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## REVISTA DE CONTABILIDAD SPANISH ACCOUNTING REVIEW

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# Explanations for the gap between management accounting rules and routines: An institutional approach



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### ABSTRACT

This is a longitudinal in-depth case study that was conducted within a Portuguese public sector organization, the National Postal Service of Portugal, where two management accounting innovations were implemented. The aim of one of the innovations – Income Statements – was to account for the financial results for the different areas within the organization, which could filter down to its basic elements. The aim of the other – Key Performance Indicators – was to provide indicators to monitor business performance. These innovations were not used in practice as planned, which afforded me the opportunity to explain the existing gap between their rules and routines. To do this, I based this study on the old institutional economics (OIE) inspired management accounting change literature.

Following a strategy of collating together issues from more than one theory, this study contributes to the OIE inspired management accounting change literature by providing evidence that trust and power issues should be analyzed simultaneously and not separately, in order to extend our understanding of how management accounting innovations are (or are not) used in practice, and it also provides evidence that external and internal pressures or the lack of them should be considered through time and not only in explaining the initial stage(s) of the management accounting change processes. The study also provides practical insights for those who intend to carry out changes in management accounting practices in an organizational setting.

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## Explicaciones para la brecha entre las normas de contabilidad de gestión y las rutinas: un planteamiento institucional

### RESUMEN

El presente estudio es un ensayo longitudinal en profundidad que se dirigió dentro de una organización pública de Portugal, el servicio de correos portugués, donde se pusieron en práctica dos novedades en la contabilidad de gestión. El objetivo de una de las innovaciones—los balances de resultados—fue justificar los resultados financieros de las múltiples áreas dentro de la organización, que pudieran traspasarse a sus elementos básicos. El objetivo de la segunda—los indicadores clave de rendimiento—fue proporcionar indicadores para realizar un seguimiento de la productividad empresarial. Estas novedades no se pusieron en práctica conforme a lo planeado, lo que me brindó la oportunidad de explicar la brecha existente entre sus normas y sus rutinas. Para hacerlo, basé este estudio en la literatura sobre los cambios en la contabilidad de gestión, inspirada en la economía institucional original (EIO).

Siguiendo una estrategia de recopilar asuntos de más de una teoría, el presente estudio contribuye a la literatura sobre los cambios en la contabilidad de gestión inspirada en la economía institucional original (EIO) con la demostración de que, si se quiere ampliar nuestro conocimiento acerca de cómo las innovaciones en contabilidad de gestión están (o no) siendo puestas en práctica, las cuestiones de confianza y poder deberían analizarse de manera conjunta y no por separado. Asimismo, se demuestra

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también que las presiones internas y externas, o la ausencia de las mismas, deben ser tenidas en cuenta durante el proceso y no solo para explicar las etapas iniciales de las innovaciones en contabilidad de gestión. El estudio arroja igualmente ideas prácticas para aquellos que quieran modificar las prácticas de contabilidad de gestión en el ámbito de una organización.

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## Introduction

The issue of management accounting change, why and how management accounting practices evolve through time and within specific organizational settings, has been addressed by an important body of literature (Liguori & Steccolini, 2012). The authors argue that researchers have tried to explain the different results and antecedents of change by considering institutional dimensions of organizations and their environment. In order to do so, they often draw on three institutional theories: new institutional economics (NIE), new institutional sociology (NIS), and old institutional economics (OIE). What these theories have in common is the assumption that economic behaviour is formed by institutions, and there is a forceful and persistent argument against the fundamental assumptions of neo-classical economics concerning profit-maximizing actors and economic equilibrium (Johansson & Siverbo, 2009). However, there are differences between these three institutional theories. In the management accounting context, NIE and NIS have been used to explain how the external pressures (economical and institutional) shape management accounting practices. Unlike NIE and NIS, which look at external pressures and limitations from a macro standpoint, OIE views them from an intra-organizational standpoint. The insights of OIE have been used to explain how management accounting practices within an organization evolve over time and why they evolve in that way.

Burns and Scapens (2000) applied OIE to conceptualize management accounting change. The authors proposed a framework to explain why management accounting practices change (or do not change) in organizations. Their framework is concerned with the importance of internal rules and routines in shaping processes of management accounting change. Since the publication of the Burns and Scapens (2000) framework, which was offered as a starting point for researchers interested in studying management accounting change processes, more researchers have drawn on insights from OIE in order to explain such processes (e.g. Borner & Versteegen, 2013; Burns & Baldvinsdottir, 2005; Burns, 2000b; Busco, Riccaboni, & Scapens, 2006; Nor-Aziah & Scapens, 2007; Van der Steen, 2009, 2011; Yazdifar, Zaman, Tsamenyi, & Askarany, 2008). Thus, insights from the OIE inspired management accounting change literature seem to be appropriate for explaining an existing gap between management accounting rules and routines within a specific organizational setting.

Closely associated with the change in management accounting practices is the implementation of management accounting innovations. These have been mostly associated with the so-called contemporary management accounting techniques such as activity-based costing and balanced scorecard (Chenhall & Langfield-Smith, 1998; Chenhall, 2008; Zawawi & Hoque, 2010), when implemented in a specific organization for the first time. In the same vein, Bourne, Melnyk, Bititci, Platts, and Andersen (2013) state that traditional accounting measures have been largely replaced by Key Performance Indicators that focus on non-financial as well as financial aspects. In this paper, management accounting practices are seen as innovations when they are implemented for the first time, and are thus recognized as new by the organizational members.

Two management accounting innovations were implemented in a very large Portuguese public sector organization (hereafter referred to as Post), which is the National Postal Service of Portugal.

One of the innovations, known as Income Statements (IS), aimed to account for the financial results for the different areas within the organization, which could filter down to its basic elements. The other, known as Key Performance Indicators (KPI), aimed to provide indicators to monitor business performance. These innovations had not achieved an acceptable level of stability in order to guarantee the regular production of monthly information as planned and desired. According to the Burns and Scapens (2000) framework I have to say there was a gap between rules, which encompass the new desired management accounting practices, and routines, which represent the new management accounting practices in use. This afforded me the opportunity to explain the existing gap between rules and routines related to the IS and KPI from an institutional approach based on the Burns and Scapens (2000) framework, including its extensions, due to its potential to explain ongoing processes of management accounting change within organizations. To study the reasons behind this (ongoing) gap I carried out a longitudinal in-depth case study (Yin, 2003).

Furthermore, a number of researchers have noted that issues from other theories can enrich the Burns and Scapens (2000) framework in explaining ongoing processes of management accounting change. However, they have mainly added issues from a specific theory. Following a strategy of collating together issues from more than one theory, this study aims to contribute to the OIE inspired management accounting change literature by providing evidence that trust and power issues should be analyzed simultaneously and not separately, in order to extend our understanding of how management accounting innovations are (or are not) used in practice, and by providing evidence that external and internal pressures or the lack of them should be considered through time and not only in explaining the initial stage(s) of the management accounting change processes.

The remainder of the paper is organized as follows. The next section presents the theoretical framework that guides the study, and which precedes section “Theoretical framework”, the description of the case setting and the management accounting practices. Following this, section “Research method” describes the research method and section “Results” presents the results of the study. The discussion of the results follows in section “Discussion” and the conclusions are to be found in section “Conclusion”.

## Theoretical framework

In recent years researchers have been applying different types of institutional theory in order to gain insights into management accounting change. As Liguori and Steccolini (2012) point out, three types of institutional theory have often been adopted within management accounting change literature: new institutional economics (NIE), new institutional sociology (NIS) and old institutional economics (OIE). It is important to point out here the main aspects of each of these in order to clarify why in this paper I adopted an institutional approach based on the Burns and Scapens (2000) framework, including its extensions.

### Institutional approach

NIE is concerned with the structures used to govern economic transactions (Scapens, 2006), and encompasses a wide range of

'sub-theories' sharing the assumption of 'given' and 'abstract' individuals with unchanging tastes and preferences, who are thus exogenous to explanation (Burns, 2000a). Rutherford (1996) states that most work in NIE stems from neoclassical economic theory. Although NIE rejects the notion of rationality espoused by neoclassical economists, it accepts Simon's (1959) notion of restricted rationality. This means that it considers decision making to be restricted, given that the decision-maker cannot manage all the factors that could interfere with the decision being made (see Dugger, 1990). NIE is in its basic principles an extension of neoclassical theory (see DiMaggio & Powell, 1991; Scapens, 1994).

In contrast, OIE and NIS reject the idea that individuals can rationally optimize on utility, but, unlike NIE, they incorporate the importance of culture and society into their analysis. The differences between OIE and NIS are not so significant but are still relevant. While the latter is concerned with the institutions in the organizational environment that shape structures and systems, the former is concerned with the institutions that shape the actions and thoughts of individual human agents (Scapens, 2006).

NIS has been applied by researchers in order to explain why some organizations that exist in highly institutional environments appear to be similar. According to NIS theory, organizations tend to follow the formal structures and procedures that are valued in their social and cultural environment in order to achieve legitimacy and to secure the resources that are essential for their survival (Ribeiro & Scapens, 2006). This search for legitimacy and resources leads organizations to adopt the most visible formal structures and procedures that are diffused within their social and cultural environment. In doing so, they become isomorphic (see DiMaggio & Powell, 1983). Although NIS researchers do not deny competitive isomorphism (e.g. Hannan & Freeman, 1977), they have focused on the three types of institutional isomorphism – coercive, mimetic and normative – in order to highlight the social and political dimensions into which organizations fit (see DiMaggio & Powell, 1983).

In terms of an accounting context, NIS has been used by researchers to study how accounting practices conform to external pressures and how accounting information is sometimes used ceremonially. From the outset, this type of research has been carried out mainly in the public sector (see, for example, Covalesski & Dirmsmith, 1983, 1988). The ceremonial use of accounting information has been largely explored by NIS researchers under the *loose coupling* concept, which occurs when actual daily work practices do not follow the formal structures and procedures introduced to meet institutional requirements (Meyer & Rowan, 1977). As with NIE, NIS focuses on the external pressures (economic and institutional) that have the potential to shape organizational structures and practices, including management accounting practices. If one wants to understand what shapes management accounting practices in a specific organization, it is not sufficient to remain at the level of NIS. It is essential to go inside the core of the organization and study how management accounting practices are shaped within it (Scapens, 2006). Thus, one of the main criticisms of NIS theory is its neglect of intra-organizational factors (see, for example, Greenwood & Hinings, 1996; Collier, 2001; Dacin, Goodstein, & Scott, 2002; Ribeiro & Scapens, 2006). In this case, the insights of OIE theory are particularly helpful. An important feature of OIE is its consideration of economic systems from an evolutionary point of view (Hodgson, 1993, 1998).

OIE researchers focus on evolution, change and practical issues. This approach allows one to look at the institutions which influence the internal life of organizations, thoroughly exploring the internal pressures and limitations that affect a specific organization's organizational change. Unlike NIE and NIS, which look at those external pressures and limitations from a macro level, OIE takes a micro perspective. Thus, the insights of OIE are helpful when we want to explain how management accounting practices within an

organization evolve over time and why they evolve in a particular way, i.e. what the factors (pressures or limitations) that shape the management accounting practices are.

In the management accounting context, the OIE approach is the most recent of the three institutional theories discussed in this paper. It was first applied in the 1990s (e.g. Scapens, 1994; Burns & Scapens, 2000). Since the publication of the Burns and Scapens (2000) framework, which was offered as a starting point for researchers interested in studying management accounting change, more researchers have drawn on insights from OIE in order to explain the processes of management accounting change (e.g. Busco et al., 2006; Nor-Aziah & Scapens, 2007; Ribeiro & Scapens, 2004; Siti-Nabiha & Scapens, 2005; Soin, Seal, & Cullen, 2002; Van der Steen, 2009, 2011; Youssef, 2013; Yazdifar et al., 2008).

Basing their research on OIE insights, Burns and Scapens (2000) developed an (old) institutional framework to study the intra-organizational processes of management accounting change. The framework has been particularly effective in studies in which power, politics and vested interests are central for explaining the ongoing processes of accounting change. In the next section I will explore the main concepts of this framework.

### The Burns and Scapens framework

The Burns and Scapens (2000) framework deals with the study of the intra-organizational processes of management accounting change, drawing particularly on insights from Nelson and Winter (1982), Hodgson (1988), and Barley and Tolbert (1997). It explains how institutions (at the firm level) can emerge and shape actions in an ongoing process through time (see Fig. 1).

The framework is based on three main concepts: rules, routines and institutions. As Burns and Scapens (2000, p. 7) suggest, "rules are the formalized statement of procedures, whereas routines are the procedures actually in use". In the management accounting context, rules should encompass the existing formal management accounting systems (or desired management accounting practices) and routines should be viewed as the management accounting practices in use. Burns and Scapens (2000, p. 8) also consider that institutions "comprise the shared *taken-for-granted* assumptions, which inform and shape the actions of individual actors" [original emphasis]. These three concepts are interrelated. Some rules become routines and some routines become rules. Furthermore, some routines could become institutions. It should be stressed that the degree of abstraction of these theoretical concepts extends from the rules to the routines and from the routines to the institutions.

In accordance with this framework, there is a link between the institutions (institutional realm) and the daily actions carried out by the members of the organization (action realm). Both realms are the result of a cumulative process of change throughout time, as represented by the solid lines at the top and bottom of Fig. 1. The connection between the two realms is made through rules and routines. The institutions influence the action at a specific moment in time (synchronized effect), which explains that the arrows *a* and *b* are represented vertically. The actions of the agents involved in the processes of change produce and reproduce institutions over time (diachronic effect) by way of the creation of routines and rules. This effect of actions on the institutions is represented through the oblique arrows *c* and *d*. It should be pointed out that the processes of change at the institutional level require longer periods of time than the processes of change at the level of action. Therefore, the slope of arrow *d* is not as steep as that of arrow *c*.

The framework shows management accounting as a set of rules and routines that can be (though do not necessarily need to be) 'routinized' and institutionalized in organizations. This does not mean that management accounting practices do not change. In fact, rules and routines change over time, intentionally or

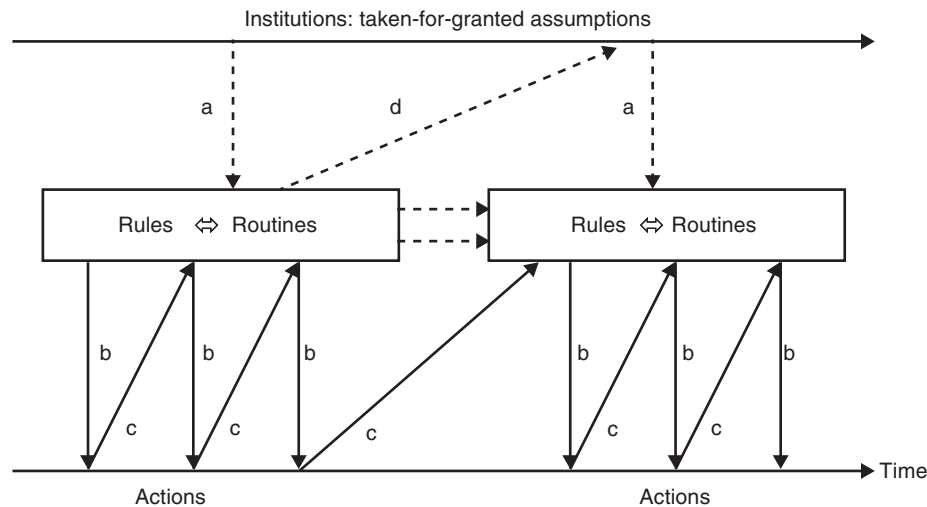


Fig. 1. The Burns and Scapens framework.

unintentionally. Furthermore, within an organization there are not only accounting rules and routines, but also other organizational rules and routines which influence and are influenced by accounting rules and routines. Central to this is the notion that together the accounting and non-accounting rules and routines enable organizational members to make sense of their actions and interactions with other organizational members. Moreover, the rules and routines have the potential to transmit organizational characteristics over time and space. Finally, when the rules and routines are widely shared among organizational members they reduce the potential for conflict within the organization.

According to Burns and Scapens (2000), change which is consistent with the established routines and institutions can be easier to implement than change which modifies the way things are done. Thus, the implementation of new management accounting practices may be accepted or resisted depending on the perceptions of the organizational members affected by those practices. In order to avoid conflict, the management of change requires in-depth knowledge about the organizational context where the processes of change are carried out, particularly in terms of the prevailing routines and institutions that characterize such a context.

#### Limitations and extensions of the Burns and Scapens framework

The Burns and Scapens framework has been used to study the processes of change within individual organizations, and has mainly been used to study resistance to change or conformity to change. The framework adopts a 'micro' level of analysis, focusing on intra-organizational contexts, and gives little attention to the external influences which have been largely explored by NIS researchers (Arroyo, 2012; Johansson & Siverbo, 2009). This does not mean that the Burns and Scapens framework does not recognize external influences. It explicitly recognizes that there are both internal and external ones on the processes of management accounting change, but has not devoted too much attention to the latter.

It is not surprising then that the study of external influences on organizations has been neglected in most of the studies that have used the Burns and Scapens framework. One of the exceptions is the work of Nor-Aziah and Scapens (2007), who explored the interplay between internal and external institutions in shaping the processes of management accounting change. The study described a situation of internal tensions in a Malaysian public utility company as a result of the existing conflict between internal and external institutions. This conflict resulted in a lack of trust

between accountants and operational managers. Recognizing the importance of the institutions located at the 'macro' level environment, Ribeiro and Scapens (2006) explored the complementarities between internal and external institutional influences, i.e. OIE and NIS theories. They argued that a consideration of both theories would provide more comprehensive insights into the processes of management accounting change – including both the processes leading to the introduction of new management accounting innovations and the subsequent processes involved in the enactment of and/or resistance to those innovations.

Trust is another issue whose importance has begun to be recognized when studying management accounting change. In fact, the concept of trust (and distrust) in intra-organizational relations is relatively under-researched in the management accounting literature (exceptions include Busco et al., 2006; Johansson & Baldvinsdottir, 2003; Tomkins, 2001), and needs to be further explored. The study of Busco et al. (2006), which looks explicitly into the issue of trust, explored how the process of building upon trust in accountants facilitated the introduction of new accounting practices in an Italian company after its acquisition by the US multinational General Electric. In contrast to the lack of trust in accountants observed by Nor-Aziah and Scapens (2007), which led to resistance against the introduction of new accounting practices, Busco et al. (2006) report a situation in which the managers trusted accountants to introduce new accounting practices. Over time, these accounting practices have come to be seen as 'expert systems' by operational managers. This has subsequently reinforced the managers' trust in accountants.

The exploration of issues of power is affording deeper insights into the processes of management accounting change. These issues have been explored by some OIE inspired management accounting researchers (e.g., Ribeiro & Scapens, 2004, 2006). Drawing on Hardy's (1996) 'four dimensions' of power, Burns (2000b) highlights power over (1) resources, (2) decision making, and (3) meanings (three of the four dimensions of power), as being key facilitators for the implementation of accounting change. The fourth dimension is the 'power of the system', which has been interpreted in the OIE approach as the power of institutions.

Ribeiro and Scapens (2004) also explored issues of power. In so doing, they identified an important limitation of the Burns and Scapens framework. By important evidence from the study carried out in a Portuguese company, they questioned the notion that taken-for-granted assumptions (institutions) are located at a (sub-) cognitive level, i.e. below the surface of everyday discourse and dissociated from their historical origins. In fact, in this



Portuguese company, rules were held in place, not by taken-for-granted assumptions, but by strong relationships of power (see Clegg, 1989), specifically managed by a powerful agent. Thus, this case illustrates that rules and routines can also be kept in place by explicit uses of power.

Finally, issues of agency and processes of institutionalization are areas that have been neglected in OIE studies of management accounting change (Scapens, 2006). It has not been clear in most OIE inspired management accounting studies how institutional change comes about. These studies have been able to highlight how the processes of accounting change evolve. However, they have been less capable of explaining when, why and how the introduction into an organization of new systems, such as accounting systems, occurs in the first place. In some institutional studies, this situation can be overcome by considering external pressures, particularly those studies that follow insights from NIS theory, or by circuits of power, as is the case with Ribeiro and Scapens (2004). However, what explanations can be given in situations where actors are embedded in the intra-organizational institutions? Drawing on Benson (1977), Seo and Creed (2002) claim that various types of contradictions are created within and among social systems, and that these can transform the embedded social actors into agents of change. In addition, they may further enable and foster the subsequent change processes. In the accounting context, one example of this type of work is the study of Burns and Baldvinsdottir (2005). Drawing on the ideas of contradiction and praxis proposed by Seo and Creed (2002), they highlighted inconsistencies (institutional contradictions) within a division of a multinational pharmaceuticals organization. They pointed out inconsistencies that created openings for accountants' role change(s), as well as further inconsistencies throughout the change process.

To sum up, a number of researchers have noted that issues from other theories can enrich the Burns and Scapens (2000) framework. However, these researchers have mainly added issues from a specific theory. It seems useful to follow a strategy of collating issues from more than one theory in order to explain processes of management accounting change. Thus, to grasp the complexity and richness of the processes of management accounting change in Post I followed this strategy.

### Case setting and management accounting practices

Post is a very large Portuguese public sector organization which operates in four markets: (1) mail, (2) parcels and express mail, (3) financial services and (4) data and documents. Mail is its most important market. Post has faced increasing competition as a result of important changes that have been taking place in the postal sector. The most important of them has been the ongoing process of deregulation as a consequence of the European Community opening up postal services to competition, which commenced in 2000. Another important change in the postal sector is linked to new technologies, because new forms of communication such as e-mail and the Internet are replacing traditional forms of mail. Thus, new products and services have been developed within Post's technological scope such as hybrid mail, digital certification, e-government services, e-logistics, and reverse hybrid mail, resulting from increasing competition in the postal sector, which had stimulated the Board members, managers from the Planning and Control Office (PCO) and other Post operational managers to debate the potential benefits of improving existing management accounting practices.

As Post is a public sector organization, it is the Portuguese Government who chooses the Board for a 3-year period. The composition of the Boards usually reflects the Government's political orientation. Hence, the running of Post is characterized by some top

management instability, which has had an impact on its business strategy, leading to frequent changes in its organizational structure. During the period of this study it experienced at least two different organizational structures per economic year. However, all such organizational structures share a common element. They were organized into three main areas: business, corporate and shared areas (see Appendix A for a chart of main (macro) areas in the organizational structures of Post). Moreover, changes occurred mainly in the business area.

Post being the National Postal Service of Portugal, an 'old' public sector organization experiencing increasing competition and potential privatization, it is slightly influenced by institutional factors, albeit at macro and micro levels.

With respect to management accounting practices, Post has an Executive Information System (EIS), which provides formal business information relating to costs, investments, sales and human resources. This information is available under different perspectives, such as time periods, cost centres, product families, projects and organizational areas. The information is updated on a monthly basis, two weeks after the end of the month. The EIS operates online and provides the above information for about three hundred people in Post, delivering a printed report to managers, which includes planned and actual figures, as well as variances.

The EIS, having maintained a similar structure and scope since its implementation in 1995, has been the main management accounting system encompassing the whole organization. As a result, it has been the main provider of information for the monthly control meetings, in which the Board and the first-line managers take part. However, there are other management accounting systems in Post, such as the budget-control and the activity plan-control systems, which are connected to the EIS. In fact, this system has been largely dependent on those two other systems and on other management information systems, particularly those related to the operational and human resource areas.

The annual activity plan and the budget have been key elements of the control process. At the control meetings current numbers were compared with budgetary and previous yearly figures, on a monthly basis. Moreover, these meetings also involved analysis of what had been achieved in terms of planned initiatives and investment levels.

There is also a cost accounting system, which follows a full cost methodology in computing costs according to products (and families of products) and according to the four main activities, which are reception, sorting, transport, and delivery. In addition, for each product, gross and profit margins are also produced. This information has been delivered every three months by an independent application, which is not directly connected to the EIS. Every six months, Post has sent the information provided by its cost accounting system to the regulator.

In 2003, two management accounting innovations were implemented by the PCO managers, a group of management accountants, which were in charge of both innovations. As already mentioned in the introductory section, one is called IS (Income Statements) and the other is called KPI (Key Performance Indicators). The aims of these management accounting innovations were stated in the PCO plan for the development of the IS and the KPI projects, which was formally communicated to all the organizational areas of Post in January 2003. In this plan it was stated that the IS "will provide monthly income statements by organizational area even for the lower levels of the organizational structure, statements which will include an internal transfer pricing model" and that the KPI "will provide a set of key performance indicators by organizational area on a monthly basis, so this will allow the Board to monitor the implementation of the strategic goals of Post". The PCO implemented the IS in order to increase the accountability of the organizational areas, particularly focusing on the business areas, through the introduction of negotiated

internal transfer prices. Additionally, the PCO implemented the KPI based on the balanced scorecard rationale as explained by one of its managers: “...*The rationale behind the KPI is the same as we knew for the balanced scorecard. We established four perspectives; financial, market/client, resources and process/service quality. Later, for the global Post business, we established what the objectives within each of these perspectives were. Afterwards, we established which indicators, from Post’s viewpoint, would measure these objectives*”.

The PCO implemented the IS and KPI in Post. However, these management accounting innovations did not achieve an acceptable level of stability in order to guarantee the regular production of monthly information as planned and desired. According to the Burns and Scapens (2000) framework there was a gap between rules and routines.

## Research method

In order to explain why a gap exists between the aims of the two implemented management accounting innovations (rules) and their use in practice (routines) in Post, a longitudinal in-depth case study has been the research method adopted. It is the appropriate method to understand and explain in-depth why in practice IS and KPI were not used in the ways that had been planned (and desired), due to the need of detailed, rich and contextual information. In fact, case studies are recommended for studying contemporary and complex phenomena in management accounting (e.g., Ahrens & Chapman, 2006; Parker, 2012; Vaivio, 2008) and are particularly appropriate when the research questions begin with ‘why’ or ‘how’ (Yin, 2003).

I arrived at Post in 2003, the year in which the IS and KPI were implemented. I analyzed the aims of these two management accounting innovations (rules), the way these innovations were primarily used (or not) by Post managers (routines) from 2003 to 2005, and the reasons for the gap between the rules and the routines of each management accounting innovation, as well as how the PCO managers, the owners of the IS and KPI, had managed such a gap over time.

To explain the gap between the rules and routines of the IS and KPI, I analyzed a lot of documentary data produced by the main protagonists, i.e. the PCO managers. Fundamental documents include: the PCO plan for the development of the IS and the KPI projects, presentation materials about the IS and KPI provided by the PCO to all other organizational areas and to the Board; outputs provided by the IS and KPI, and internal reports related to the interpretation of the outputs of the IS and KPI and the PCO’s difficulties in producing those outputs. During the period of the study, I also conducted 8 in-depth, face-to-face interviews with PCO managers in order to explore new issues and to complement or validate issues under analysis. Together the documentary data and the interviews allowed me to build up a profile of the views of the PCO managers regarding the existing gap between the rules and routines of the IS and KPI.

To build up a profile of the views of the managers from the other organizational areas of Post regarding the IS and KPI, I conducted a total of 14 in-depth, face-to-face interviews with first and second-line managers from seven different organizational areas: operations (3 interviews), commercial (2 interviews), marketing (2 interviews), quality and development (2 interviews), human resources (2 interviews), information systems (2 interviews), and finance (1 interview). I interviewed managers from the business, corporate and shared organizational areas (see Appendix A). The average length of each interview was of two hours’ duration. The interviews were tape-recorded and transcribed.<sup>1</sup>

The interview process was iterative in that every new interview that was arranged followed a review of data collected from previous interviews and documentary data collected up to that point in time. Thus, the available transcripts, notes, company documents, reviews and summaries were used to prepare a new interview. Although the interviews were semi-structured, the interviewees were encouraged to do “all the talking” in an attempt to stimulate the emergence of new perspectives.

Brief notes were made during and after each interview in order to record ‘other’ information that was not captured on tape. This information was gleaned from some observations of facial expressions, voice intonation, gestures and periods of extended silence. Additionally, notes were taken in the cases of those parts of the interviews that were not tape-recorded due to requests by the interviewees. Moreover, some interviewees supplied extra information once the tape-recorder was switched off. For this reason, additional time was provided in an attempt to capture additional relevant information. This was also useful for obtaining additional internal company documents. Throughout the period of the field study I maintained informal contacts with some of the interviewees. I thus obtained various types of evidence from diverse data sources. No relevant contradiction between the interviews and the available documentary data was found.

Data analysis in this research was an interactive process. It was conducted in three steps (see Miles & Huberman, 1994). Firstly, data collected from interviews, written documents, notes, etc. were coded and grouped according to each management accounting innovation (IS and KPI), and then categories were formed according to each innovation (rules, routines, and reasons for the gap between these). The aim here was to afford order and meaning to the data collected. Secondly, these data were organized and displayed in tables in order to identify patterns in it. Finally, conclusions were drawn and verified.

## Results

During the period of the study the IS and KPI were producing information once a year instead of on a monthly basis (the original target). On an annual frequency was not valued by the operational managers in Post, and as a result they did not acknowledge these management accounting innovations as appropriate tools to managing their daily activities. This is particularly highlighted by the managers from the business areas and is well portrayed in the following statement made by a manager from a business area when talking about the KPI: “...*as a rule, they [the key performance indicators] should not be presented on a yearly basis. They should be presented in some shape or form. ... I am not saying on a daily basis, but, at least, presented on a monthly basis, so as to be able to know, for example, today, how my work relates to the various key performance indicators that are considered by the application, within the four perspectives*”. Operational managers, particularly those from the business areas, acknowledged the importance of the information encompassed by the IS and KPI, but they too needed to have access to it frequently, preferably on a monthly basis. Otherwise, according to them, they could not make timely decisions in order to change the course of action. A manager from another business area also stated that: “*the information is out-dated and only gives a vague impression. If it had a shorter time scale, we would be able to follow how the area is performing and make managerial changes accordingly. Having only one publication for the key performance indicators, or an idea of the indicators some months after the end of the analysis period, doesn’t allow for any amendment to be made*”.

In addition, as a consequence of the aforementioned frequent organizational structure changes, the outputs of the IS and KPI had been disclosed in an organizational structure scheme that, at the

<sup>1</sup> This material is available to anyone on request.

time the information was made available, did not exist anymore. In most cases there was no coherence between the assessed organizational areas and the new ones. Thus, managers' accountability had changed due to the change in the organizational structure, and consequently their information needs had also changed. This undesirable situation was acknowledged by the PCO managers, the implementers and 'owners' of the IS and KPI, and is well portrayed in the following statement made by a PCO manager when talking about the IS: "...when the IS outputs are delivered, people are managing their activities within the new organizational structure. Thus, the IS outputs do not accurately reflect the current situation because people are acting within the new organizational structure [it is important to highlight that this comment is also valid for the outputs of the KPI system]". Another PCO manager stated: "The conceptual problem isn't the cause of this situation. The root of the problem lies in the development of the information systems not keeping up with the rate at which the business is reorganizing itself. Therefore, when the information is finally available it is already out-dated in relation to the new organizational structure".

Thus, changes to the organizational structure, decided on by the Board, led to changes in the rules of the management accounting information. In other words, the IS and KPI had to be updated each time there was a change to the organizational structure, and there have been many during the period of the study. As a consequence, the time needed for the stabilization of these management accounting innovations was challenged by the frequent organizational structure changes, as explained by the head of the PCO: "All the organizational structure reformulations... in terms of budgeting, departments... that are behind the applications of the IS and KPI, which are tables of these applications, have to be changed. The rationales have to be adapted to the new organizational structure. And this is very time consuming. It takes time to define the new requirements for the new applications because the people within the PCO that develop these processes are, at the same time, having to carry out their day-to-day activities. And hence, we cannot exclusively allocate our human resources to the reformulation of these applications". In fact, those resources were required to deal with many activities including the EIS, the planning and control process, etc., all at the same time.

The PCO managers acknowledged this lack of human resources both in terms of number and of skills. They considered that there was a clear need for a team dedicated to the development and/or reformulation of [the] management accounting practices, and another team to guarantee the regular functioning of these practices on a routine monthly basis. However, despite having no financial restrictions imposed by the Board for hiring people, the PCO has still not expanded the size of its team. The head of the PCO justified this decision as follows: "Concerning the resources, we have one difficulty. It's like this... in terms of IT resources there are no difficulties because they are bought. However, in terms of functional human resources, I mean functional by definition in that the job belongs to us, it's much more complex because this job has to be done by people that know the organization very well. The changes that a restructuring within the organizational structure imply mean that we cannot have an external staff member doing this job. It has to be someone from the PCO who knows these processes very well, and these are staff members that have [at the same time] other activities and other responsibilities".

It was clear that the lack of human resources within the PCO contributed to the difficulty of accommodating the IS and KPI within Post. Nevertheless, it is important to point out that it was the PCO itself which was responsible for controlling this situation. Meanwhile, despite having the option to increase its team, the PCO has not done so because there were still trust issues to be overcome when introducing new members. The members of the PCO team work very closely together. They have known each other for such a long time. Relations of trust have been built, particularly on an

interpersonal level. There were also lots of internal procedures, particularly in terms of extraction, transforming and loading processes of information, which were only known to them. This knowledge has been concentrated within the PCO team and works as a source of power for the PCO at the organizational level. This seems to be the reason that justifies the argument provided by the head of the PCO that the adaptations of the management accounting applications to a new organizational structure had "to be done by people that know the organization very well". She meant that this job had to be done by people from the PCO because they were the ones that had the knowledge, and thus the power, to do it.

Lack of pressure was observed in both the Board and operational managers. In relation to the Board the lack of pressure seemed to be mainly justified on the grounds of trust. The Board trusted the PCO managers and had thus not pressured them to provide the information on a routine monthly basis. From many internal reports produced by the PCO to the Board, I derived evidence that the Board had accepted the aforementioned justifications provided by the PCO managers to explain the difficulties in providing the information more efficiently. Of course there were also interpersonal trust relations between the PCO managers and the members of the Board, particularly between the head of the PCO and the chair of the Board. They had known each other for over a decade. The invitation, in 1995, for her to become the (still) head of the PCO came from the very same chairman.

The operational managers had not pressured the PCO managers either. Although the former were not against the IS and KPI, their lack of enthusiasm was evident when they were asked to make an assessment of the current state of these management accounting innovations and were unable to do so precisely. Indeed, the IS and KPI were not helping the operational managers to manage their daily activities, but these managers had not pressured the PCO managers in order to obtain this information more efficiently. The lack of pressure from the operational managers of the various organizational areas can be partially explained by the fact that the IS and KPI had been developed by the PCO, a powerful area within Post that had expertise in developing these types of innovations, under the Board's commitment to do so. Thus, for most operational managers the IS and KPI were tolerated but not strongly desired. However, it is important to stress that these managers did not resist the IS and KPI. In actual fact, these managers saw the IS and KPI as something whose usefulness they could learn more about in the future, but not as something that assisted them in managing their day-to-day activities at that moment in time.

Additionally, the explanation for the gap cannot be disassociated from the lack of external pressures either. It is true that the emergence of the IS and KPI was not related to requirements from external entities such as the Portuguese State or the Portuguese postal service regulator. Post has regularly to send information to external entities but this information is not produced by the IS and KPI. However, in this case, at different points in time, consultants were important in supporting such management accounting innovations. Nevertheless, these external pressures were particularly important at the adoption stage, which helped the PCO managers to diffuse the IS and KPI within Post.

## Discussion

The Burns and Scapens (2000) theoretical approach to management accounting change suggests that the explanation for the gap between rules and routines may be found in the existing practices and institutions within organizations. According to them (p. 16) 'change which conflicts with existing routines and institutions is likely to be much more difficult to implement'. This means that the creation process of new routines in a formal process of



management accounting change is much more difficult when new rules challenge the existing routines and institutions.

However, change that is consistent with existing routines and institutions can be difficult too, as is the case here. Although the IS and KPI had introduced new approaches to management accounting information, they did not challenge the existing routines and institutions. Firstly, the IS and KPI were seen as an extension of the existing management accounting information provided mainly by the EIS, and so the new rules were defined according to the existing routines and institutions. Secondly, like the EIS, the IS and KPI were very dependent on the organizational structure. It is assumed that the management accounting practices at Post had to follow the organizational structure. It is a very hierarchical organization and this was reflected in the design of [the] management accounting practices. In other words, existing and new management accounting practices shared the same basic logic of construction, which follows the organizational structure. This also means that, as with the EIS, the IS and KPI aimed for the accountability of Post organizational areas to be analyzed at the monthly control meeting in which the first-line managers and members of the Board take part.

The common conclusions of studies which followed the Burns and Scapens framework in order to interpret management accounting change tend to be included in one of the following two groups: (1) the rules underlying the new management accounting practices are consistent with the prevailing routines and institutions and are accommodated in the organization, or (2) they challenge the prevailing routines and institutions and tend to be rejected. In fact, the Ferac and Omega examples illustrated by Burns and Scapens (2000) and Scapens and Roberts (1993) provided evidence for these two groups of possibilities. Many other studies on processes of management accounting change have provided evidence of one of these two tendencies (e.g. Johansson & Baldvinsdottir, 2003; Norhayati & Siti-Nabiha, 2009; Siti-Nabiha & Scapens, 2005; Soim et al., 2002; Youssef, 2013).

However, other possibilities exist. For example, the study carried out by Ribeiro and Scapens (2004) shows that there is an alternative explanation. Although the innovation introduced into the organization challenged the prevailing routines and institutions, it was not rejected and has been kept in place by power issues. Neither of the evidence collected in this study did conform to any of the aforementioned possibilities. The new management accounting practices in Post were consistent with prevailing routines and institutions, but these practices had not been accommodated within the organization as desired. In fact, the current research about management accounting change uncovers important aspects not observed in other studies that followed the Burns and Scapens framework.

In Post there was evidence of the trust in the PCO managers by the Board members and also by the operational managers, although each interpersonal trust relation might be seen at different levels. Trust in these management accountants worked as a facilitator for introducing new management accounting practices, a finding similar to that reported by Busco et al. (2006). However, these trust relations were insufficient to achieve the desired aims. Issues of power were also at stake.

Strategies of power were also followed by the PCO managers in Post. These strategies of power included the exercise of power over human and financial resources, power over decision-making processes, mainly through their privileged position at Board level, and power over meanings relating to the benefits of the IS and KPI being diffused throughout the whole organization. Previous research into management accounting change has already acknowledged the importance of these dimensions of power (e.g. Burns, 2000b; Yazdifar et al., 2008).

In Post, together trust and power issues influenced the way the IS and KPI worked in practice. On the one hand, this study shows how high levels of trust between the PCO and the Board reinforced

the power of the PCO. As a result, the PCO had power to maintain the IS and KPI despite only producing information on a routine annual basis rather than on a monthly basis. On the other hand, in order to maintain its power, the PCO did not increase its team due to an over-emphasis on trust in its present team and lack of trust in new members.

Thus, as the change agents, the PCO managers had experienced 'contradictions' during the process of change, which impacted on the process of institutionalization of new management accounting practices. Although they seemed to have a considerable knowledge of the organizational processes at Post, the frequent changes in the organizational structure and the experimental nature of the IS and KPI led them to produce information annually instead of on a monthly basis (the original target). As pointed out by Norhayati and Siti-Nabiha (2009), previous literature on accounting change shows that the implementation of new accounting practices might not have materialized as had been intended. In some cases, the new accounting practices were rejected, while in others they were accepted with some modifications. However, to be accepted does not mean to be institutionalized. In Post, the new management accounting practices were accepted without conflict, but they were not institutionalized. It is worth stating that the new management accounting practices in Post were in the initial stage(s) of the institutionalization process and the potential existed for them to be institutionalized.

A process of institutionalization can be accelerated if internal and/or external pressures exist. This case study is an example of the lack of such kinds of pressure. Although I would not say that internal and external pressures never existed, they were not relevant to the processes of management accounting change in Post. Otherwise, the gap between rules and routines of the IS and KPI would at least have been reduced during the period of the study.

## Conclusions

This longitudinal in-depth case study explores the gap between the rules and routines underlying two implemented management accounting innovations in Post – the National Postal Service of Portugal. In this study insights from the Burns and Scapens (2000) framework, including its extensions, have been applied in order to explain such a gap.

This case study adds some theoretical insights to the studies guided by the Burns and Scapens (2000) framework. Firstly, it provides evidence that a change that follows established routines and institutions may also be difficult to implement. Difficulties during a process of change can emerge either because established routines and institutions are challenged or because they are followed. In Post, the aforementioned gap was not caused by the challenge of prevailing routines and institutions. It resulted from both the inability of the PCO (owner of the IS and KPI) to provide the information on a monthly basis and the lack of pressure on the PCO from other entities to do so.

Secondly, this study provides evidence that trust and power issues are of great importance for extending our understanding as to how management accounting innovations are (or are not) used in practice, and are particularly important if they are studied simultaneously. Trust and power should be seen as two sides of the same coin. Previous studies guided by the Burns and Scapens (2000) framework have already introduced issues of trust/distrust (e.g. Busco et al., 2006; Nor-Aziah & Scapens, 2007), as well as issues of power (e.g. Burns, 2000b; Ribeiro & Scapens, 2004; Yazdifar et al., 2008). However, these studies have not explored trust and power issues together.

Finally, this study also contributes to the literature by emphasizing the need to pay more attention to the external institutional

environment (extending the level of analysis). Previous studies have argued for the need to explore the interplay between internal and external institutions in shaping the processes of management accounting change (e.g. Ribeiro & Scapens, 2006; Nor-Aziah & Scapens, 2007). However, these have focused on the importance of pressures from external entities, such as consultants, government and governmental agencies for initiating management accounting change processes. One might state that external and internal pressures or the lack of them must be taken into consideration through time and not merely in explaining the initial stage of the management accounting change processes. Such pressures are important in order to avoid the slowing down of these processes, i.e. in order to avoid, or at least reduce, the gap between management accounting rules and routines. In Post, the lack of such pressures contributed to maintenance of the gap through time.

This study also provides practical insights for those who intend to carry out changes in management accounting practices in an organizational setting. Firstly, management accounting change is complex and risky. Managers must be able to evaluate and manage risk to ensure that the management accounting change materializes as intended, even in situations in which there is not resistance to change. Secondly, the level of risk is dependent on the

experimental nature of the management accounting innovations for the specific organizational contexts in which these are implemented.

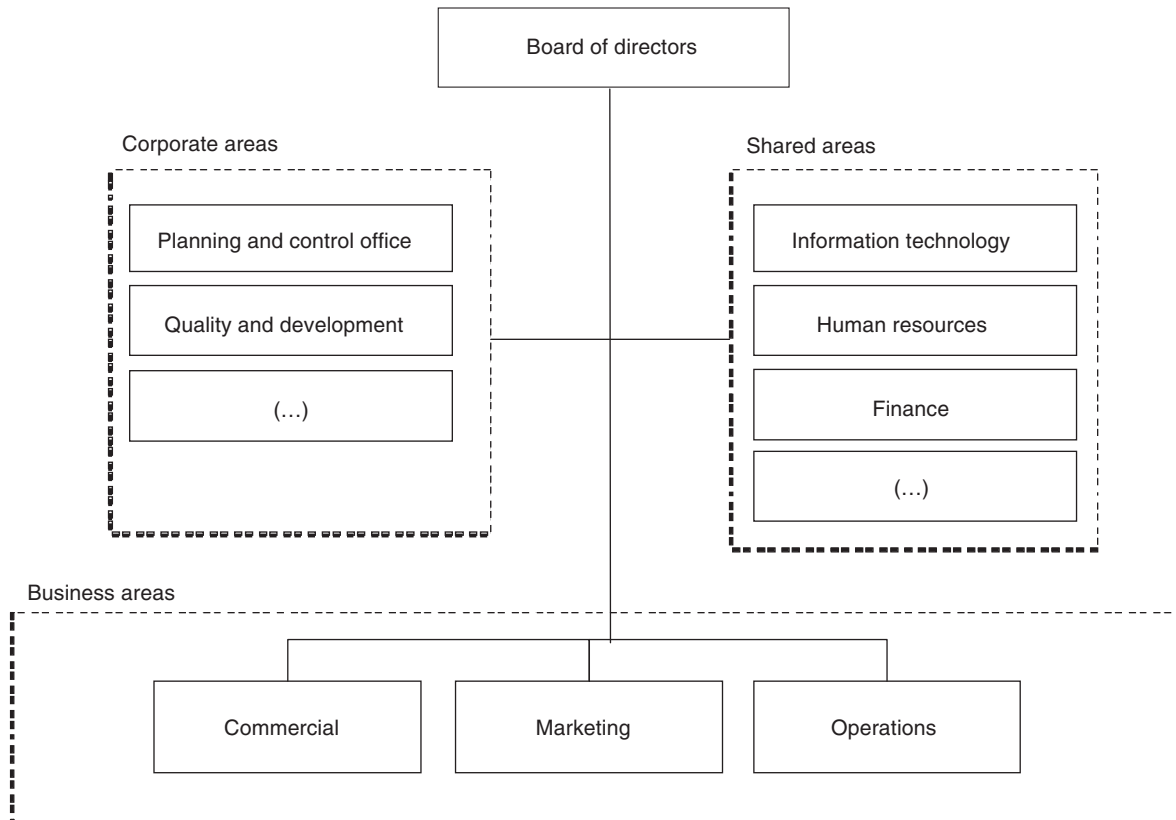
This study is not exempt from limitations. Probably of greatest importance, because it limits us to studying the overall process of institutionalization, is the fact that this longitudinal case study only covers a period of three years. Although this time period and even shorter periods of time are common in the management accounting change literature, further case studies covering longer periods of time are needed so as to strengthen our understanding of the processes of institutionalization of new management accounting practices within organizations.

### Conflict of interest

The authors declares no conflict of interest.

### Appendix A.

Main (macro) areas in the organizational structures of Post.



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