markets not currently served should arguably also be considered (Elliott, 1991; Drucker, 1992; Cravens et al, 1997). Furthermore, a need to monitor the external environment effectively is increasingly relevant due to the impact of factors such as rapid and constant technological change and globalisation (Otley, 1994; Eisenhardt, 2002; Quinn, 2002; Nixon & Burns, 2005). A key problem in this regard, however, has been designing suitable systems to capture and process external information. On this point it has been noted that: "The development of rigorous methods for gathering and analysing outside information will increasingly become a major challenge for businesses and for information experts" (Drucker et al, 1997, p.22).

Some progress has been made in addressing the issues described above. During the 1990's increased emphasis was placed on developing better linkages between long-term strategic plans and goals, and control systems (Vokurka & Fliedner, 1995; Butler et al, 1997; Cravens et al, 1997; Shields, 1997; Chenhall, 2003; Bhimani & Langfield-Smith, 2007). In this regard a key theme in the literature highlights a need to concentrate on the design of organisational control systems as a means of enhancing the strategic relevance of MAC (Otley et al, 1995; Langfield-Smith, 1997). In this context, a need for a tighter link between MAC and strategy, which implies a greater and more innovative role for accounting in the context of organisational control, has been frequently advocated in the literature (e.g. Markus & Pfeffer, 1983; Kaplan, 1984; Ferns & Tipgos, 1988; Rotch, 1993; Otley, 1999; Shields, 1997; Otley, 2001; Chenhall, 2003; Otley, 2003; Nixon & Burns, 2005). Researchers increasingly argue that control systems should be focused to a greater extent on the accomplishment of strategic goals rather than narrowly measuring short-term operational and accounting factors (e.g. Horovitz, 1979; Govindarajan & Gupta, 1985; Rotch, 1993; Whelan & Sisson, 1993; Simons, 1994; Ittner & Larcker, 1997; Langfield-Smith, 1997; Otley, 2001; Chenhall, 2003; Hansen et al, 2003; Nixon & Burns, 2005).

Various approaches, such as the balanced score card (BSC), have been suggested regarding the design and operation of MAC systems that are more integrative in terms of a focus on both short-term decisions and longer-term strategic decisions (e.g. Bromwich & Bhimani, 1989; Eccles, 1991; Dixon & Smith, 1993; Kaplan & Norton, 1996; MacArthur, 1996; Meyer, 1994; Simons, 2000; Marginson, 2002; Roselander & Hart, 2003; Bhimani & Langfield-Smith, 2007). Often, however, these approaches are anchored in ideas of formal measurement and control and can be relatively prescriptive or rigid in nature (Norreklit, 2000; 2003). While they enable some degree of strategic focus, this is based on a mechanistic MAC framework, which effectively ignores factors that are not readily measurable. This is likely to be problematic in relation to the impact of a rapidly changing and turbulent external environment (Eisenhardt, 2002; Quinn, 2002; Lissack & Roos, 2001; Nixon & Burns, 2005). A study by Roberts (1990) underscores the difficulties associated with developing accounting-based management controls that can be used to facilitate strategic goals. In particular, Roberts demonstrates that accounting results used to signal

apparent strategic success may in fact be compromising the longer term strategic position of an organisation. This is because accounting tools are generally not designed to monitor and report on the accomplishment of longer term strategic goals.

Research Lens of this Study

The strategic management process was used as a lens to observe and analyse the interface between MAC and strategy within the case study organisation. The strategic management process is often explained (see Figure 1) in terms of three stages: i.e., formulation, implementation, and evaluation (or control) (e.g. Pearce & Robinson, 2005; Preble, 1992; Thompson & Strickland, 2003; Coulter, 2005).

<insert figure 1 about here>

Formulation is concerned with forming strategies and implementation is focused on the subsequent transformation into actions (Pearce & Robinson, 2005). The evaluation stage ensures that strategies remain effective and relevant based on actual outcomes. In respect of this study, strategy refers to both strategy formulation and implementation, and strategy evaluation (or control) refers to MAC. The study provides insights into how contemporary MAC practices were used to support a strategic focus.

Research Design and Methodology

The research was based on a case study informed from a naturalistic interpretive perspective (Baxter & Chua, 2003), but one that was also somewhat ethnographic in nature (Jonsson & Macintosh, 1997). Following Baxter and Chua (2003, p.99), a naturalistic perspective is where the researcher "seeks to investigate management accounting practice in its 'everyday' organisational context". This is similar to Tomkins & Groves' (1983) idea of examining management accounting in its natural setting and from a practitioner viewpoint.

The case organisation studied was a privately owned New Zealand manufacturing company. The site work was undertaken in 2001. Selection of the organisation was based

on a theoretical sampling approach (Scapens, 1990; Ferreira & Merchant, 1992; Chua, 1996; Baxter & Chua, 1998; Patton, 2002) based on its turbulent operating environment. A turbulent environment was identified in terms of an organisation operating in highly competitive markets with relatively low barriers to entry, being exposed to both strong domestic and global competition and within an industry that could easily be threatened by technological change. The aim was purposely to select a suitable organisation that would likely provide a rich source of data for the study. A considerable amount of time was spent at the case organisation, with data collection and site visits taking place over a three month period. Visits typically were in five working day blocks and covered a daily period from approximately 9am to 4pm. In total approximately five weeks was spent at the research site. While this may not necessarily reflect the classic ethnographical approach of 'going native', it still reflects an extension of a more limited case study approach. In this sense the study mirrors an approach to qualitative research within organisations that is about "…small-scale case studies and concern with the empirically observable…" (Mouritsen et al, 2002, p.504).

Multiple sources of evidence were collected at the research site, following what is generally described as data triangulation (Scapens, 1990; Ferreira & Merchant, 1992; Chua, 1996; McKinnon, 1998; Yin, 2003). The main sources were: audiotaped and non-taped (informal) interviews, documents and direct observation. Available documents relevant to the research area that were examined included formal reports, company notices and confidential documents such as the strategic plan. Additionally, observation was made of a wide range of organisational activities, such as management meetings and factory processes. A note book was used to collect data and record observations and impressions relating to informal evidence (Scapens, 1990; Chua, 1996).

Audiotaped interviews were conducted with nine organisational members, including the CEO (owner), management team and board members. These were between approximately 60 and 90 minutes in duration. Interview transcripts were returned to the interviewees for checking and verification. Informal discussions (interviews) of about 15-20 minutes duration (and sometimes significantly longer) took place with approximately

20 organisation members. These discussions generally occurred as various facets of the business operation were being casually observed. Most interviewees were involved in a diverse range of organisational activities, although they had core responsibilities in particular areas. These included: accounting, factory and warehouse, marketing, product development, office administration, engineering and governance. Accordingly, respondents often had wide-ranging knowledge relating to a variety of organisational areas. The names and job titles of respondents have been kept confidential and anonymous. In the research findings respondents formally interviewed are labelled generically as CEO (owner), senior manager, manager or board member.

A semi-structured interview guide was used to steer discussions with organisation members formally interviewed (see Appendix). This also provided a focus for issues covered during the informal discussions (interviews). The guide reflected the study's conceptual basis in terms of exploring MAC practices in relation to strategy (i.e., strategy formulation, strategy implementation and strategy evaluation). The main purpose of the interview guide was not as a list of questions to put to the interviewees but as a checklist for the researchers to ensure that relevant issues were covered (Alvesson, 2003). Care was taken to not overtly highlight any particular focus on strategy. This was to avoid respondents thinking that this was an aspect of special importance or significance and so providing what they considered were more acceptable or desirable responses in relation to the strategic focus of the business (Bhimani & Langfield-Smith, 2007).

A key difficulty with case study research is translating raw data into patterns and identifying conceptual themes (Chua, 1996; Ahrens & Dent, 1998; Baxter & Chua, 1998). Miles and Huberman (1994, p.2) comment that it is difficult to "…see how the researcher got from 3,600 pages of field notes to the final conclusions, as sprinkled with vivid quotes as they may be". In this study evidence collected from the research site was initially written up as detailed research summaries (Morse, 1994). This was an intensive process that involved not only writing up the research evidence in light of MAC aspects, but also identifying patterns and themes and attempting to determine any linkages between these and a strategic focus. The process was lengthy and required many

iterations before analysis of the data was 'complete' (Morse, 1994). The process was undertaken in a critical and questioning manner, with care being taken to view the data in terms of strategy formulation and strategy implementation while simultaneously considering characteristics that suggested or demonstrated integration with MAC. In the following section the preliminary part of the analysis is presented, which provides an overview of the case organisation.

The Case Organisation

The organisation examined is a privately owned New Zealand food manufacturing company and is referred to as Food Holdings (FH)[2]. FH's product range is wide and it has always strived to make innovative and distinctive products with high fruit content and unusual flavours. It has won a number of awards for its innovative products and packaging. The company has also purposely adopted distinctive and unique brand product names and uses a wide range of ingredients sourced locally, from the Pacific region and internationally. Innovative packaging is also a distinctive feature of the business approach. All packaging is very bright and colourful, and distinctly different in style from other competing products.

The owner of FH has attempted to position the business with a personal image and to create a values-based company. As a result the business is closely associated with the profile and values of its owner and CEO who considers that the company has a 'soul' and is 'caring and sharing' in relation to its approach to business. The foci in this regard are particular values and beliefs that relate to the operation of the company. For example, the owner states that businesses should measure their performance in environmental and social terms as well as economic. The owner subscribes to a stakeholder view and considers that ownership of the business creates a stewardship and moral obligation, whereby he needs to give something back to society as 'payment' for the ability to use its resources, own a company and have limited liability. This approach includes a focus on the local community and the donation of money and goods to what are considered worthy causes. The company has a policy of hiring mainly from the local community with a particular policy of targeting young people and long-term unemployed. The owner's basic philosophy is to operate the company for the

[2] This name is a pseudonym.

public good and his vision is to distribute 20% of profits to public projects (at the time of this research about 10%).

FH operates from a large complex in Auckland, New Zealand. All products are produced at this site. The overall operation has a staff of approximately 130, with the vast majority working in the factory and warehouse areas. At the time of the research the management structure comprised four senior managers, including the CEO, and approximately five middle managers. Further, there were various supervisory staff in the factory and warehouse areas. A formal board of directors was in place, appointed by the owner. This comprised three senior managers, three outside directors and the owner. Board meetings were held approximately every six to eight weeks.

Overall, FH strives to be seen as an innovative and distinct from competitors. This is particularly evident in terms of its product range, social responsibility philosophy and interaction with the broader community. The company focuses on manufacturing a product range that is unique and in conjunction with this its core brand is actively developed. This provides a point of clear product differentiation and a means of surviving in a market place that is dominated by internationally-based competitors.

Case Study Findings

The case study findings are presented and analysed under four sections: *Strategy Formulation*; *Strategy Implementation*; *The Board and MAC*; and *Managers and MAC*. These sections reflect the conceptual basis of the research in terms of a focus on MAC practices and their interface with strategy.

Strategy Formulation

Strategy formulation at FH is highly fluid and closely intertwined with strategy implementation. Both of these aspects are grounded in the strategic planning process. The board oversees the strategic planning process, with a particular emphasis on the setting of 'endpoint goals'. In this respect strategic planning and formulating strategies to achieve

those plans can be seen as two distinct stages. These were highlighted and differentiated by the CEO:

> *It's about defining an* ***endpoint*** *but not necessarily defining too strictly the* ***pathway****. Because you're defining your endpoint, you might say you might go this way or that way. But your overall aim is still for up there. You're aiming for a point on the horizon, but you can't see over the horizon.* [emphasis added]

The 'endpoint' is about strategic planning and setting long-term goals for the business, while the 'pathway' is focused on formulating and implementing strategies to achieve those goals. A key role of the board is to apply discipline and control to the processes associated with strategy formulation and implementation, by formally monitoring the accomplishment of endpoint goals. The management team, which includes the accountant, is focused specifically on the pathway (i.e., strategy formulation and strategy implementation).

The approach to strategy formulation at FH is organic rather than mechanistic. This means that strategy formulation is an uncertain and emergent process (Mintzberg et al, 1976; Mintzberg, 1988; 1994; Dent, 1990; Farjoun, 2002). While long-term goals and plans are formally developed, there is no real attempt, in a mechanistic sense, to match explicitly environmental circumstances and strategy. The organic approach reinforces the flexible pathway concept. The MAC literature, however, generally focuses on strategy as being mechanistic or deterministic (Langfield-Smith, 1997; Chenhall, 2003; Bhimani & Langfield-Smith, 2007). In contrast to this various researchers have suggested that the use of formal controls may limit innovation and long-term performance when strategy formulation is organic or emergent (Mintzberg, 1987; Lorange & Murphy, 1984; Goold & Quinn, 1990; Mintzberg, 1994).

External focus

In terms of formulating strategies, extensive reliance is placed on feedback information sourced from the external marketplace and broader business environment. A senior manager commented on how this worked:

> *Looking at what competitors are doing… and listening to what the trade is saying. This is where being out and talking to the trade is powerful – you get a feeling for the gaps and how to get smarter than the competition… It's not that structured and its not that formalised. But we know there are a variety of routes that we can go and we'll take the one the market says to go.* (senior manager 4)

This process is a continuous and regular task undertaken by various managers. In contrast the MAC literature often suggests that organisations should ideally concentrate on structured and systematic collection and measurement of external data (e.g. Kaplan & Norton, 1996; Simons, 2000).

The FH approach places pressure on operations because once a particular strategy is adopted then an operational commitment will quickly follow, which could involve, for example, making an entirely new product. A manager spoke about the operational impact of strategic change.

> *Typically what will happen is a major supermarket chain will revise their product lines. That means it's going to be three or four years before you get that opportunity again. So what [the CEO] does is he takes the gamble that within a relatively short time we can make a product that is satisfactory to the customer. I've said to [the CEO] that sooner or later you're going to fall flat on your face because we're not going to be able to figure out how to make that product.* (manager 4)

In this sense the timing of strategic decisions can be significantly influenced by emerging and often capricious market conditions, rather than by strict adherence to a particular

strategy or plan (ie the flexible pathway). Hence responsiveness to external feedback is a key feature that results in a highly fluid strategy formulation thrust. In relation to MAC system design, this fits with the ideas of Otley et al, (1995) who argue that innovative control approaches are needed and suggest that the notion of control in organisations should move beyond a narrow focus on conventional MAC. In this respect they comment: "The split between strategic planning, management control and operational control, which was always tendentious, has now become untenable, and a much closer integration between those functions has developed" (p.S40). At FHs an innovative control feature is the operational blending or merging of MAC and strategy.

Trust

A key attribute underpinning strategy formulation at FH is the organisational culture, which is perhaps best illustrated in terms of staff relationships that revolve around the concept of trust. This point was illustrated, for example, when a manager commented on how FH maintained a balance, or avoided conflict, between its strong people interaction approach and creeping bureaucracy, such as a formal MAC system, which is generally associated with organisations as they become larger:

> *Hubbards is very lean – we're not into memos and we're not into meeting minutes and those sorts of things. If I've said something, then I remember that I've said it. I don't need it on paper just so someone can say, "you've said this". I'll admit that I said it. We're not into covering your backside all the time. If we made a decision together and if I made a wrong call, then it's up to me to take responsibility for that wrong call. I don't need to write down that I said that, only because you said that, type of thing.* (manager 2)

A high degree of trust is placed in the ability of managers to make decisions that are positive for the future of FH. A dominant attitude among management is one of moderate or calculated risk taking, rather than being risk averse or risk neutral. Such an attitude toward risk was supported by the culture of trust. A manager described this:

> *We're not criticised for making mistakes. If you make a mistake you're told that it probably wasn't the right thing to do. If you make the same mistake twice it's a different story. You learn from your mistakes. It's certainly very much a direction in this company that we're not going to grow without making mistakes. People aren't going to develop if they don't make mistakes either, which is really quite nice because you're not scared of making mistakes.* (manager 1)

Trust acts as a 'glue' that helps bind together staff interactions and cultivate focused working relationships among senior and lower level managers and other supervisory staff. The high level of trust explains why managers are willing to take calculated risks in pursuit of the organisation's strategic goals (i.e., flexible pathway). Research indicates that (personal) trust is potentially a valuable element of organisational control within organisations (Tomkins, 2001; Chenhall & Langfield-Smith, 2003). Following Pant (2001), the encouragement of employee initiative or resourcefulness, or trust in the context of FH, can be used as a core knowledge source by organisations operating in unclear and turbulent environments. This represents an extension of traditional MAC design ideas, which tend to be largely mechanistic and formal in their scope.

<u>Spontaneity</u>

Spontaneity is another key attribute underpinning the strategy formulation process. A manager highlighted this when he commented that strategy was about *"opportunities – someone perceives an opportunity and then we pursue the consequences of it"* (manager 4). This is aided by the lack of emphasis on formal meetings, systems, rules or procedures to guide operations. For example, a manager mentioned that the meetings he attended were *"always entirely ad hoc and as required"* (manager 4). Spontaneity was further reinforced by a lack of emphasis on job titles or positions, such as 'Financial Controller'. Consequently, managers viewed their roles as focusing on the entire business, rather than solely on certain key areas, which encouraged frequent discussion about various organisational issues. The accountant outlined how this worked, including his own direct involvement in the process:

> *We're always in informal discussions. Say the likes of me and [senior manager 4] or [senior manager 3] and [the CEO]. Perhaps it's slightly less with the outside directors because they're not here, but for the rest of us we always have a natter about this, that and the other. If an idea or a line of thought comes out of it then we just keep talking about it informally until I guess we decide that, yes, it is on the right track. Then it's firmed up and more senior people are brought on board until suddenly you find yourself talking about going in a different direction. That happens informally.* (senior manager 2)

This frequent contact acts as a driver of spontaneity. A senior manager further described this:

> *It might be [the accountant] and I on the phone going 'blllaah' because he's got an idea, it's that informal. It might be [the CEO] in Queenstown phoning me or [the CEO] from London – we had that last week – saying 'I know you are doing research but what about this'. It's that informal and that much contact – it 'floats' and it needs to 'float'*. (senior manager 4)

Bruns and McKinnon (1993) investigated how managers used accounting information and found that "informal conversations with staff may actually be the primary channel for much information. Much of the detail necessary to run a company has characteristics that make informal oral transmission more efficient than entering it into a formal system" (p.104). The frequent and informal conversational interaction at FH appeared to have developed as a response to the turbulent external situation it faces. Relying on frequent and spontaneous, and what is often in effect instantaneous, staff interaction enables business decisions and changes to be made and acted on rapidly. This avoids delays that could be associated with more formal and structured MAC approaches.

Associated with spontaneity was a strong collective decision-making ethos among company management, who emphasised the need to form a collective view, or gain consensus, regarding the formulation of strategy. As a consequence, managers did not

necessarily perceive the FH management structure as conventional, relative to other organisations. In this respect there was no 'silo' mentality concerning job responsibilities. Individual managers viewed their roles in a team-based context and as collective. A manager commented:

> *When you're thinking about something, you're not just thinking for your area. I guess that's part of [the CEO's] training, to teach us to think across the business.* (manager 2)

Strategy Implementation

In a similar manner to strategy formulation, the underlying thrust of strategy implementation is also relatively loose and informal, with a strong emphasis on frequent verbal conversations and interaction, rather than documentation or structured meetings. The core attributes of strategy implementation are discussed below.

<u>Closely integrated with operations</u>

FH does not rely on specific announcements to signify the implementation of new, revised or amended strategies. Strategy implementation is an integrated component of continuing operations, rather than being seen as a separate management role or activity. In this regard the CEO was critical of the formal approach to strategy implementation he observed in various other companies:

> *Last week [company name deleted] announced a plan to focus on core brands, to rationalise this and do that and in six months time there will be another announcement and in another six months time, sure as eggs, there will be another announcement. No, we don't work that way.*

The CEO described how long-term plans and strategies were disseminated to staff, which reflects the underlying management philosophy at FH:

> *A mixture of formally and informally, but they're not done as just rigid formal presentations. I believe that what we have got to do here is create a culture that to a certain extent is intangible. It involves trust, I guess, in both directions. As a result of that you can't have really a rigid situation whereby you formally announce plans and implement them.*

The nature of strategy implementation at FH effectively gives primacy to strategic activities within the context of ongoing and daily operations. Strategy implementation at FH is embedded within, and seen as, a natural part of the continuing business. However, this is not done in a manner that is explicitly 'strategic' in thrust. Rather, it is unobtrusive and the majority of staff seldom view the various issues discussed as strategy-related. In this regard a manager commented:

> *[The CEO] will often pull me aside and say this is where we are planning to go. Areas that impact on me, he will let me know about. And he probably does that with the likes of [senior manager 2] and [manager 2] as well.* (manager 1)

The operational focus at FH is implicitly, but directly, guided by a strategic focus. In other words, operations and strategy are strongly interlinked and integrated. While this integration is generally blurred and fluid, it nevertheless provides a powerful means of enabling strategic issues to guide the daily business directly but also unobtrusively.

<u>Coordination meeting</u>

An important MAC process that helps ensure the success of what is effectively an instinctive focus on strategy implementation is the weekly New Product Development (NPD) meeting. A senior manager described this as *"the only regular [management] meeting. Otherwise we just catch up as we need to"* (senior manager 4). This core meeting serves as a coordination mechanism for translating endpoint goals into strategies and then providing for these to be translated into operational outcomes.

Strategic issues largely drive the meeting agenda, whereas operational aspects dominate the discussion, which reinforces the role of NPD meetings in terms of translating strategic issues into operational outcomes. A mix of five senior and middle managers comprise the NPD meeting group. The accountant is an active participant in the NPD meeting. The marketing manager organises and coordinates the NPD agenda, but the overall thrust evident at meetings is strongly team-based. Short-term strategic goals derived from the strategic plan and knowledge of competitive pressures and opportunities are used by the marketing manager to construct an agenda of action points and tasks for NPD group members to discuss. She commented: *"The whole hub of what I do here is the NPD. It either goes up from the NPD or down and out from the NPD. That's the one critical meeting"* (senior manager 4).

Key attributes of NPD meetings include an emphasis on conversation and interaction, group decision-making and consensus. All participants view the focus of the meeting as collective and no particular interest group or perspective, including accounting, is privileged or dominates. For example, the accountant remarked: *"You'll see the team approach that we take at the NPD meeting, how we do it as a group. You'll see people raising things that have nothing to do with their traditional job roles"* (senior manager 2). In this sense, NPD meetings are reflective of Quinn's (1996) concept of "extensive discussion", which he proposed as an important component in the control of strategy implementation. The idea of extensive discussion extends beyond Simons's (2000) notion of interactive control, which is more functional-orientated in terms of discussion relating to particular formal control measures, and is therefore not as far-reaching as Quinn's (1996) concept. The NPD meeting highlights a key role for a semi-formal meeting as part of a strategically focused MAC approach. Such a meeting would be focused specifically on strategy and its implementation and incorporate a core group of management staff. While the overall strategy implementation approach at FH is strongly informal, the weekly NPD meeting provides a key anchor or reference point for this.

Organisation structure

A further enabling factor in relation to strategy implementation is the flat, non-hierarchical organisation structure at FH. In relation to structure, a manager commented:

> *I think that one of the biggest positives is that we're a very flat management team and we're a very flat staff to management structure. Hierarchy doesn't really come into it here. [The CEO] is out there in the factory every day just about and I'm out there in my gears mixing if I have to... It's many hands I think and many eyes.* (manager 2)

The flat organisation structure reinforces the idea of strategy implementation occurring as a regular and natural activity within the organisation, rather than, for example, being a discrete responsibility of a select management group. In this regard there are no job titles or formal designations that include 'strategy' or suggest such a relationship. Hence implementation of strategy implicitly becomes part of everyone's responsibility. However, staff generally did not consciously perceive any particular or explicit emphasis in this regard. Rather, the focus on strategy was naturally blended into their regular job roles and tasks. While senior management guided and managed the overall strategy formulation and implementation process, the lack of a hierarchical structure helped them to drive consideration and acceptance of a strategic focus into MAC and daily operations. But this was in a manner that was not obtrusive or obvious in terms of staff perceiving any particular distinction between strategic versus operational and MAC issues.

Rapid and fast-paced

Strategy implementation occurs rapidly at FH. While a logical focus of strategy is the long-term, a constant reference point at FH is its immediate near term impact and the successful management of this. One manager commented:

> *The time scale for what we're doing isn't years – it's more months, sometimes even less. If an opportunity arises and it's a major opportunity then it's a case of lets grab it with both hands and get in and go for it.* (manager 4)

The core focus of management is rapid implementation, and minimising the role of administrative or bureaucratic procedures that could potentially hinder this. A manager described how this worked:

> *Probably the biggest shortcoming is that we are always on a very tight schedule. I've worked in other companies where a new product timeline or even a new machinery timeline can get talked about for a year before anything starts to happen. Here we talk about it one week and we're planning to run it the next week, just about. So [the CEO] is just about selling it before we actually make it in a lot of cases. It's a shortcoming but it's not – I mean that's probably how [FH] has got where it's got. We're quick off the mark and we get things done and get it out there.* (manager 2)

In this context traditional control systems can be overly bureaucratic in terms of their structure and form (Chapman, 1998). Strategy implementation at FH is supported by the underlying company culture and how this influences the highly informal and interactive MAC approach. In this context a board member commented:

> *There's a real 'rawness' to how [FH] do things. That 'rawness' is a strong 'can do' approach to life. They'll take on all challenges and believe they can win every time they go into bat. It's a wonderful spirit that can prevail in that environment. [In the FH] business there's a 'can do' attitude and it's a tremendously invigorating motivator*. (board member 2)

Operational constraints are seldom seen as an obstacle to strategic accomplishment. Often a strategic commitment is made before there is certainty or even clear knowledge in terms of operational considerations and capability. The following comments made by the CEO reflect this:

> *It's important to have the ability to move fast, to change direction quickly and to take short cuts, to dance on your toes. Managers need to be able to move in, organise, without over analysis, and to make instant decisions. This ability has given us an edge over more formalised companies with slow internal communication. Sometimes we end up with the practice or 'ready, fire, aim', rather than 'ready, aim, fire'.*

This contrasts with conventional MAC tools and approaches (e.g. Kaplan & Norton, 1996; Simons 2000; Marginson, 2002; Kaplan & Norton, 2004), which generally assume a more linear or deterministic relationship in terms of the linkages between strategic issues and operational constraints.

The outworking of strategy implementation and its associated lack of formality sometimes gave an impression that the business was in a state of chaos or turmoil. However, this simply reflected a control approach that was rapid and highly integrated with operations, and which was not anchored in some kind of distinct or formal framework. Greater formality and structure might give the superficial appearance of control and order, but this may ultimately stifle strategy formulation and strategy implementation. MAC processes at FH are strongly people-centred and revolve around a high degree of 'messy' people interaction. Strategic change at FH happens rapidly because long-term goals, and the pathways to their accomplishment, are *always* seen as driving and determining the operational side of the business, rather than vice versa.

<u>Formulation versus implementation</u>

The major strategic emphasis at FH appears to be implementation rather than formulation. This is because implementation is more directly focused on operations and is therefore more visible in terms of control systems and the continuing business. This appearance, though, is superficial. Practical segregation of the two areas is neither clear nor obvious. Because implementation is more directly operationally focused, potential hindrances to the accomplishment of formulated strategies only become evident once implementation starts occurring. Hence, to enable implementation to continue, 'instant'

strategy re-formulation and re-implementation will take place concurrently. In this sense, the distinction between the two strategy elements is artificial or only conceptual (Mintzberg et al, 1995).

The Board and MAC

Formal MAC reports are primarily designed to satisfy the wishes of the board, rather than operating managers and other supervisory personnel. A board member commented on how the board took a keen interest in operational matters: *"Boards are given the job on behalf of shareholders to govern and account for the business. The internal performance and information systems [at FH] are not as sound as they should be. So the board does take a keen interest in that"* (board member 1). In this regard the board primarily fulfils a core operating role rather than a governance role. The accountant spoke about the type of information provided to the board:

> *We put out a set of KPI [key performance indicator] reports, which is a growing sort of thing at the moment, because the board is starting to look at them and ask what [else] is needed. When I came here [two and a half years ago] there was nothing.* (senior manager 2)

In relation to strategy the board examined the MAC reports from two perspectives. The first relates to long-term strategic direction and goals, which guides overall firm direction. The second is operational and more short-term focused, but it also contributes to the ultimate achievement of long-term strategic goals. A senior manager described this distinction:

> *You've got to look at this general map to see that we are moving in the right direction. And it's the general direction that the board is looking at – are we getting there? But then the street map of how to get there, on the operations side, shows us: how well we're controlling the budgets; how well we're training our people; how well we're monitoring our efficiencies; productivity; manning levels; output etc*. (senior manager 3)

Even though there was a growing focus on various KPI's, the board considered the overall MAC system at FH inadequate. Various board members commented on how the MAC reports lacked coherent structure, were ad-hoc in design and in need of improvement and development. As a result, various board decisions were being made using only limited or partial formal performance-monitoring information. A board member summarised this prevailing view:

> *I think it's too much in isolation and it's not coherent. The package ought to come together. Isolated bits of paper that are asked for are not really helpful. For example wanting to know how many hours we worked…My observation is that it's superficial, it's not hard enough.* (board member 2)

<u>MAC reports – profitability and KPI's</u>

The actual MAC reports used by the FH board consist of a monthly profit and loss report, supplemented by a set of KPI measures. While some form of profit and loss report has always been part of the reporting framework, the KPI report had only been in existence for just over two years. Analysis of the actual KPI report documentation revealed that it covered the following:

- Sales, split into local and export;
- NZ and overseas aged debtors balances;
- Factory wages, including a separate heading for overtime;
- Production measures of total cost per carton, waste costs and warehouse cost per carton;
- Liquidity measures;
- Stock levels broken into raw materials, packaging and finished goods;
- Foreign exchange cross-rates for NZ versus Australia, USA and the UK.

In spite of a move to a broader set of KPI's, the board places heavy reliance on the monthly profit and loss report to monitor and provide feedback on business performance. In this regard a board member commented on the use of traditional accounting measures:

> *The two measurements that are used at every board meeting are, first of all, did we get the turnover – where did we get the turnover – and did we get the gross margin? And then we'll look at the bottom line. That tends to be the pattern of analysis.* (board member 1).

Respondents also spoke about the growing concentration at board level on the KPI's. In this regard a senior manager remarked:

> *There will be more need for reports based on key performance indices. We will need to know from day-to-day, week-to-week, month-to-month, whether the trend in waste, productivity, manning levels, absenteeism or whatever is actually in control. So it's the key performance indices – the KPI's – that we'll be looking at.* (senior manager 3)

Existing MAC reports were considered to be particularly weak in areas such as the tracking of plant operating costs and their associated impact on margins. For example, there was concern about the factory and warehouse area, in terms of its operating performance, and how this was considered by some respondents to be hindering company profitability. A senior manager commented on the developing role of KPI's in relation to the factory and warehouse areas:

> *Certainly at factory level there is a hell of a lot more focus. The KPI's in terms of wastage, wages, overtime and hours worked – it used to be a very broad brush focus. That's now being driven down much further. A lot more heat is being placed on that area.* (senior manager 4)

Concern was also expressed about the lack of segmented information, in relation to different product types and market groups. For example, a senior manager commented:

> *There are huge opportunities to identify where profitability is coming from. That's a problem with the whole financial system in that we can't say for example that mueslis go better than extrusions, which go better than flakes. And we can't then divide that into [supermarket] chains and look at a chain. That's where we need to go*. (senior manager 4)

The views expressed reflect how the ability to 'drill-down' below aggregate cost, sales and profitability figures was limited. These are important areas for improvement in the view of the board, in terms of structuring MAC information into more detailed categories.

Managers and MAC

Diverse views were expressed in relation to the type of MAC information used and/or needed by operating managers and supervisory staff. Some respondents argued that a greater level of formal information was needed, whereas others said that the existing, largely informal, approaches allowed for better flexibility and responsiveness. Executive managers had a dual perspective, in that they were interested in MAC information from the viewpoint of both the board and as operating managers.

The discussions with various managers and observation of operations revealed that only limited MAC information was provided directly to managers via formal reports. In this regard one manager commented:

> *I see the sales report but it's not printed off for me. It's not printed off and chucked on my desk – it's up to me to go and find it and have a look, which is fine really. There's no point just generating a report that no one looks at. The cost per carton and things are put on the [notice] board in the production supervisors' office. So I know where they are if I want to see them. We don't have a lot of*

reports and the only meeting minutes are those from the NPD – and that's only because there's so much going on – otherwise we don't have meeting minutes either. So we don't have a lot of paperwork. (manager 2)

Much MAC information is informally collected and informally communicated to managers and other relevant operating staff. Discussion relating to such information forms a core part of staff interactions and is an important component of the regular weekly NPD meeting. Some managers also maintain their own systems relating to the collation of external information: *"I've set up my own informal systems using Excel and things like that"* (senior manager 4). Managers appeared to collect, assimilate and process information about the business via their detailed knowledge of operations, and through constant interaction with outside parties, other managers and organisational members, rather than by the use of formal reports. It appeared that through various informal 'interaction processes', managers and a number of other staff were able to glean intimate knowledge about events happening within, or in relation to, various areas of the business. This included the factory, warehouse, various other operating areas, market demands and other external pressures, and their cumulative impact on, and relevance to, FH. High reliance is placed on the ability of individual managers to assimilate relevant information rapidly from a diverse set of informal sources, both internal and external. A senior manager described this:

We can actually walk around the company, and we do, and we know if our people are working to the efficiency set by our standards. We know if materials are there, we know if we're overstocked or understocked. We know if our sales are high or low, we know if our production is high or low and can see the bottlenecks. And so we don't depend on reports. I know before a report is handed to me on packing levels whether we've had a good or bad day. So that means that the emphasis on reports has never been there to drive the company. We will never get to the stage where writing a report will be more important than doing things. We'll never get to a stage where people will wait to have a [formal] meeting to get coordination and communication done, to get things done. (senior manager 3)

Respondents also spoke about intangible factors, such as customer attitudes and workforce satisfaction, when describing how business performance was assessed and the success of strategies determined, given the limited emphasis on formal MAC information. A senior manager commented:

> *Those are not reported, those are not physical reports. They can't be measured, except by say talking to people, getting their individual reactions, sensing the atmosphere.* (senior manager 3)

Various respondents below senior management level mentioned flexible and informal MAC and reporting structures as a positive aspect of the FH work environment. They would contrast their role at FH with jobs previously held in organisations that had a much greater emphasis on formal MAC systems. In this regard one manager commented:

> *I always had a stack of reports but no one had the time to look at them or maybe it's an effort to look at them... Too many meetings – far too many meetings. People had meetings to discuss when they were going to have meetings! It was very, very structured.* (manager 1)

But some respondents expressed frustration about the lack of reports and formal control systems at FH and how a high level of reliance was placed on information communicated and assimilated informally. The costing system, arguably a core source of MAC information, was considered to be in need of an upgrade. This was predominantly in relation to labour, marketing and overhead allocations, as one manager explained:

> *Compared to what I would have done at [company name deleted], it doesn't have a lot of overheads, etcetera in it. We would have a lot more marketing costs added as well, like promotions and such like. In regard to labour calculations, for example, it should be different. From what I can see I'd say it should be different for each product, but it's not.* (manager 1)

Factors that appeared to have influenced the development of a relatively loose MAC approach at FH are its limited size and the strong desire of the owner and senior staff to continue to grow the business even if well developed formal organisational controls were not in place. A senior manager commented:

> *We have grown from a small company to the size we are now, which is by no means big. And so you will find that systems and procedures in a growing company always lag behind. And secondly, when you are in a small company it means that you're extremely hands-on.* (senior manager 3)

The impact of rapid growth at FH has hindered the design and implementation of a more formal MAC approach. The focus, historically, has been on generating aggregate sales, cash flow and business growth, with seemingly little time devoted to understanding in a formal sense, the detail of the underlying organisational performance dynamics. However, as the business continues to expand, this view seems to be changing, with respondents talking about the importance of understanding the business better via improved MAC measures and reports. For example, a manager commented on this: *"It'll be a learning process. Once you understand things, then you understand the measures that you need to continually monitor and continue to improve"* (senior manager 4). However, all managers agreed that the informal and loose control approach at FHs had contributed powerfully to its growth and success. A senior manager summed-up this view when he commented on how outsiders often speculated that FH had been successful because of well developed and highly effective formal systems and structures. He laughed in reaction to this view and said that the outsiders were wrong. The senior manager said that the success of FH resulted from staff, particularly at management level, being proactive and innovative, and taking ownership of decisions and responding very quickly to market and external pressures.

Discussion

An Organic Approach

The people-based processes of interaction at FH were the core control and information channels that managers used to carry out their respective functions. Interaction by various managers, who have extensive continuing contact with various parties external to FH, enabled externally sourced information to permeate rapidly through the business. The people-based approach at FH allows managers a high degree of flexibility in relation to how they undertake their jobs by enabling them to react essentially instantaneously to external change and turbulence. This is because there are no processing or comprehension delays resulting from the need to capture data formally and convert it into structured reports. The impact of such delays is not adequately addressed in the MAC literature. The FH approach enables strategic change and adjustment of the business to take place rapidly. This reflects the idea of performance management, rather than organisational control (Otley, 2001; 2003), and illustrates a key aspect of the interface between MAC and organisational strategy at FH. Conventional and more formal MAC approaches convert internal and external sourced data into some kind of systematic form, which is then conveyed to managers for comprehension and interpretation.

The use of a solely formal or mechanistic MAC approach (e.g. the balanced scorecard) implies that in essence all relevant internal and in particular external information can be captured and conveyed to managers using structured measurement and information systems. Simons (2000), for example, suggests that this is possible. However, many key external factors such as technology and globalisation are not clearly observable, measurable or controllable (Otley, 1994; Quinn, 2002; Esienhart, 2002; Lissack & Roos, 2001). Even if this were possible, it still overlooks the problems and delays associated with capturing and converting external data into structured formats (Fiegener, 1997; Chapman, 1998; Norreklit, 2000; Stacey, 2007). For example, by the time such information is available to managers external circumstances may have changed, rendering the information redundant (Lissack & Roos, 2001; Esienhart, 2002; Quinn, 2002). The approach used by FH avoids problems that can be associated with soley mechanistic MAC systems. On the other hand, the disadvantage of the FH approach is

that miscommunication and knowledge gaps may occur because obtaining the informal information is not a controlled or systematic process (Simons, 2000). Accordingly, information conveyed may be unclear, the intended recipient may misunderstand, or critical information may not have been obtained. However, formal MAC tools may also be subject to problems of interpretation and reliability (Norreklit, 2003; Otley, 2003).

The FH approach to MAC anchors and supports strategy formulation and implementation, which form an integrative part of the continuing business. But this approach is not explicit or necessarily directly recognised by management and other staff. Rather, it is a consequence of an organic approach to control, which enables close integration of operations and strategy. The control approach is described as organic because it emerges from the processes of social activity and the high level of interaction among managers (Kalagnanam & Lindsay, 1998). In other words MAC is highly reliant on people-based interactive processes. Such people-based processes reflect, for example, ideas relating to tacit knowledge, social interaction, trust and organisational learning (e.g. Anand et al, 2002; Berman et al, 2002; Boiral, 2002; Chenhall & Langfield-Smith, 2003; Collier, 2005; Pierce & Sweeney, 2005; Mouritsen & Larsen, 2005; McAdam et al, 2007) and indicate how these could support a more contemporary approach to MAC. The strong people-based approach provides a basis for issues relating to strategy, operations and MAC to be merged implicitly and fully. This facilitates both operational and strategic responsiveness to changing external circumstances by enabling rapid assimilation and comprehension of relevant information. Simons (2000) suggested that interactive or informal-type organisational controls are only suitable in very large and mature organisations. However, the situation at FH, in terms of the people-based or organic approach, demonstrates highly pervasive use of informal controls in a relatively small organisation.

Five characteristics are outlined below and summarised in figure 1 that reflect the case study findings in respect of the operation and role of an organic MAC approach. The characteristics build on the theoretical ideas and insights provided by the case analysis of FH:

1. *High levels of external interaction*. Key organisational members have a high degree of interaction with outside agents. This includes interaction with suppliers, customers, competitors, distributors and various other agents that could influence the nature of the organisation's future direction and performance. Such interaction is regular and frequent, such as daily or weekly.

2. *High levels of internal interaction*. Key organisational members interact frequently with other staff, particularly in an informal or semi-formal context. This encompasses all levels and different functional areas. The focus is on transferring and digesting information gained from external agents, plus on the sharing of information and ideas relating to what is taking place within the organisation. Frequent casual and informal interaction among organisational members is seen as a valuable (rather than wasteful or productivity-reducing) component of organisational functioning. Such interaction is a valuable means of providing a hotbed for the generation of new and innovative ideas that contribute towards the enhancement of organisational performance.

3. *Integration of strategic issues into daily operations*. Strategic issues are considered on a continuous and pervasive basis, rather than being seen as separate and discrete from ongoing operations. A more orthodox 'strategic planning' focus is avoided. An integrative approach is anchored via the adoption of a regular 'strategy translation meeting' (i.e., the NPD meeting). Strategy and operational issues are viewed synonymously. In other words, the operational focus of FH is guided by strategy and not by short-term problems, constraints or threats. The aim is to avoid operational and strategic issues being viewed as unconnected, and strategy being perceived as of only limited relevance in relation to daily operations. Strategic issues are seen as an integral part of daily operations, in the sense that such issues become routine, mundane and natural.

4. *Low emphasis on rule-based guidelines*. FH concentrates on providing key members with a relatively free operating environment, with few administrative or bureaucratic limits on their actions (notwithstanding the need for overall operating parameters). Organisation members are supported and encouraged to exercise their discretion and judgement with respect to developing ideas and taking actions intended to enhance future organisation performance. The focus is on supporting adaptive and pragmatic responses to various issues that FH may confront, rather than placing significant reliance on procedures that might be detailed or codified in organisational operating guidelines.

5. *Low emphasis on formality*. FH functions in a relatively loose and egalitarian manner, including a fairly flat, rather than a traditional or strictly hierarchical, structure. There is a notable lack of emphasis on job titles and roles. Formal meetings are kept to a minimum, with staff encouraged to consult and deal with matters as they arise, rather than via the means of a formal meeting. The emphasis is on informal consultation and consensus building. Documents and reports to support and justify FH's actions and direction are minimised. Instead, aspects such as these are largely dealt with informality, via staff contact and conversation, and not in a formalistic or separate manner.

The characteristics described above illustrate how organisations wishing to adopt an organic MAC approach would need to construct and cultivate a suitable internal organisational environment, in terms of its design, structure and mode of function. The overall goal of an organic MAC approach is to provide organisations with a means of anticipating the future and reacting rapidly and effectively to actual events as they arise.

<insert figure 2 about here>

Board vs. Management Focus of MAC

The looseness and informality of MAC at FH appears to have played a significant role in the growth and success of the business by allowing managers a high degree of strategic and operational flexibility. However, continuing business growth is creating a desire by the board for greater levels of more structured MAC information. There is conflict between the board's desire for more formal MAC information, in order to measure progress against endpoint goals, and the highly flexible control approach used by managers to comprehend and respond to external circumstances rapidly (the flexible pathway), and to strategically position the business. The board believes that greater formal control and accountability is needed within the business, whereas management operates using an unstructured and informal MAC approach.

The MAC reports used by the board are of limited relevance to senior managers in their management (rather than board) role, lower level managers and other operating staff. Their emphasis is continually future-orientated and often elusive, in terms of attempting to identify predictively various external threats and issues of relevance to FH. Hence the extensive reliance on highly informal, loose and flexible organisational controls. The board level MAC reports do not assist in this regard. While the two approaches are not necessarily mutually exclusive, the conflict does highlight how the control information needs of the board and management differ, which is arguably starting to hinder the operation of the business. In particular, the lack of formal information is restricting the board in assessing progress against long-term goals. Because FH will often change direction rapidly, this intensifies the board's desire for better control information. A more structured MAC framework at board level would arguably enable an improved focus on the accomplishment of endpoint goals.

External Information and MAC

Only limited formal MAC information is available to managers on external factors that may potentially impact the business. In general, collation of such information is an important thrust of conventional MAC systems (Kaplan & Norton, 1996; Anthony & Govindarajan, 2007). Information collected by FH about external factors was mainly

informal and fluid in nature and not sourced via a structured MAC approach. The core means used to collect, assimilate, and distribute this information were frequent casual discussions and interactions by managers with firstly, parties outside FH, and then other managers within FH. It was predominantly senior managers who obtained this external information. The external information was often collated by individual managers using their own informal systems. These could be tangible or quasi-formal in nature (e.g., spreadsheet-based) or intangible and non-specific (e.g., ideas gleaned from various sources). This also reflects how the knowledge base for much MAC information at FH was collective, in that it was collected, assimilated and distributed by various managers using interactive and conversational processes. In this regard very little of the information resided within or was sourced from a formal database.

Scope of MAC

The FH approach illustrates a broadening of the scope of MAC, with a more pervasive focus on the *source* and *use* of MAC information, and a lesser focus on the technical role of (management) accountants and the MAC function (Otley, 2001). This pervasive nature of MAC information within FH helped to support and reinforce aspects of spontaneity, trust and a collective focus. In this context the (management) accounting function acted largely in a broad advisory and coordinating role, rather than in a more traditional and narrow control and technical role indicating FH is heavily reliant on informal people-based systems in order to manage organisational performance. This reflects the findings of Byrne and Pierce (2007) concerning the evolving function of management accountants in contemporary organisations.

FH's highly informal MAC approach seems particularly relevant in relation to the turbulent environment which it faces. The approach does, though, have a semi-formal foundation in terms of the NPD meeting. Hence, while the MAC approach may appear highly informal and unstructured, the weekly NPD meeting in particular provides an anchor for the various conversation-based management interactions. In contrast, the board fulfils a more formal MAC role in relation to the achievement of endpoint goals. While their control focus is the future, this largely relates to the initial development and

subsequent accomplishment of endpoint goals and therefore has a more conventional MAC orientation. In this respect the case study highlights a key need for traditional feedback information as part of MAC.

Summary and Conclusion

This study has examined an organisation displaying an innovative mode of operation in relation to MAC. There are three main general findings of this study. The first is the use of a highly fluid and flexible MAC approach. This has minimal focus on formal measurement and is used primarily by operating managers in relation to strategy formulation, strategy implementation and operational control. The approach has a strong orientation towards external information, which is mainly captured and comprehended using organic processes that are conversational and interactive. This is reflective of how 'ownership' of MAC knowledge in organisations is becoming more diverse, rather than being concentrated solely within the realm of accounting. This was a key feature at FH and pointed to a focus on (management) accounting *information*, rather than the (management) accounting *function*. The second main finding is that formal aspects of MAC were relatively weak. For example, reliable information profiling product and customer profitability is not readily available. Reliable information about various cost areas in the factory and warehouse is weak or lacking. Formal MAC information is primarily used by the board to monitor and manage progress against end point goals in the strategic plan. However, the shortcomings mentioned above are restricting the board's monitoring role. In this regard the overall findings highlight a continuing need for formal measurement as a core component of the MAC package.

The board fulfils a core control function by concentrating on a set of feedback measures that relate to strategic goals. In contrast operating managers are very reliant on organic interactive processes for strategic and operational decision making. In this regard decision making at the management level was largely based on 'instinct' or 'feel', which reflects the organic focus. This enabled rapid assimilation and comprehension of information about external threats and issues. An important focal point of the organic approach was a weekly coordination meeting that acts as an integrating mechanism by

linking strategy formulation, strategy implementation and operational control aspects. While this approach may appear less organised and systematic than more conventional control frameworks, it is arguably effective in the turbulent environment faced by FH.

The third main finding is that both strategy formulation and strategy implementation at FH were strongly focused on operations. This was undertaken in a manner that was unobtrusive, in the sense that strategic issues were viewed as no different to any other facet of operations. A range of factors help to explain how close integration with operations was achieved. These include frequent conversational management interactions and a low emphasis on formal communications, such as reports and documents and very few formal management meetings (the only regular meeting was the NPD meeting). Various intangible factors, which reflected the overall company culture, also supported integration with operations, including a high degree of trust among staff, a management approach that was actively spontaneous and a strong team or collective focus in relation to management decision making.

In summary, the interface between MAC and organisational strategy at FH illustrates the powerful role of an organic approach that extends beyond traditional notions of data capture, measurement and control. The approach is flexible and matched to the particular organisational and environmental circumstances of FH. The case study findings provide theoretical and practical insights concerning the potential role and scope of an organic approach to MAC in the development of a strategic focus. In turn this provides an innovative and alternative basis for considering performance management in a contemporary organisational setting.

Figure 1: Traditional Explanation of the Strategic Management Process

Source: Preble (1992)

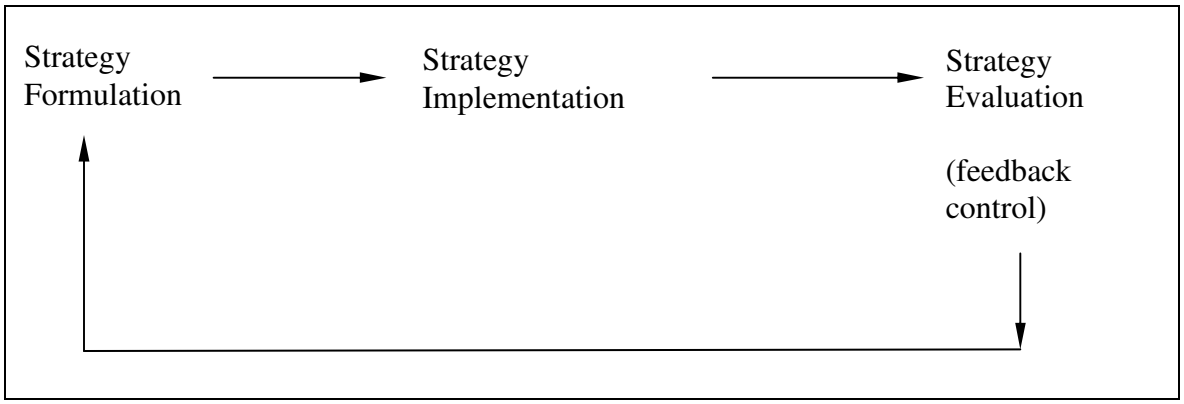
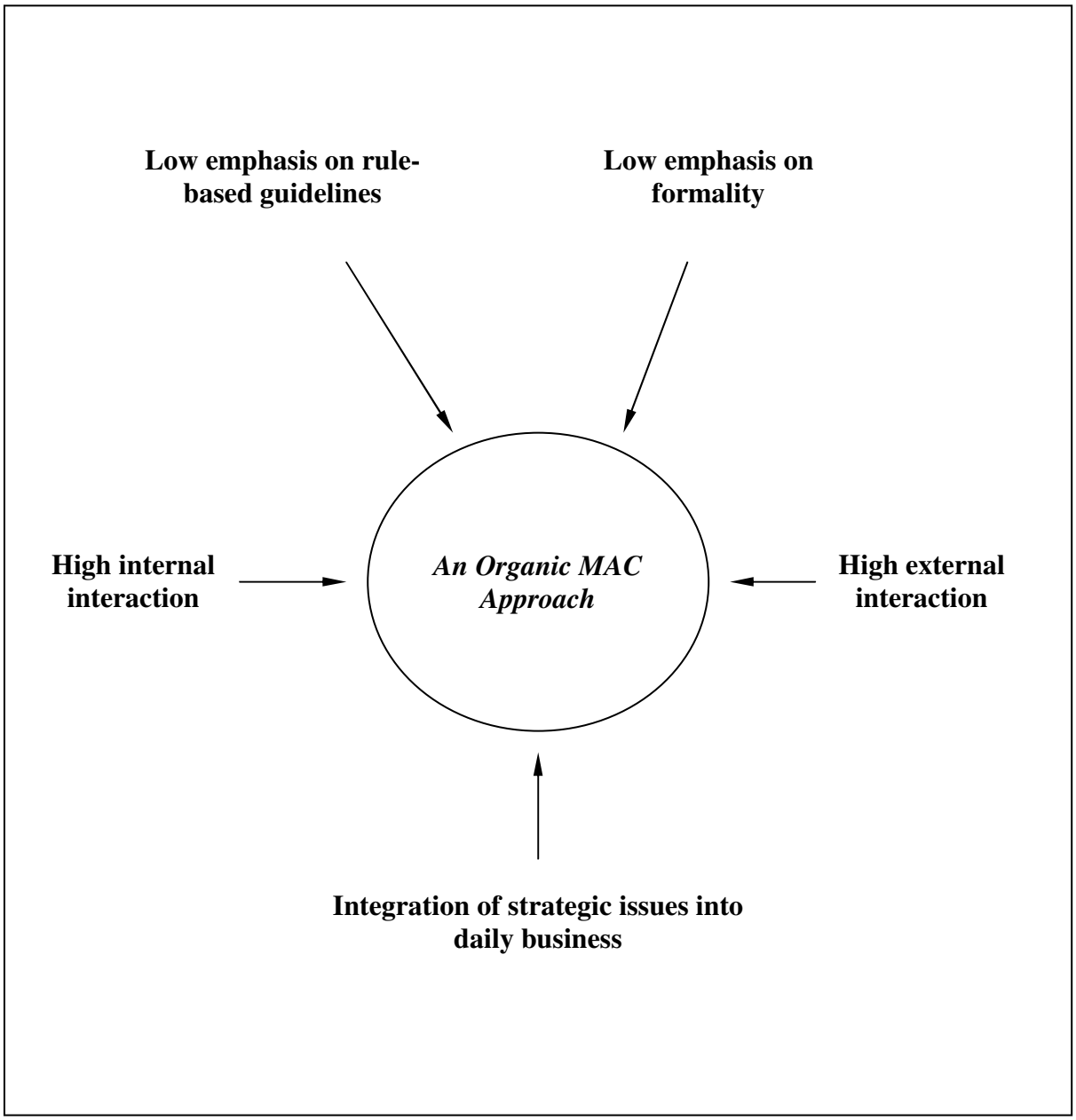


Figure 2: Core characteristics at FH that reflect and support an organic MAC approach



Appendix: Semi-Structured Interview Guide

Personal Details

1. How would you describe your role?
2. How long have you been in this position?
3. What background and experience do you bring to this position?

Developing Long Term Goals and Plans

4. How are long-term goals and plans developed?
5. Who is responsible for this?
6. How structured or informal is the process?
7. Does this involve accounting input?
8. Has the long-term direction changed over time and why?
9. How are long-term plans conveyed to staff?
10. How are long-term plans translated into the daily business?
11. What are the benefits of these processes?
12. Are there any problems or shortcomings with these processes?

Monitoring Long Term Goals and Plans

13. How are long-term goals and plans monitored?
14. How do you know that the long-term goals and plans being monitored are still current?
15. How is information in relation to the previous two questions generated or reported?
16. How structured or informal is this information?
17. What are the benefits of the processes just described?
18. Are there any problems or shortcomings?
19. Under what circumstances do staff directly intervene in operations in a way that could potentially modify the business's long-term direction? How?
20. When and how are long-term plans discussed, debated, and challenged?

Management/Internal Reports and Controls

22. What internal reporting systems are used in the business/your area?
23. What do they cover?
24. What types of measures are used?
25. What is the frequency of reporting?
26. How are budgets set?
27. What is included?
28. What is the frequency of budget reporting?
29. How has the internal reporting system changed over time and why?
30. How are the reports used in various meetings and dealings with other staff?
31. What are the benefits of the reporting system?
32. Are there any problems or shortcomings with the reporting system?

Managing Business Performance

33. How is business performance evaluated?
34. How much emphasis is placed on current financial performance?
35. How is business performance discussed and considered in meetings?
36. Are there any possible conflicts between different types of performance goals?
37. Is business performance information communicated to all staff? How?

General

38. Is there anything else you wish to add?

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