INVITED PAPER

Management Control Theory and Practice Integration – Challenges and Possibilities

*Matti Skoog**

The relation between theoretical aspects of management control/accounting and how management control is practiced in different organizational settings has been discussed for many years and is often referred to as "the theory-practice gap" (Scapens, 1994: Baldvinsdottir, 2010: Jansen, 2018). Interpretations of "the gap" differ quite significantly between studies, but the common denominator is that it is up to research to adjust in order to bridge the gap and reach a better understanding, relevance and in the long run improved integration.

Scapens (1994) promotes a more inductive oriented research approach and he encourages researchers to: *"...look seriously at the nature of all management accounting practices, and not to dismiss those practices which do not conform to some theoretical ideal"*, i.e. move away from more deductive theoretical ideals, influenced by mainstream economics and neoclassical theories, which according to Scapens form the basis of management accounting conventional wisdom. Management accounting practices are by Scapens rather interpreted as institutionalized routines that enable organizations to reproduce and legitimate different kind of behavior. It is therefore of importance to study these routines and the behavior they promote in a more inductive and open-minded manner in order to develop new knowledge.

In contrast to Scapen's call for a more institutional and behavioral orientation of management accounting research, Baldvinsdottir et al. (2010) are more concerned with the lack of studies focusing on the technical core of management accounting. They argue that the technical core which is constantly present in management accounting practice has been neglected due to the emphasis on linking management accounting research to the broader area of social science, such as institutional and behavioral aspects. In many

* Åbo Akademi University/Stockholm University.

Management Control (ISSN 2239-0391, ISSNe 2239-4397), 2020, 1 – Special Issue

DOI: 10.3280/MACO2020-001-S1002

ways they therefore portray “the gap” in a significantly different way than Scapens.

More recently, Jansen (2018) published a study where this gap is investigated and suggests a more interventionistic approach to bridge the gap, for example that researchers should not only observe, discuss and analyze but also engage in the actual practice by assisting in the implementation and reformulation processes in the studied organizations. Jansen proposes that this kind of intervention-oriented research can use systematic literature reviews for assisting in solving specific practical problems. It is therefore not a matter of what is studied but rather how published knowledge can be used in relation to specific practical problems and how researchers then can assist in the implementation process of this knowledge. Any unforeseen effects of the intervention can then provide a basis for theory refinement, according to Jansen.

There are apparently different ways of interpreting “the gap” and the question therefore is what can be done about it, if anything?

It could be argued that this gap often is initiated already in the education processes and structures of management control/accounting within universities and business schools around the world. Management control is often strongly connected to management accounting techniques/structures and therefore very focused on calculative processes and structures. The emphasis is often on how to calculate in the “right way” in accordance to pre-defined theoretical assumptions based on mainstream economics, neo classical theory and finance. In these processes it is rather the “production” of the “right” measures and reports according to pre-defined formulas that are emphasized. The “consumption” such as interpretations, actions and behaviors in relation to these measures and reports, are therefore often marginalized. This “production orientation” is principally linked to the tradition of how accounting has been taught traditionally, where the general conception is that it is impossible to understand accounting and management control if you do not master the measurement and reporting techniques in detail, such as double entry book keeping. The question of context, preference, use and relevance of these measures and reports is often excluded, even on master and PhD levels. One illustrative example is that many students on master levels in accounting do not know how the balance sheet, income statement and cash flow statement are related in a more strategic and business-model oriented way. Neither have the students acquired the knowledge that these relations vary and are of different importance in different organizations and situations. This is of course not a student problem, but a teacher problem.

In addition to this technical "production" orientation within the management control/accounting courses the different sub-subjects of business studies are often taught in isolation from each other. Teaching processes in business studies are therefore often neglecting the fact that accounting, marketing, management and finance are intertwined in complex ways when practiced in both private and public organizations. One of the reasons for this separation is linked to the competences among the teachers and researchers. In order to be relevant in the academic career system teachers need to specialize within a specific subject, which creates a more fragmented/isolated education system. There are very few scholars who can provide the students with a more integrated view of how the sub-subjects of business studies interact, both theoretically and practically within different organizations.

One way to enhance more integration between "production" and "consumption" within the management control/accounting subject could be to critically discuss what the students actually need to understand from both perspectives and hopefully end up in a more balanced curriculum. Regarding the integration with other sub-subjects within business studies, a possible way forward is joint courses between the different sub-subjects and joint teaching sessions. This is not a simple process, but potentially important and relevant from both a scholarly/collegial and student perspective. One successful integration example is Åbo Akademi University in Finland, where this type of integration between the sub-subjects has been practiced since 2018 in their master program in business studies. Worth noting is that the formal teaching and research structures are not taking integration into consideration, which makes integration of sub-subjects an even more difficult task on a continuous basis.

One integration challenge which seems to be neglected by most academics is the one between different practical/professional domains within the studied organizations

The following section presents and discusses some of the more obvious and general integration challenges (Almqvist et al., 2019) which are continuously present in the practical/professional domains of management control.

One of the most obvious integration challenges within the practical domain is the financial and non-financial logic of control. This challenge has been addressed in many ways over the years in studies focusing the application of Balanced Scorecards (Kaplan & Norton, 1996 etc.), Human Resource Costing and Accounting (Gröjer & Johanson, 1998 etc.) and the general applications of intangibles in management control/accounting (Skoog, 2003 etc.) but seldomly, discussed as an actual control or accounting gap.

The general connections between these logics are relatively evident, but seldomly discussed and acted upon in practical settings, since they often are represented by different professional groups within the organization. Accountants and controllers who represent the financial logic generally have a marginal knowledge of the non-financial logic, while human resource, market, sales and sustainability representatives etc. hardly never have enough knowledge and insight in relation to the financial logic of the organization. The bridging of this gap is often interpreted as a need to educate the representatives from the non-financial logic, including managers at different levels, in the financial logic of budgets, product/investment calculations and key performance indicators such as ROI and ROE. This is of course often relevant, but in most cases the opposite education process is also as needed but almost never suggested and performed. This would then mean to educate accountants and controllers in the non-financial logic of the organization including the most important aspects of the actual business model including customer, supplier, competitor and competence aspects that may not be possible to express in monetary terms.

Another classical integration challenge in most organizations is related to different time frames and the balancing act between what has been happening, is happening and what probably will happen. A typical dilemma is to decide if the allocation of resources mainly should be based on what we think will happen in the future, how things are developing at the moment or what we know from the past. Accounting and accountants are often accused for backwards looking, but management accounting/control is actually constantly forward-looking lead by tools like budgets and key performance indicator targets. These targets and budgets are however never more objective than qualified guesses about the future, which could make organizations develop in the wrong direction and/or under-perform dramatically.

As a response to the dominance of budget control, the former CEO of Svenska Handelsbanken (SHB) Jan Wallander decided to abandon the budget process already in the early 1970's (Wallander, 1999). Instead of budgets, Wallander initiated a control process based on internal and external benchmarks where present and historical financial performances for the branches and regions were the basis for controlling the organization. For the bank in total this resulted in the fact that Handelsbanken only had one overarching target: delivering a return on equity which was higher than the competitors average on a yearly basis. I.e. the performance of the bank could not be evaluated before the competitor's numbers were official. This initiative, which of course included more than benchmarking processes, was later conceptualized as the "Beyond budgeting model/method" and implemented in similar ways in several other organizations around the world (Hope & Fraser, 2003, Bogsnes, 2008, Fahlén, 2016).

There are certainly a number of other practically oriented integration challenges, such as the fact that the management control data and signals are interpreted and used by multiple stakeholder groups both inside and outside the organization including employees, managers customers, partners, owners, suppliers, financiers etc. This challenge is mostly discussed in relation to public organizations, but equally important and challenging in private organizations. It is also a continuous integration challenge to integrate management control processes and data between and within operational, tactical and strategical levels within the organization. In many organizations management control/accounting is most evident on the operational and tactical levels of control where budget constraints and deviations are discussed and acted upon, but usually less articulated and emphasized on the strategical levels. This gap may create dramatic miss-conceptions about what has happened and what needs to be done in order to be more profitable, qualitative, productive and/or effective.

What are then the barriers for bridging the gap and creating more integrated management control/accounting processes?

It could be argued that the main barrier within the practical/professional domain is linked to how management control/accounting is communicated. When management accountants and controllers state that they are or have been communicating they most often mean that they have distributed the reports and informed about unbalances of different kind to the those who should have the information. These types of information processes rarely never lead to a fruitful communication where an initiated professional dialogue about the actual business is involved. On the contrary, this is often frustrating for both the sender and receiver of the information and is often related to traditions and worked up routines regarding how management control/accounting information should be distributed within the organization. The "timing" of the actual distribution could also be a barrier since reporting processes seldomly is linked to the business process. The "timing" of the reports and follow ups may therefore be 100% in time according to the reporting process, but with almost 100% miss-timing in relation to the business processes of the organization. (Giuliani & Skoog, 2017). In addition to worked up routines and traditions the actual IT-systems may often work in a non-integrative way, although they are often labelled integrated.

Finally, it is important to remember that management control/accounting formally or legally never is as linked to laws, recommendations and standards as financial accounting and external reporting obligations. On the contrary, management control/accounting main task is to be as relevant as possible for the individual organization and organizational relevance is often not maximized by a very disintegrated management control/accounting system and/or process. Integration also promotes a more holistic perception of the organization, which enables the organization to be more long-term value creation oriented instead of being too focused on the short-term budget targets.

One of the obvious effects of a constantly increasing "practice theory gap" within the field of management control/accounting is that the gap will be filled by other actors and content, such as consultants and the big 4 auditing firms which often support a development to increase their profits instead of increasing the relevance for their customers. These actors already play a major role in the development of management control/accounting in different practical settings and will continue to do so, as long as the development of academical activities and processes are becoming more separated from the development of the practical context.

References:

Baldvinsdottir G., Falconer M., Nørreklit H. (2010), Issues in the relationship between theory and practice in management accounting, *Management Accounting Research*, 21, pp. 79-82.

Bogsnes B. (2008), *Implementing beyond budgeting: unlocking the performance potential*.

Fahlén K. (2016), *Beyond budgeting i praktiken*, Liber.

Giuliani M., Skoog M. (2017), *A critical case study. Critical Perspectives on Accounting*, In press, available online since 24 April 2017.

Hope J., Fraser R. (2003), *Beyond budgeting – How managers can break free from the annual performance trap*, Harvard Business School Press.

Gröjer J., Johanson U. (1998), Current development in human resource costing and accounting: Reality present, researchers absent?, *Accounting, Auditing & Accountability Journal*, 11, 4, pp. 495-506.

Jansen E. (2018), Bridging the gap between theory and practice in management accounting: Reviewing the literature to shape interventions, *Accounting, Auditing & Accountability Journal*, 31, 5, pp. 1486-1509.

Johanson U., Mårtensson M., Skoog (2001), Mobilizing change through the management control of intangibles, *Accounting, Organization and Society*, 26. pp. 715-733.

Johanson U., Skoog M., Backlund A., Almqvist R., Balancing dilemmas of the balanced scorecard, *Accounting, Auditing & Accountability Journal*, 19, 6, pp.842-857.

Johanson U., Almqvist R., Skoog M. (2019), A conceptual framework for integrated performance management systems, *Journal of Public Budgeting, Accounting & Financial Management*, 31, 3, pp. 309-324.

Kaplan R., Norton D. (1996), Using the Balanced Scorecard as a Strategic Management System, *Harvard Business Review*, January-February, pp. 37-47.

Scapens R. (1994), Never mind the gap: towards an institutional perspective on management accounting practice, *Management Accounting Research*, 5, 3-4, pp 301-321.

Skoog M. (2003), Visualizing value creation through the management control of intangibles, *Journal of Intellectual Capital*, 4, 4, pp 487-504.

Wallander J. (1999), Budgeting – an unnecessary evil, *Scandinavian Journal of Management*, 15, 4, pp 405-421.