Management Accounting
Change
Approaches and perspectives

Danture Wickramasinghe and Chandana Alawattage
Management Accounting Change

Management Accounting Change: Approaches and perspectives, an important new management accounting text, bridges the gap between technical, managerial and theoretical perspectives in management accounting. The book discusses technical developments in management accounting from conventional cost accounting to contemporary strategic management accounting and beyond. Part I shows how conventional cost accounting techniques and management control models evolved in line with the development of mass production and bureaucracy. Part II discusses how recent developments such as customer and strategic orientations in business, flexible manufacturing, post-bureaucracy, network and virtual organizational technologies implicate in management accounting. The book also provides a number of alternative theories through which the transition of management accounting from mechanistic to post-mechanistic approaches can be explained. Parts III and IV elaborate rational theories and interpretive/critical theories, respectively.

This exciting text meets a desperate need for an advanced management accounting textbook that incorporates theory with practice that is accessible and engaging for all those studying in this challenging area.

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Management Accounting Change

Approaches and perspectives

Danture Wickramasinghe and Chandana Alawattage
To our families
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Welcome to the changing world of management accounting! In this book, we will take you through this world of management accounting and show you how this particular discipline originated and has changed. We will meet key authorities in the discipline to inquire into why and how this change has occurred. At some points, we will have a break to think about the fascination as well as the complexity of this change. At other points, we will debate whether we have to accept different perspectives on management accounting change. Let us start the journey at the beginning.

THE BEGINNING

The idea of writing this book was generated, thanks to a ‘free’ telephone package, during hour-long intellectual discussions. One day, we were talking about the selection of journal articles for teaching advanced management accounting to third-year undergraduates. We focused on the fact that students at this level often struggle to understand and contextualize these ‘hard-going’ articles. Our conclusion was that there is no bridge between these academic articles and technical textbooks. Even though a lot of excitement occurs in this academic world, nothing is effectively conveyed to these undergraduates. The ‘remedial measure’ which emerged from our discussion was to write this book! But the genesis of this idea goes far back to our own undergraduate learning. In those good old days, we thought management accounting was merely a technical subject. The ability to deal with more ‘complex’ calculative problems would constitute the supremacy of knowledge. After decades of research and teaching, we have now realized that management accounting knowledge lies in a wider spectrum. It lies not only in techniques but also in the changing context in which such techniques evolve; not only in the implementation of techniques, but also in the effects of such implementation; not only in one-sided but also in multiple aspects. A boost came from this realization to write a book on management accounting embracing such a wider spectrum. This is it. It is about the change in management accounting from a mechanistic to a post-mechanistic approach. This is also about multiple perspectives on this change.

The rationale

Change is a pervasive reality. Everything changes everywhere. Management gurus talk about change. There has been a flood of management fads such as ‘change management’, ‘managing change’, ‘incremental change’ and ‘radical change’. Simultaneously, best practices for change are
now emerging. Attempts have been made for popularizing management strategies, such as ‘continuous improvement’, ‘learning organization’, ‘TQM’ and ‘business process re-engineering’. Change has come to be the religion in the field of management. Everybody admires change. Management accounting is not an exception. Since the 1980s the status quo of both theory and practice of management accounting has been questioned. Change has come to the top of management accounting’s agenda. It has become one of the most popular topics among hundreds of Ph.D. students around the world. Some explore how management accounting changed in the last century. Others look into how it is changing now. Some attempt to discern whether there is a real change beyond discourse and slogan. Others try to see whether it changes incrementally or radically. Some question whether change is possible in the first place. Others question whether change is even necessary. Some attempt to explore the issue of resistance to all this change.

Unfortunately, the change agenda has been compartmentalized within academia. Even though ‘new’ techniques are being poured into technical texts, an understanding of change has been far from the territory of undergraduate education. Is this fair to undergraduates and M.Sc./MBA students? Would it be a good idea to add a text covering the change agenda? If so, how could we explain change? How could we produce a complete text? We found answers to these questions through our telephone conversations. The undergraduates and M.Sc./MBA students must embrace the change agenda if they want to know about both the theory and practice of management accounting. As long as there is no such a text, the compilation of a complete text on management accounting is the demand of the day. As long as we are experiencing a rapid change that we have never seen before, it is an immediate necessity. Management accounting change is a response to the external pressures as well as internal transformations. That said, it is due to the interaction between technological/environmental changes and changing management/organizational ideologies. Such changes are fundamentally linked to the nature of economy and society. Once, economy and society were based on craft production. Later, following the industrial revolution, this transformed into mass production within a mechanistic and monopolistic environment. This context gave rise to product costing methods, the ancestor of management accounting. The approach to this accounting came into congruence with mechanization and monopolization: the ‘mechanistic approach’ to management accounting. Now, following the IT revolution in the factory, customer orientation in the market and globalization of the world, ‘good old’ management accounting has become subject to serious attacks from both academics and practitioners. People are now busy discovering a post-mechanistic approach to management accounting to be implemented in new factories within a new market and a new world. A number of new management accounting techniques as well as practices have now emerged.

How do we explain the change? Obviously, there is no definitive answer. The answers depend upon our perspective. Different perspectives produce different views of change. We therefore present all possible perspectives, allowing the reader to choose one or several. You may recognize different perspectives, argue for and against them, and be interested in adopting one or some. It is up to you. We do not believe that there is any absolute truth in the field of management accounting. All we can do is engage in speculation and interpretation. Moreover, we can explain what we see through some frameworks which we think suitable. Our aim is not to provide definitive answers to the issues of management accounting change. Rather, we want to raise issues for thought, discussion and reflection. Perspectives which we unfold in the second half of this book will provide an alternative framework for this intellectual exercise. These perspectives range from fashionable economic ideas to critical political debates, from economic theories to political thoughts, and from well-established models to emerging theorizations.
STRUCTURE AND CONTENT

This book contains fifteen chapters. In Chapter 1, we introduce a framework of views, approaches and perspectives. The rest of the book is divided into four parts. In the first two parts, we concentrate on technical development in management accounting from mechanistic to post-mechanistic approaches.

On mechanistic approaches, Part I discusses the emergence of management accounting in relation to:

- mass production and bureaucracy (Chapter 2)
- product costing (Chapter 3)
- profit planning through budgeting (Chapter 4)
- management control through budgeting (Chapter 5)
- economic models of decision-making (Chapter 6)

On post-mechanistic approaches, Part II covers recent modifications and innovations in management accounting concerning:

- customer orientation and flexible manufacturing (Chapter 7)
- strategic management accounting (Chapter 8)
- cost management (Chapter 9)
- new organizations and management control (Chapter 10)

Parts III and IV introduce perspectives – the rational, the interpretive and the critical. Within the rational perspective, two chapters introduce:

- neoclassical economic theories of MACH (Chapter 11)
- contingency theory of MACH (Chapter 12)

The interpretive and critical perspectives are unfolded in three chapters that address:

- interpretations, institutions and networks in MACH (Chapter 13)
- political economy of MACH (Chapter 14)
- beyond political economy of MACH (Chapter 15)

GUIDE

This book has been written for advanced students in management accounting. By ‘advanced students’ we mean those taking third- or fourth-year management accounting courses at undergraduate level, and those on M.Sc. and MBA programmes. Perhaps the last two parts will be more useful for these students in choosing an appropriate theoretical framework for data analysis.

This book can be read in a tailored manner. If you want to know about management accounting history, you may concentrate on Part I, with a general understanding of Parts II, III and IV. If you want to know about how management accounting change occurs, you may concentrate on both Parts I and II, with an overview of Parts III and IV. If you want to advance your understanding of why management accounting emerged in a particular manner, then you may concentrate on
Parts I, III and IV, with an understanding of Part II. If you need to know about the whole gamut of management accounting change, then you should give all parts your careful and questioning attention. In addition, this book can be used as a reference guide, when academic needs arise, and we have made every attempt to include the most up-to-date references and resources.

However, you use this book, it is important to test your understanding. For this, we have included two types of chapter-end questions. First, under ‘Have you understood the chapter?’, there are questions to test your understanding as well as memory. Second, under ‘Beyond the chapter’, there are open-ended critical questions that will broaden your understanding beyond the mere content of the chapter. When you deal with these questions, you may consult additional resources listed at the end of each chapter in the ‘Further reading’ sections. If you intend to probe into ‘unseen issues and perspectives’, these additional resources will be more helpful.

We hope you enjoy reading this book, and that it will provoke divergent thoughts, theoretical debates and multiple reflections.

**KEY TO BOXES**

*Learning objectives:* Presented at the start of each chapter, these boxes carry the highlights of core coverage in terms of learning objectives/outcomes you should achieve/acquire after studying each chapter.

*Key terms:* Presented between necessary paragraphs throughout the text, these boxes entail relevant definitions of key concepts, techniques and methods covered in respective sections of each chapter.

*Point in focus:* Inserted in respective sub-sections throughout the text, these boxes summarise the main point being discussed, which will be a useful guide for revising each chapter.
This book is a product of the help and blessings of a number of people. From the inception, Professor Trevor Hopper at the University of Manchester encouraged us by providing stimulating comments and guidance. His specific comments on the shape of a book of this nature resulted in meaningful changes and modifications. Equally, Professor Robert Scapens at Manchester was instrumental in providing further encouragement. In particular, one of us had the opportunity to share a final-year course on advanced management accounting with Professor Scapens from which this book began and developed. The students at Manchester who took this course provided formal and ad hoc comments collectively and individually on most of the early versions of the chapters. We were glad to see that the students were excited to know that there is some knowledge of accounting behind numbers which they had inadvertently ignored.

We wish to acknowledge the professional and friendly support given by Jaqueline Curthoys, Francesca Heslop and Emma Joyes at Routledge and their understanding of the pains of putting this book together. While producing it, we received much encouragement and support from the staff in the production department at Routledge. Above all, Emma made all this possible.

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Over the past twenty years or so, we have discussed much of the material contained in this book with undergraduate students from a technical perspective. During the past fifteen years or so, we have discussed the same material with postgraduate and MBA students from a managerial perspective, believing that management accounting textbook materials are universal solutions for organizational problems. It was our studies at Manchester (with Professor Trevor Hopper) and at Keele (with Professor Peter Armstrong and Dr Darren McCabe) that began to provide us with a set of critical perspectives from which those technical and managerial prescriptions of management accounting could be seen differently. We wish to acknowledge those students with whom we enjoyed the ‘wonderful world of management accounting’, and Trevor, Peter and Darren for their
critical insights which led us to question the state of that world of management accounting. This book is a product of this long journey.

We are so grateful to Sanjeevani Cooray, a PhD student at the University of Manchester, and Tharusha Goonaratne, a lecturer at the University of Colombo, for their comments and corrections on technical aspects of the entire book. Mr John Kitching read the whole manuscript in draft and took great care in making comments on the expression and presentation. We benefited greatly from his comments for changes and recommendations. Manoj, Kasun and Shamanie Wickramasinghe provided immense help in ‘correcting’ early drafts and giving all secretarial support.

Our families lived with this book for several years. We are grateful for their forbearance and encouragements during this time which was far too long for all of us. Our wives, Lalanie and Shamanie should have the credit for providing the stimulating academic and social environment in which the book materialized. It was delightful to have our children Imesha and Sajan Alawattage and Kasun and Manoj Wickramasinghe ‘disturb’ the daily writing process.
A STARTING POINT: THE RELEVANCE LOST

Writing in the 1980s, Johnson and Kaplan (1987: xi–xii) argued for a ‘relevance lost’ in management accounting. By this, what they had in mind was the issue of inappropriateness of current management accounting which offered, they believe, little capacity for providing useful and timely information for better decisions and control in the areas of product costing and managerial performance. Moreover, they pointed to the contemporary environment of rapid technological change, vigorous global and domestic competition, and enormously expanding information-processing capabilities. Conventional management accounting which developed from a stable and monopolistic environment had been ‘subservient to financial reporting’ rather than facilitating internal processes for better management of resources.

Johnson and Kaplan contended that the period between 1825 and 1925 represented the heyday of management accounting, during which cost management practices were well developed. However, after 1925, virtually nothing was developed, yet the same practices were used by firms even in the 1980s. If management accounting systems in organizations were to respond to environmental changes and to be shaped into meaningful managerial devices, then there was a simple question as to how the century-old knowledge of management accounting could be suitable for the contemporary world of management. To put it another way, as Johnson and Kaplan illustrated from the case of General Motors, the inadequacy of current systems arose from a lag in replacing pre-war cost accounting systems, designed for financial reporting and tax purposes, with modern information and accounting systems.

The Japanese counterparts of General Motors, Johnson and Kaplan pointed out, were using different methods and techniques detached from external financial reporting and were becoming more competitive in the global market. Emerging management ‘philosophies’ such as total quality management (TQM) and continuous improvement have come to be parts of management accounting systems which provide both financial and non-financial information. Management accountants in such contexts have become business analysts and internal consultants rather than a type of support staff providing auxiliary services to line managers. In Japan, practices of management accounting systems in different organizations vary, depending upon the nature of market they cater to, rather than relying on a set of prescriptions developed outside the organization.
SETTING THE SCENE

What you have seen above is a non-changing nature of management accounting in a changing environment. It summarizes why management accounting has not been responding to this change. In response to this, several new techniques of management accounting have been developed in the last two decades. In this book, we categorize these techniques under three major titles: cost management, strategic management and management accounting in new organizations. This development is now commonly known as management accounting change (hereafter MACh). To learn about MACh, some would tend to concentrate only on these new developments. Does this make sense of MACh? Were there any early changes in management accounting at all? What is management accounting in the first place? How do we learn about MACh in a sensible manner? Is there only one way of learning about change? These questions have motivated us to write this chapter. Let us first talk about your previous management accounting courses.

MACh can be reflected in recent developments in three major areas: cost management, strategic management and management accounting in new organizations.

Basic questions which motivated us:

- Does this make sense of MACh?
- Were there any early changes in management accounting at all?
- What is management accounting in the first place?
- How do we learn about MACh in a sensible manner?
- Is there only one way of learning about change?

The introductory management accounting courses that you have taken emphasized the technical aspects of management accounting. They introduced you to various management accounting techniques. They also guided you to rehearse and practise those techniques through examples and chapter-end exercises. Moreover, from advanced management accounting texts, you learned about new developments in those techniques. Thereby, you may believe that MACh means those additions to the existing stock of techniques. Further, you might tend to think that these techniques emerge on their own. This is partly correct, in that changes in management accounting are reflected in the emergence of new techniques. However, you inadvertently neglect external factors which underlie such developments. To capture the total picture of change, we believe, one should understand not only those technical developments but also their underlying socio-economic factors. One of the main themes around which this book is organized is that technical developments in management accounting take place in correspondence with evolutions in socio-economic systems as a whole. That said, management accounting evolves to serve certain managerial rationales in evolving socio-economic systems.

The purpose of this chapter is to provide a framework which aligns technical developments in management accounting with the major phases in the evolution of socio-economic systems.
To begin with, we will first define management accounting in terms of three different views: technical–managerial, pragmatic–interpretive and critical–socio-economic. These views tell us that the definitions of management accounting can be an interpretive and ideological project rather than an ultimate conclusion of a ‘science of management accounting’. This will also point to an interesting comparison between the three views which blur the widespread conception that management accounting belongs to a single world view dominated by a global project of professionalization.

The second set of learning objectives has been specified for the examination of the notion of MACH. After raising the issue of understanding this term, a section will define MACH as a movement from mechanistic to post-mechanistic forms of management accounting. In this, references will be given to respective chapters to specify the working definitions of the terms ‘mechanistic’ and ‘post-mechanistic’.

The last section of the chapter will define the notion of perspectives, the second theme of the book. Two perspectives will be teased out: rational–economic and critical–social. As will be shown, the perspectives provide not only a meaning system for understanding MACH, but also a guide for evaluating alternative research paradigms which have been debated in management accounting research.
WHAT IS MANAGEMENT ACCOUNTING?

This question has been repeatedly asked by almost all management accounting texts. They rely largely on some popular definitions developed by accounting professional bodies. Accordingly, the commonly held view is that management accounting is a unitary and universal practice, independent of the time and space in which it operates. For this, management accounting has a specific set of functions based on perfectly defined techniques which have been developed from both theory and practice. It is hoped that wherever and whenever these techniques are used, the same outcomes are expected, and their fullest original forms are adopted. While this view has to be respected, we can move beyond this point, to study the subject broadly and realistically.

Instead of providing a firm definition of what management accounting is, it might be better to look at different world views of the subject. In some sense, we can consider three different views of management accounting, and sets of its functions. The first set is related to the technical–managerial view, which is widely held by practising management accountants and most textbook writers. The second set is related to the pragmatic–interpretive view, which is promoted by a group of accounting researchers who attempt to understand management accounting practice. The third set is related to a critical–socio-economic view, which offers critical evaluations of the functioning of management accounting within its broader socio-economic context. A brief account of those views is presented below.

Technical–managerial view

According to the technical–managerial view, management accounting is:

1. A set of calculative practices. In support of decision-making and control, management accountants use various techniques, such as product costing, budgeting, variance analysis, cost–volume–profit analysis, investment appraisal and so on. All these calculative practices are collectively known as management accounting.

2. A managerial function or a sub-system of the overall organizational information system. In an organization, there are certain managerial functions, such as production, marketing, HRM,
R&D, etc. Management accounting, which is often under the purview of finance, is such a managerial function. The role of that management accounting function is to support decision-making and control by providing financial and non-financial information.

According to the technical–managerial view, management accounting constitutes a set of calculative practices and a managerial function or a sub-system of the overall organizational information system.

To maintain management accounting as a set of calculative practices and a distinct managerial function within organizations, the necessary infrastructure is provided by professional bodies and academia. They develop, disseminate and diffuse management accounting knowledge and techniques, and they train and qualify necessary personnel to practise management accounting. Box 1.1 shows two definitions of management accounting from two professional bodies.

**BOX 1.1 VIEWS OF PRACTITIONERS**

**American Accounting Association, 1958**

The application of appropriate concepts and techniques in processing the historical and projected economic data of an entity to assist management in establishing plans for reasonable economic objectives and in the making of rational decisions with a view toward achieving these objectives.

**Chartered Institute of Management Accountants (UK), 2000**

Management accounting is an integral part of management. It requires the identification, generation, presentation, interpretation and use of information relevant to:

- formulating business strategy;
- planning and controlling activities;
- decision-making;
- efficient resource usage;
- performance improvement and value enhancement.

The technical–managerial view represents the conventional wisdom of management accounting which is presented in most textbooks. Students using these textbooks reproduce the underlying techniques in the form of calculative and prescriptive answers to their exam questions. Graduates and professionals, those who have passed these exams, reproduce the management accounting techniques as part of management accounting practices within organizations. Consultants who
believe that these techniques provide solutions to managerial problems reproduce those techniques as applicable models. In this way, the conventional wisdom of management accounting is sustained generation after generation, with some modifications and changes offered by textbooks, universities, professionals and consultants. Being a powerful organizational practice, this conventional view has now succeeded in influencing the daily programmes of organizational and individual lives: we cannot find any organization which avoids the use of accounting information for a variety of purposes. Chapters 3, 4, 5 and 6 introduce this sustained wisdom of the subject matter of management accounting.

The technical–managerial view represents the conventional wisdom of management accounting, with some modifications and changes offered by textbooks, universities, professionals and consultants. This has now become a powerful organizational practice.

Pragmatic–interpretive view

The pragmatic–interpretive view is concerned with management accounting practice. By ‘practice’, we mean the ways in which it is applied and the organizational consequences of such applications. These concerns are usually raised by researchers rather than practitioners. However, as research efforts in this regard are fragmented, it is difficult to synthesize these concerns into a single phrase. Some researchers – for example, Robert Kaplan and his followers – provide descriptive accounts of practices, identify prevailing problems and formulate solutions. Other researchers – for example, Birkett and Poullaos (2001) – study practices, identify changing features and define the subject in more pragmatic terms. Some interpretive researchers – for example, Robert Scapens – study the practice more closely and explain the same theoretically. A brief sketch of the contributions of Kaplan, Birkett and Poullaos and Scapens is presented below.

According to Johnson and Kaplan (see p. 1 above), management accounting is a corporate information system that is subservient to external financial reporting rather than providing useful and timely information for product costing and managerial performance. Thus, it is important, as implied by Johnson and Kaplan, to develop more appropriate management accounting systems for better decision-making and management control. Following this recognition of ‘irrelevance’, Harvard Business School academics led by Robert Kaplan developed/introduced more ‘relevant’ management accounting techniques such as the balanced scorecard (BSC) and activity-based costing (ABC). The former argued for a connection of management accounting with strategy and the role of non-financial performance. The latter introduced an alternative cost allocation method
along with a methodology for ‘activity-based management’. Chapters 8 and 9 will explore these
two developments and their managerial consequences. The chapters highlight that, despite these
consequences, the ‘new’ techniques tend to be popular and influential.

According to Birkett and Poullaos (2001), the current state of management accounting is an
outcome of a historical evolution from the 1950s. In that decade, the emphasis was on the term
‘management accounting’ in which costing and budgeting techniques became the central subject
matter. (This existed even earlier as separated organizational practice.) From the mid-1960s, man-
gagement accounting was a support or staff role which concentrated on planning and control, while
early budgeting and costing became organizational routines. From the mid-1980s, it was about
‘resource management’, which invaded the ‘provinces’ of others, such as waste management, con-
tinuous improvement and business process re-engineering (BPR). From the 1990s, the ‘resource
management’ perspective on management accounting became more focused on risk management
and value creation. Consequently, Birkett defines management accounting in more pragmatic
terms:

Management accounting is part of the management process which is focused on organizational
resource use. Thus, it refers to managerial processes and technologies that are focused on
adding values to organisations by attaining the effective use of resources, in dynamic and
competitive context.

(IMPAS1, section 28, cited in Baxter and Chua, 2006)

Moreover, Birkett (as a single author) articulated that management accounting practice is a product
of four interrelated factors: social institutions (e.g., professions and the state), organizational
context, technologies and research contributions. By configuring these factors, Birkett believed,
the ‘resource-based perspective’ on management accounting can be furthered by establishing
certain organizational practices, such as ‘direction setting’, ‘structuring’, ‘commitment’, ‘change’
and ‘control’. Management accounting (that is, accountants) is a facilitator in materializing these
practices. Birkett also highlighted the fact that, as a distinct professional practice, management
accounting is under ‘threat’, as its current trend is to invade ‘other provinces’ of organizational
practice. As we will see in Chapters 12 and 13, as a result of this boundary clash, management accounting tends to produce both intended and unintended organizational consequences, such as resistance.

Management accounting practice is a product of four interrelated factors: social institutions, organizational context, technologies and research contributions. The ‘resource-based perspective’ can be furthered through ‘direction setting’, ‘structuring’, ‘commitment’, ‘change’ and ‘control’. However, management accounting is under ‘threat’ as it invades ‘other provinces’.

Departing into more analytical and academic views, Robert Scapens (1984, 1994, 2006) points to a gap between management accounting ‘theory’ (as developed in major textbooks) and management accounting ‘practices’ (being prevalent in the Anglo-Saxon world). As will be explained in Chapter 13, this view represents a broader interpretive project by which management accounting is seen as social and institutional practice rather than the direct application of textbook techniques. For Scapens, management accounting practices must be studied and interpreted through what is actually happening, rather than being much concerned about a ‘gap’ between theory and practice. More importantly, management accounting is a set of ‘rules’ that could be ‘routinized’ and ‘institutionalized’ as accepted practices, and if necessary social and cultural imperatives support such a process of ‘routinization’ and ‘institutionalization’. By specifying these terms and providing sociological meanings, Scapens and his followers have developed a theoretical framework called institutional theory, which is now widely used as a tool for explaining the status quo of management accounting in action. The followers tend to study management accounting practices and identify numerous factors that enable or constrain the institutionalization of management accounting within certain organizational settings.

Robert Scapens pointed to a gap between ‘theory’ and ‘practices’. He has recently said that ‘practices’ must be studied and interpreted rather than being much concerned about the ‘gap’. When looking at practices, management accounting is a set of ‘rules’ that could be ‘routinized’ and ‘institutionalized’: an institutional theory view. Scapens’ followers study ‘practices’ and identify numerous factors that enable or constrain the process of institutionalization.

**Critical–socio-economic view**

In contrast to the above views, there is a school of academia which engages in a critical evaluation of management accounting practices in relation to the interplay between organizations and their wider socio-economic contexts. They are critical about the confinement of the meanings of management accounting to technical and managerial aspects of economic organizations. They take the meanings and functions of management accounting beyond the organizational boundaries, and
argue that management accounting practices play certain roles in the reproduction of wider socio-political systems of domination and exploitation. For example, Puxty (1993: 4) argues:

management accounting is a set of social practices that delineate the space within which the activity of the workforce might be made visible and susceptible to rational calculations . . . [It is] an instrument within an enterprise that facilitates the exploitation of, and extraction of surplus value from, its employees by the capitalist interests that, through management, control the accounting systems.

Thus, critical views cannot contain a set of widely accepted definitions. They are debatable, arguable and divergent. As we will show later, these views are derived from certain social theories. A commonly shared feature of these views is that they are sceptical about the technical–managerial views and look to social theories to understand practices: the proponents believe that the practices are theoretical as long as they can be explained in a social theory. As we will show in Chapters 14 and 15, by using social theories, critical researchers address the issues of management control systems in organizations which are reflected in broader structural dimensions, such as politics, class struggle, gender, ethnicity, patronage and the like.

The three views compared

The three views above can be summarized by comparing their aims, focuses, orientations and theoretical foundations. Box 1.2 provides a snapshot of this.

The above comparison points to a movement of management accounting research from a technical–managerial to a sociological orientation. Even though the future of management accounting seems to be uncertain and unpredictable, the present is an interesting contestable terrain in that the opening up of the research agenda to a sociological paradigm results in unlimited avenues of analysis and debate. One vibrant area of interest is MACh, which has brought in new techniques and managerial philosophies. We shall look at this phenomenon of change.
WHY ‘CHANGE’?

We suggest that change is a learning methodology. It guides us to understand how environmental factors shape internal processes within organizations. The environmental factors include technology, competition, globalization effects, economic uncertainty, social and cultural influences, political initiatives and also effects of management accounting research and consultancy. The internal processes include all interrelated functions of R&D, accounting, finance, HRM, marketing, production, etc. Change occurs, we believe, as a result of the interaction between the environmental factors and internal processes. When focusing on change, we can learn how this interaction happens, what factors are more influential, why change is fast or slow, how organizational members react to such change, and how change impacts on the social and economic well-being of a society.

Change is a learning methodology to understand how environmental factors shape internal processes within organizations. Important questions concern how this interaction happens, what factors are more influential, why change is fast or slow, how organizational members react to such change and how change impacts on the social and economic well-being of a society.

As a learning methodology, change can broaden our understanding of management accounting. It leads us to realize that management accounting is a social science rather than a mere set of...
technical tools available for practice. The notion of change shows how management accounting relates to social systems, within which dynamic (changing) relations are maintained. Among these relations, old techniques of management accounting tend to be replaced by new ones, and new techniques become evaluated and condemned when new demands from the changing environment are in place. Such a process of change reflects on the question of how techniques emerged, evolved and were transformed. This means both management accounting techniques and interactive social and organizational context cannot be learned together unless we focus on the change dimension. However, change cannot be understood through straightforward definition. This is because there are different perspectives that can explain change. We will introduce these perspectives later in this chapter.

WHAT HAS CHANGED IN MANAGEMENT ACCOUNTING?

Changes might occur deliberately or accidentally. The deliberate and the accidental have links to the time (history) and the space (geography) in which they occur. Understanding changes along with historical and geographical concerns would constitute a realistic knowledge of management accounting. With regard to linking technical changes with history and geography, the technical—managerial view of management accounting has little to offer. But a combination of all three views mentioned above would give a complete pedagogical approach to understanding MAC. This would enable us to explore the questions of why some techniques and practices came to be prominent, and how these techniques could be reflected in the interaction between the contextual factors and internal processes.

Change places much onus on technological innovations which are linked to customer-orientation and globalization effects. These factors are considered to be the most dominant environmental forces affecting businesses today. Highly dynamic and volatile markets are the resultant immediate business context: firms soon find new customer needs to satisfy and new forms of competition to beat. Markets are fragmenting and ‘mass production’ and ‘mass marketing’ are no longer valid business strategies. Instead, S–T–P marketing has become the generic mode of marketing. Fordism as an organizational form became more or less outdated, and management gurus soon launched into the discovery of organizational forms of greater flexibility and adaptability, such as the ‘learning organization’ (Senge, 1990) and even ‘effective organization’ (Mintzberg, 1983). Visionary leadership, organizational culture, teamwork and networking became the structural apparatuses of the expected organizational form. Continuous improvement, total quality management, business process re-engineering, lean production and so on became the buzz-words in various management discourses. Change management evolved into a popular course in business schools and in-house company training programmes. As a result of all these dynamics, the notion of ‘change’ is now projected not only as a means for various other ends, but also as an end in itself.
The concern for ‘change’ in other disciplines of management had certain knock-on effects on management accounting. Management accountants had to face the challenge of changing their techniques and procedures to meet this overall agenda of change. It is said that traditional management accounting techniques of budgeting and control were no longer sufficient to meet the demands of emerging strategic dimensions of organizations. More specifically, management accounting was faced with the problem of moving beyond the traditional administrative mode of control (responsible accounting) to integrate itself with the emerging strategic and marketing aspects of businesses. It can be argued that balanced scorecards (BSC) and activity-based management (ABM) were reactions to this problem. This drive for integrating strategic and other non-accounting business dimensions with management accounting was quite explanatory in the nature of change taking place in the professional management accounting syllabi: for example, those of the Chartered Institute of Management Accountants (UK).

Management accountants had the challenge of changing their techniques and procedures to meet this overall agenda of change. Balanced scorecards (BSC) and activity-based management (ABM) are reactions. Professional management accounting syllabi are also being changed accordingly.

**MACh AS A MOVEMENT FROM ONE APPROACH TO ANOTHER**

Now we see that change is inevitable and challenging, this book offers a learning methodology for reflection on this important phenomenon. The methodology we unfold is a movement from the mechanistic to the post-mechanistic approach. Mechanistic approach is a broad term we use to define the conventional wisdom of management accounting which persisted until the 1980s. The defining principles are: mechanization in production technology; and production-orientation in management. By ‘mechanization’, we mean the technology used for mass production, one dedicated to produce similar products on a large scale. The engineering character of this technology is semi-automatic and inflexible. Once the investments in such technologies have been made, the recovery of the cost of capital has to be achieved by large-scale production over a long period of time, a production conception which leads to economies of scale. Thus, orientation is essentially centred on production rather than customer needs. Once the firm has identified a large segment of customers, investment is made in technologies to produce for that market. Profit is made by forcing customers to buy the products. This was indeed possible when most firms operated in industries where there was the potential for monopoly or oligopoly. In Chapter 2, this

Technological innovations, customer-orientation and globalization effects are considered to be the most dominant environmental forces. Firms find new customer needs and new forms of competition. S–T–P marketing has become generic. Organizational forms of greater flexibility and adaptability are discovered. ‘Change’ is not only a means for various other ends, but also an end in itself.
broad context is defined and explained in terms of a systematic shift of craft production to mass production.

The methodology we unfold is a movement from the mechanistic to the post-mechanistic form.

The defining principles of the mechanistic approach are: mechanization in production technology; and production-orientation in management.

The mechanistic approach to management accounting emerged to facilitate this mechanistic form of enterprise. As the investment decisions were made very occasionally, much more flexible and dynamic capital budgeting techniques were not a necessity. Methods such as NPV, IRR and payback period were sufficient for evaluating financial feasibility. As production processes were standardized and put through dedicated machines, standard costing and associated budgetary control systems were appropriate to facilitate the process of standardization. Thus, those management accounting practices became easily routinized and institutionalized within their organizational settings characterized by rigid bureaucratic rules. Consequently, responsibility accounting and performance evaluation methodologies became pervasive among large-scale business enterprises, and most textbooks and university and professional programmes built their educational materials on the examples and procedures of these developments. These are the contextual accounts of the emergence of the conventional wisdom of management accounting, and we term this development the mechanistic form of management accounting. Chapters 3, 4, 5 and 6 introduce the accounting techniques and organizational procedures of this form. The topics covered in these chapters are costing, budgeting and profit planning, budgeting and management control, and economic models of decision-making, respectively.

Responsibility accounting and performance evaluation methodologies became pervasive among large-scale business enterprises, and most textbooks and university and professional programmes built their educational materials on the examples and procedures of these developments.

As is shown in Figure 1.1, the mechanistic approach to management accounting moved to a post-mechanistic form from the late 1980s. Production systems are now governed by digital technologies with a manufacturing flexibility. Flexible manufacturing environments are now capable of creating a variety of product designs and functionalities which can satisfy the divergent needs of customers. Possibilities have also been created for the production-orientation of management to shift to a customer-orientation. The marriage between the digitalization in technology and the customer-orientation in management has given rise to new ways of doing business, and new
business enterprises through which competitive advantage is achieved by exploring ‘economies of scope’, as opposed to ‘economies of scale’. The form of organization which serves this change has also now changed into a post-bureaucratic form where we can find new features, such as organizational flexibility and functional integration. Chapter 7 will elaborate on this broad context of post-mechanistic form of the business enterprise, and reading that chapter is a prerequisite for locating new management accounting in its proper context.

Chapters 8, 9 and 10 will reveal the heart of the subject matter of what we call the post-mechanistic form of management accounting. The respective topics covered in these chapters are ‘strategic management accounting’, ‘cost management’ and ‘management accounting and control practices in new organizations’. Following the reconfiguration of production technology and its orientation into a digital and customer-oriented form, the function of management accounting has now become integrated with strategic dimensions of business and management which you will learn about in Chapter 8. As opposed to the conventional methods, costing techniques now have changed to ‘activity-based’ methods which are linked to ‘activity-based management’. You will learn about these developments in Chapter 9. Moreover, due to the deconstruction of organizational form into a more flexible and post-bureaucratic one, management accounting and control systems have also taken a new shape. By reading Chapter 10, you will learn that organizational consequences such as lateral relations, teamwork, inter-organizational–network relations and hybridization of work, including management accounting, have produced new forms of management accounting and control systems.
PERSPECTIVES ON MACh

We have now explained that management accounting has changed from a mechanistic to a post-mechanistic form. The fundamental question before us is why this change has occurred in this particular manner. No answer is straightforward, but we have used the term ‘perspectives’ to provide some explanations. By ‘perspectives’ we mean alternative theories which are capable of explaining the practices of management accounting. As one theory can vary from another, we cannot find one universal explanation for the existence and persistence of such practices: different ‘perspectives’ would give us different answers, together with distinct interpretations. These different ‘perspectives’ should be consulted with a view to interpreting the changes in different ways. This will not only broaden our understanding of management accounting practices, but also guide us to design appropriate management accounting systems for respective economic organizations. A theoretical perspective gives you a lens to see something more clearly, in greater detail. A single perspective may lock you into one unitary view. In contrast, divergent theoretical perspectives provide you with different lenses that can change your world view. Different views can broaden your understanding, by making you think that ‘there are other things as well’. For seeing MACh in this way, we categorize these ‘perspectives’ into three main camps: rational, interpretive and critical.

‘Perspectives’ are alternative theories which may explain the practices. Different perspectives would give different interpretations/explanations and make you think that ‘there are other things as well’. Three ‘perspectives’ will be discussed: rational, interpretive and critical.

Rational perspective

The rational perspective represents the mainstream of management accounting research. Its theoretical stance is built upon neoclassical economics and theory of organization. While neoclassical economics provides frameworks for seeing management accounting as a set of calculative practices which help decision-makers to maximize their utility, organization theory comes to understand the relationships between management accounting systems and contingencies. Rational theories of management accounting which developed from both neoclassical economics and organization theory can be threefold, as is shown below.

Rational theories of management accounting which developed from both neoclassical economics and organization theory can be threefold: transaction cost theory, agency theory and contingency theory.
Transaction cost theory of management accounting

This is an extension of neoclassical economics and is presented in historical analysis of MACH (Williamson, 1970, 1975). The proponents of this approach (e.g., Johnson and Kaplan, 1987) take the view that managerial co-ordination within organizations rather than market transactions is key to achieve economies and, in turn, efficiency. The role of management accounting is to reduce the cost of this managerial co-ordination. It is assumed that by reducing the ‘transaction costs’, profits can be increased and that by enhancing the managerial co-ordination, developments of the capitalist enterprise can be made. According to the proponents of this theory, this explains why and how management accounting came to be an inevitable technical development in the history of business. Johnson and Kaplan (1987) argue that management accounting was developed in response to managerial actions in a search for efficiency. In this way, MACH occurs when existing techniques are no longer effective in the preservation of effective managerial co-ordination, together with reduced transaction costs.

Agency theory of management accounting

This is also derived from neoclassical economics. It aims to formulate the relationship between principals (owners and senior managers) and agents (managers and their subordinates), whereby agents are appropriately motivated (or de-motivated) to act in the interest of the principal: that is, maximizing the wealth (Baiman, 1982, 1990; Spicer and Ballew, 1983). The role of management accounting in this relational context is to develop the models of performance evaluation, management control, decision-making, etc. It is believed that these models are embedded in organizations through persistent relationships between the agents and principals. In other words, management accounting is presented to resolve the problems of divergent interests between agents and principals (Wilson and Chua, 1993). When the principals realize that present management accounting techniques tend to be invalid in resolving the agency problem, they search for new techniques.

As an extension of neoclassical economics, this theory takes the view that managerial co-ordination within organizations, rather than market transactions, is key to achieve economies and, in turn, efficiency. The role of management accounting is to reduce the cost of this managerial co-ordination.

Agency theory aims to formulate the relationship between principals and agents, whereby agents are appropriately motivated to act in the interest of the principal. The role of management accounting is to develop models of performance evaluation, management control, decision-making, etc.
Contingency theory of management accounting

This draws on systems theory and organizational and behavioural decision theories. The researchers in this school tend to understand the relationship between environmental and organizational variables. The included environmental variables are technology, uncertainty and complexity; and organizational variables are structure, ownership, size, task complexity, decentralization, etc. By adding more variables, management accounting studies have focused on the relationships between environmental and accounting variables (such as types of budgeting, participation in budgeting, control models and performance evaluation systems) as well as between organizational designs and accounting variables. The aim of this type of study is to generate possible generalization about the above relationships and to prescribe how management accounting can be best used in different situations. In respect of MACH, the position of contingency theory is that as long as present techniques do not match the changing environmental demands, new techniques must be developed in conformity with new demands.

As economic-rational perspectives on MACH, transaction cost theory and agency theory can be read about in Chapter 11. There you will learn the fundamental assumptions of these theories and their applications to management accounting research, with a brief evaluation of such research. Contingency theory is something of a deviation of the economic perspective, but it still maintains a kind of rationality by providing the prescription that management accounting systems can be understood by an examination of the relationships between accounting systems and contingent factors. You will learn more about this perspective in Chapter 12.

Interpretive perspective

This provides us with a particular methodology for doing management accounting research. The main thrust of this methodology concerns the belief that practices of management accounting are not artificial. Rather, they are the outcomes of shared meanings (perceptions) of organizational actors. For instance, organizational goals cannot be rationally developed instruments for achieving organizational effectiveness. Instead, they are regarded as symbolic resources drawn upon to guide and legitimize a variety of potentially contestable actions. Thus, MACH is not an objective phenomenon: it is an outcome of those contestable actions guided and legitimized by shared meanings. Rather than relying on deliberate actions by outside consultants, MACH occurs through natural organizational processes fortified with intersubjective meanings and competing actions. A foremost exemplar for an interpretive perspective on MACH is Berry et al. (1985), which shows how a particular production culture became prominent through shared meanings leading to the control of labour.
The interpretive perspective is a particular methodology for doing management accounting research, a belief that practices of management accounting are the outcomes of shared meanings of organizational actors. For example, Berry et al. (1985) show how a particular production culture became prominent through shared meanings leading to the control of labour.

Thus, the interpretive perspective is a research tool which is used to explain management accounting practices. Unlike rational theorists, interpretive researchers believe that ‘rationality’ can be articulated through subjective interpretations of organizational participants, such as managers and employees. Thus, ‘rationality’ is an interpretive project rather than a universal reality that can be seen in every organization. By doing case studies of individual organizations, such interpretations can be documented. As you will see in Chapter 13 interpretive researchers began to conduct such case studies from the 1980s and reported on how management accounting systems produce different consequences which are not seen by rational-economic theorists. You will read some summaries of such case studies in that chapter.

‘Rationality’ is an interpretive project rather than a universal reality that can be seen in every organization. Interpretive researchers conducting case studies report on how management accounting systems produce different consequences which are not seen by rational-economic theorists.

Moving much further, interpretive researchers developed their perspective by using particular social theories. Again, you will see that development in Chapter 13. We have highlighted three such theories: institutional theory derived from old institutional economics and evolutionary economics; new institutional sociology; and actor–network theory. We will not describe these theories here, but we want to emphasize that the interpretive project has developed along with the development of theoretical stances, and has enriched the interpretations of management accounting practices by providing case study evidence. Researchers use these theories, on the one hand, to explain the data (about management accounting practices) and, on the other hand, to explain and modify the theories. Thus, the interpretive perspective is involved in both theory application and theory development.

Interpretive researchers also use such social theories as institutional theory, new institutional sociology and actor–network theory, and enrich the interpretations of management accounting practices.
Critical perspective

As is explained in Chapters 14 and 15, a critical perspective on MACh emerged in response to the problems of rational perspectives and also to resolve some problems of interpretive perspectives. The proponents of this perspective examine the interplay between the organization and the broader socio-economic and historical context by consulting other social sciences, such as sociology, history, political science, anthropology, etc. This disciplinary shift leads critical management accounting researchers to identify a number of limitations of the rational perspective. Puxty (1993) outlines these limitations.

- It is framed from the perspective of the organization. Thus, management accounting has nothing to do with the broader socio-economic and social context.
- It treats the organization effectively as a closed system. So, except for contingency theory of management accounting, most mathematical models of decision-making and control ignore the existence of the environment of organizations.
- It has a technical orientation. This is because management accounting is specifically geared towards evaluating only the technical efficiency of the process of producing something, rather than evaluating the totality.
- It is prescriptive, in that it provides better methods of doing things. The management accounting textbook writers are not sure if these techniques are used in practice, but they feel that they should be.
- It is ahistorical. Rational perspectives usually tend to ignore historical evolutions of management accounting techniques. Instead, they believe that they are static methods to be used for ever. But, in practice, this is not the case.
- It is apolitical. Even though political issues such as the question of power (and interest) are naturally presented in management accounting practices, the rational researchers implicitly avoid them. This is far more difficult than in any social science.
- It is rationalistic. Management accounting is based on rational behaviour: rational calculations, rational decision-making and rational controls. However, rationality is, to some extent, insubstantial and bounded.
- It is functionalist. Management accounting techniques are said to be beneficial to the organization – there are no dysfunctional effects. This is why techniques such as standard costing have survived for half a century.
- It is reductionist. The use of management accounting is reduced to two domains. One is that management accounting is about a mere economic phenomenon. The second is that social effects of management accounting can be reduced to individual effects and individual actions. The practices beyond economic phenomena and effects on broader organizations and society are then ignored.
- It is positivist. There are two assumptions about management accounting research. The first is
that management accounting phenomena are measurable practices and principles. The second is that these practices and principles can be tested through mathematical/statistical models for proving or disproving predetermined propositions (hypotheses). Thus, the practices that are unmeasurable (such as social and political) keep out of the domain of research.

- It is problem-centred. Management accounting is meant to solve problems rather than see how it is implicated in organizational problems. Some organizational problems develop from management accounting initiatives, and these problems are often linked with social problems.

The limitations of rational and interpretive perspectives have stimulated a critical perspective that has developed a number of alternative theoretical frameworks. The commonality of these frameworks is that they see the practices of management accounting beyond technical boundaries and articulate how and why they are organizationally and socially embedded. You will become acquainted with these frameworks in a two-way categorization.

**Political economy**

This branch of scholarship developed from an identification of limitations of the interpretive perspective. Studies such as Cooper (1980), Hopper *et al.* (1987) and Cooper and Hopper (2006) show that there are broader structural factors which pre-empt the meanings and actions persistent in organizations. The political economy of accounting considers such structural factors as family, state, accounting profession, culture, political ideologies, industry, commerce, international relations, trade unions, etc. It is argued that these structural factors permeate a ‘historical totality’: that is, a political economy of capitalism which aims to search for a means of yielding a profitable surplus. MACH is presented in a context of political economy, and the purpose of change is to provide such a means. Specifically, MACH can be understood by referring to the labour process theory – one widely known political economy framework. According to that theory, MACH is seen as a consequence of the class structuring of production relations: struggles between labour and capital, between one group of professionals and another, between managers and workers, etc. For the purpose of appropriating surplus, new surveillance and control systems (embedded in management accounting and control systems) need to be instituted within such class-based organizational settings. To the extent that the existing management accounting and control systems become inappropriate, more ‘appropriate’ systems need to be introduced, diffused and adopted. In relation to MACH and professional rivalry, similar arguments can be found in works such as Armstrong (1985).

According to the critical perspective, broader structural factors permeate a political economy. MACH is seen as a consequence of the class struggle. For the purpose of appropriating surplus, new surveillance and control systems need to be instituted.
**Post-structuralism/postmodernism**

The structuralism fostered in the political economy of MACh has now been questioned for its deterministic nature. The ensuing scholarship overcoming this problem is now known as post-structuralism/postmodernism (PS/PM). Despite the difficulty in differentiating post-structuralism from postmodernism, there is a common goal of this trend. While structuralists attempt to develop a unitary framework about the ways in which MACh occurs, PS/PM offer indeterminacy rather than determinism, diversity rather than unity, difference rather than synthesis and complexity rather than simplification. Hence, MACh can be understood by referring to a variety of factors, such as power, knowledge, language, meanings, discourses, gender, ethnicity, etc. Two foremost figures used in management accounting research are Michel Foucault and Jürgen Habermas, French and German philosophers, respectively. The Foucauldian view of MACh is that the emergence and development of controls (such as management accounting controls) are due to the imposition of discipline on to and punishment of individuals, making them governable and controllable (Hopwood, 1987; Miller and O’Leary, 1987; Hopper and Macintosh, 1993). The Habermasian view of MACh is that management accounting provides ‘steering media’ for the decisions of managers and ‘colonizes’ the ‘life-world’ of people (Laughlin, 1987). PS/PM views do not reject that management accounting is implicated in class structure. However, the researchers in this school clarify how it happens within and outside the organization.

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**BOX 1.3 THREE PERSPECTIVES COMPARED**

<table>
<thead>
<tr>
<th>Essential aspects</th>
<th>Rational</th>
<th>Interpretive</th>
<th>Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational goals</td>
<td>A congruence of interests of organizational participants</td>
<td>Symbolic resources that guide and legitimate a variety of actions</td>
<td>A set of negotiations and reified devices that channel and legitimate sectional interests</td>
</tr>
<tr>
<td>Focus of analysis</td>
<td>Individuals, sub-units and systems</td>
<td>Human consciousness/interpretation</td>
<td>Social interaction and institutionalized subordination of labour</td>
</tr>
</tbody>
</table>

continued
### HAVE YOU UNDERSTOOD THE CHAPTER?

2. What is the difference between management accounting practice and management accounting theory?
3. Why is an emphasis on MACh important?
4. Describe briefly two different approaches to the practices of management accounting.
5. Distinguish between rational, interpretive and critical perspectives on MACh.

### BEYOND THE CHAPTER

1. Is management accounting a branch of accounting?
2. Why does management accounting represent multiple views as opposed to a unitary and universal view?

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**Essential aspects** | **Rational** | **Interpretive** | **Critical**
---|---|---|---
Image of organizational reality | Rational and co-operative behaviour | A shared meaning system | A set of individuals worried about others’ actions, and a site of class (and power) struggle, domination, disciples and colonization
State of management accounting | A technical and neutral information service for decision-making | Interpretive project subject to changes under articulations by members of the organization | A process whereby certain designated actors negotiate shared meanings and a set of control devices shaped by and reinforcing the dominant mode of production
Contribution of management accounting | A mirror-like objective depiction of reality | Subjective and/or theoretical explanations | A language subjectively created and modified inter-subjectively or a partial and interested language of accounting information
MACh | As a result of technical and organizational progress | No historical analysis as depicted by naturalism. In response to crises and opportunities presented by unfolding contradictions, as depicted by PE and PS/PM | Source: adapted from Hopper et al. (1987)
3. Why is management accounting governed by some professional bodies?

4. If we ignore the MACh perspective, then what do you think are the problems of studying the subject properly?

5. To what extent are the perspectives covered in this chapter appropriate for studying change in any other discipline in management?

**FURTHER READING**

1. Johnson and Kaplan (1987) will give you a thorough understanding of the historical development of management accounting in the USA and the issue of ‘irrelevance’.

2. Loft (1986) will give another angle for seeing cost accounting developments in the UK. This contains rich data about how costing was used in the early twentieth century.

3. Puxty (1993) will provide a brief theoretical introduction to the social and organizational dimension of management accounting theory. This starts with a critical evaluation of the conventional wisdom of management accounting.

4. Scapens (2006) will help you understand the recent development of management accounting. The subject matter of management accounting can be traced by reading this.


These publications will also prepare you for mastering the materials contained in Chapter 2.
Part I

Mechanistic approaches to management accounting
Towards mass production and bureaucracy

A STARTING POINT: THE CHALLENGE OF A POTTER

Josiah Wedgwood, the famous potter of Staffordshire, whose statue still stands in front of Stoke-on-Trent train station to commemorate his leading role in modernizing the pottery industry, was among the pioneers of developing English factory organization of production during the industrial revolution. His success story was, on the one hand, a series of innovations in superior product designs. What was most remarkable, on the other hand, was his success in transforming a traditional ‘pot-bank’ to a ‘factory’ where discipline of workers, the minute division of labour, the systematization of production and a system of recording and monitoring at a distance the actual performance of individuals were achieved to ensure mass production of high-quality ceramics, which brought him a massive volume of profit. However, it was not an easy task. He had centuries of local tradition to oppose him. The potters had enjoyed their independence too long to take kindly to the rules which Wedgwood attempted to enforce – the punctuality, the constant attendance, the fixed hours, the scrupulous standards of care and cleanliness, the avoidance of waste, the ban on drinking. They did not surrender easily. The stoppages for a wake or a fair or a three-day drinking spree were an accepted part of the potter’s life – and they proved the most difficult to uproot. When they did work, they worked by rule of thumb. Their methods of production were careless and uneconomical. Their working arrangements were arbitrary, slipshod and unscientific, for they regarded the dirt, the inefficiency and the waste, which their methods involved, as the natural companions to pot-making. (Based on McKendrick, 1961.)

SETTING THE SCENE

You should already have read in the introductory chapter that this book concentrates on two major approaches to management accounting change, namely mechanistic and post-mechanistic. Chapters 2 to 6 will deal with the mechanistic approach, and this chapter introduces you to the historical context within which the mechanistic approach evolved. By reading this chapter you will understand that the mechanistic approach to organization and management of economic enterprises evolved against craft production, and it constitutes mass production and its associated structural properties. Hence, in this chapter, two aspects are highlighted:

- evolution of production systems from craft to mass production;
- evolution of organizational forms from aristocracy (feudal) to bureaucracy (capitalist).
MASS PRODUCTION AND BUREAUCRACY

The chapter is historical and contextual. That is because it concentrates mostly on the organizational and social context within which cost and management accounting began to emerge and supported the creation of what we call mechanistic organizations. Relevant materials are drawn from longitudinal cases studies and seminal papers on accounting, business and social history. The central argument is that mechanistic approaches to management emerged as an instrument of managing new contradictions and complexities within production systems and organizational forms of early capitalism (so-called monopoly capitalism).

In this chapter you will first read a brief note on the methods of historical dialectics. By reading this section, you will understand the importance of locating management accounting within its totality and contradictions in order to understand the historical change in management accounting. This section will be followed by a brief note on the broader meaning of production and its associated social relations. After reading this section you will appreciate that production has a broader meaning beyond the technical process of converting input into output and it encompasses a wider set of social relations, which Marxist theories often label as relations in and relations of production.

Second, you will come to know different types of accounting practices that prevailed in Europe before the beginning of industrial capitalism. In this section you will understand that different methods of accounting were present in different modes of production associated with (a) large agricultural estates, (b) overseas merchants and bankers and (c) manufacturers operating what is now called a putting-out system. You will appreciate that the accounting methods in all these three spheres of economic activity were rather rudimentary record-keeping and did not assist in ascertaining cost and managing production.

Third, you will move to grasp salient features of craft production. After reading these sections you will be able to describe craft production in line with six major attributes: skilled craftsmen, infusion of planning and execution, subcontracting as the control structure, infusion of economy and society, collective employment and governance by rituals. This will immediately be followed by
a brief section that deals with how craft production systems evolved into a crisis and how transition to mass production began to evolve.

Fourth, you will reach the major section of the chapter – the transition to mass production. In this section you will understand what changes took place in the production system during that transition. Hence, after reading this section you will be in a position to contrast mass production with craft production. It will also expose you to four major institutional forces that underline the transition from craft to mass production, namely Taylorism, Fordism, bureaucracy and the emergence of cost and management accounting during the late and early decades of the nineteenth and twentieth centuries, respectively. After reading relevant subsections, you will be able to appreciate the contribution made by each of these institutional forces to the construction of mechanistic organizations.

Finally, you will read three alternative theoretical explanations on the emergence and development of cost and management accounting, namely transaction cost theory (TCT)-based explanations, labour process theory (LPT)-based explanations and Foucauldian explanations. After reading this section you will be able to discuss the basic arguments of these three theoretical camps which attempt to provide alternative explanations for the development of cost and management accounting techniques in the late nineteenth and early twentieth centuries.
A BRIEF NOTE ON METHOD OF HISTORICAL DIALECTICS

This book adopts a dialectical approach to understand and explain the management accounting change and, hence, demands an elaboration of the method of historical dialectics. As Cooper et al. (2005: 957) point out, dialectical analysis involves three principles – totality, change and contradictions – each of which, on its own, would not constitute a dialectical approach. They become dialectical when they are taken together (see Figure 2.1).

Dialectical analysis involves three principles – totality, change and contradictions – each of which, on its own, would not constitute a dialectical approach.

Totality

The principle of totality states that the social world we live in is made up of interrelated elements: various social, political and economic institutions, including organizations and their control systems. However, it should be noted that the principle of totality places its focal attention not on the elements themselves but on the relations between them. The key point is relations. It is those relations which define the nature not only of the total but also of its elements. Moreover, this means, that those constituent elements of the total cannot be understood on their own but only through an understanding of their relations to each other and to the totality. ‘It is only when we grasp the relationship between the parts in the totality that we begin to understand them’ (Cooper et al., 2005: 957). For example, let us take the case of management accounting. Management accounting is an integral element of the total organizational system and interacts with other organizational functions such as production, marketing, human resources management, corporate strategy and so on. Not only that, through its professional alignments and systems of knowledge creation and dispersion, management accounting relates to the wider structural properties of global capitalism. One can indeed provide a ‘description’ of management accounting on its own by focusing on the set of tools and processes it typically encompasses (see practitioners’ definitions in Chapter 1). This is internal-looking and provides only a very narrow ‘description’ of what it contains and ignores its ever-evolving role within wider society. A better ‘explanation’ of the management accounting change demands attention on a much wider spectrum: on the set of relations that management accounting holds with other elements of the organizational systems and the dynamics of global capitalism.

Principle of totality requires us to place our emphasis on the relationships among elements that make the total. It is only when we grasp the relationship between the parts in the totality that we begin to understand them.
Contradictions

The principle of contradiction in dialectical analysis holds that deep contradictions and conflicts are inherent in relations of production. The most typical example is the contradiction between workers’ interests and those of the business (shareholders). Workers struggle to maximize wages while the business struggles to minimize cost (of which wages are a part). Similarly, one can very well infer such contradictions and conflicts among all stakeholders. Not only that, there are some obvious conflicts of interest even among different functional departments and professional groups within organizations. For example, Armstrong (1985) has shown how inter-professional competition, especially between accounting, engineering and personnel, had been instrumental in new strategies for labour control.

Deep contradictions and conflicts are inherent in relations of production. Understanding those contradictions is the key to understanding production and control systems.

Change

The principle of change in dialectical analysis relates system changes to system contradictions. As we have already noted, contradictions and conflicts are inherent properties of social systems. An important consequence of such contradictions and conflicts is that they lead to system changes through interrelated cycles of crisis–solutions–crisis. This is important in understanding management accounting change. Throughout this book, we attempt to relate various technical developments in management accounting to crises in the production systems and organizational forms. Hence, it adopts a dialectical approach to management accounting change.
MARXIST UNDERSTANDING OF PRODUCTION

So far in this chapter we have discussed the basic principles of dialectical analysis of the evolution of control systems. In the next section, we will discuss basic features of pre-modern systems of production: that is, craft production. Then we will move to discuss how this craft production transformed into mass production. However, before dealing with all this, we need to make certain clarifications as to the meaning of the term ‘production’. For us, production is not simply the technical process of converting input into output. Instead, as Marx pointed out, it entails relations in production and relations of production. This distinction is important to understand how and why craft production transformed into mass production. The set of relations within which surplus labour is expropriated from the direct labour or immediate producers is termed ‘relations of production’ (Burawoy, 1979). Obviously, these are ‘relations of economic ownership or property relations’, and they are defined as ‘the basis of general relations of dominance and subordination, both within and beyond the sphere of production’ (Littler, 1982: 20). Relations in production or production relations, on the other hand, are the relational aspects of the labour process itself. They are the ‘set of relations into which men and women enter as they confront nature, as they transform raw materials into objects of their imagination’ (Burawoy, 1979: 15). The combination of these two types of relations entails the basic control structure pertaining to production: not only how surplus is created, but also how it is appropriated.

Production should be understood beyond the technicalities of converting input into output. It constitutes relations in production and relations of production – social relations that dictate creation of and appropriation of surplus value.

KEY TERMS

Labour process consists of (a) the actual work men and women do when they are employed, (b) the conditions under which they work and (c) social relations that they enter into while they are at work.

PRE-MODERN MODES OF PRODUCTION

We begin our exploration of the evolution of mechanistic approaches to management accounting by looking at types of accounting control before the industrial revolution. On its eve in Great Britain, according to Pollard (1965), there were three distinct economic spheres within which different systems of accounting emerged.

Large agricultural estates

The fundamental nature of relations of production in large landed estates was the notion of stewardship or agency of the servant towards the proprietor (master). The lands belonged to
aristocratic lords, and were entrusted to his stewards for the purpose of management and control. These agricultural lands were laboured by peasant families and the income to the landlord was in terms of legally compulsory rent payments, dues or services. Pollard (1965: 210) describes a particular kind of a double-entry bookkeeping system used in these large landed estates. All receipts, both in money and in kind, on behalf of the master were recorded as ‘charge’ (debit) while all payments, including the contributions to upkeep the master’s household and cash payments to him, were recorded as ‘discharge’ (credit). Thus, the balance usually was cash in hand with the agent.

**Overseas merchants and bankers**

Banking and overseas merchants were another sphere of economic activity within which distinct accounting practices emerged. Their ‘counting houses’ were claimed to be the oldest root of accounting practices where double-entry bookkeeping emerged (Pollard, 1965: 212). Though there were no sophisticated systems of accounting for capital and return on capital, there were systems of bookkeeping that revealed the profits of individual journeys and individual commodities. Similarly, it is claimed that some of these merchants did have rudimentary cost accounts which dealt with direct cost.

**Manufacturers operating the putting-out system**

Putting-out system refers to a kind of co-ordinating mechanism of ‘domestic manufacturing’ to meet a wider market. Manufacturing was fundamentally domestic and craft-based. That said, production processes such as textile, clothing, metal goods, articles of wood and leather and many more were performed in hundreds of household units by employing mainly domestic labour. The skills and knowledge of manufacturing were transferred from one generation to another on an ancestry basis and often were a speciality of a given kinship group. These domestic production units were often organized along family relations and family control, or on a gang basis with a gang-leader, often called master craftsman. These diverse units of production were co-ordinated by wealthy entrepreneurs and their agents through a kind of quasi-market mechanism where the entrepreneurs provided the fixed capital, raw materials and much of the working capital, and controlled the sale of the finished products (Littler, 1982). The recruitment and control of labour and the supervision of work processes were totally in the hands of the master craftsman. Hence, he
was a kind of contractor of production from the entrepreneurs and received a lump sum for the completed work. His net income consisted of the difference between this lump sum and the wages he paid to his employees/gang plus other working capital he might have accrued. Pollard (1965: 214) argues that, unlike the agricultural estates or merchants, this system of production, by the end of the eighteenth century, did not have any accounting doctrine per se. Instead, entrepreneurs kept their own books as the need arose.

Kinship relations as the basis of production relations, quasi-market mechanism of coordinating production by master craftsman and no clear accounting doctrine per se were salient features of the putting-out system.

CHARACTERISTICS OF CRAFT PRODUCTION

Of these three spheres of economic activity, the manufacturing (craft) sector is centrally important to us because it was the platform where cost and management accounting practices began to emerge. Therefore, we will go on to discuss specific characteristics of craft production and its social organization. This is important, as it will provide the basis of understanding the nature of the transition from craft to mass production. For the purpose of this chapter, and in contrast to modern capitalist societies, we identify the following characteristics of pre-capitalist systems of craft production.

Skilled workmanship

The term ‘skill’ has several meanings. As Littler (1982) illustrates, this term has been conceptualized in three different ways:

- Skill as job learning time. In this sense, a skilled worker is one who received a specialized ‘professional’ or a technical training for a given period of time (e.g., apprenticeship for a given period to qualify as a skilled worker or a professional).
- Skill as social status. This is the social legitimation of certain jobs and professions as skilled.
- Skill as job autonomy. This refers to the worker’s (craftsman’s) capacity to do a job from start to finish without interference or intervention from the employer.

The term ‘skill’ has three different meanings:

- Skill as job learning time.
- Skill as social status.
- Skill as job autonomy.