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The Interface between Management Accounting and Organisational Strategy: From Strategic Control to Strategic Navigation

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Abstract

The literature suggests that there is an increasing expectation that management accounting and control systems should have a strong strategic focus, be innovative in design, flexible in operation and should enable rapid organisational change in response to capricious environmental circumstances. A management accounting focus mainly on conventional financial and non-financial based measurement and control is considered too narrow in scope. This thesis examines these issues, and proposes a performance management model for use in a turbulent organisational environment.

The thesis initially identifies a gap in the literature in that existing strategic control models do not seem to deal adequately with the issue of the impact of environmental turbulence on organisational strategy. It examines the issues of turbulence and unpredictability in providing an understanding of the nature of the interface between organisational strategy and management accounting. This resulted in the development of the concept of strategic navigation.

Successful management of the impact of environmental turbulence, with its capricious and uncontrollable nature, is a core premise underlying strategic navigation. Accordingly, rather than attempting to control turbulence, the emphasis is on rapid and flexible management response and avoidance of limitations on management discretion, judgements and actions that could be imposed by highly structured control and measurement frameworks. This recognises that in relation to turbulent and changing environmental conditions, identifying relevant variables to measure may be difficult and that the actual measurement itself could be an impediment to rapid response. Strategic navigation incorporates an explicit focus on organisational processes to help deal with turbulence.

An in-depth case study was undertaken of an organisation operating in a turbulent environment in order to explore the applicability of strategic navigation and its relationship with management accounting. The case findings suggest that rapid management response needs a focus on both operations and strategy, and illustrate how strategic issues and the idea of strategic navigation can potentially drive, and be closely integrated with, the operational side of an organisation. This also encompassed a strong process focus within the case organisation, due to a relatively limited measurement framework. In this context the case findings highlight the importance of an adequate measurement framework within an overall performance management system. Furthermore, the findings indicate how strategic navigation could provide an integrative means of comprehending the external environment, by concentrating on both process and measurement. This is an alternative to the idea of concentrating solely on identifying and developing more and better predictive measurement tools, in particular non-financial measures.

In summary, strategic navigation combines a process approach and measurement, as a means of integrating management accounting and strategy, in order to manage organisational performance in a turbulent environment. The development of the concept of strategic navigation is an attempt to extend the role of management accounting beyond traditional organisational control ideas and reflects arguments in the literature for a greater focus on performance management.

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Chapter One

Introduction

Since the early to mid 1980's the discipline of management accounting has undergone profound change. A cursory reading of almost any contemporary management accounting textbook will reveal a significant change in topic focus and terminology (e.g., cost driver, value chain, strategic management accounting). A key instigator of this change was Kaplan (Young and Selto, 1991; Macintosh, 1998). Articles written by Kaplan (1983, 1984) in the early 1980's and the book by Johnson and Kaplan (1987) entitled: *Relevance Lost: The Rise and Fall of Management Accounting*, acted as important stimuli for fundamental change in relation to the perceived role and function of management accounting. Johnson and Kaplan (1987) assert that traditional management accounting lacks relevance to the needs of contemporary organisations because it is often based on the principles of financial reporting and has a short-term orientation. It has been argued that such systems neglect long-term direction and overall viability of the organisation in question, as they tend to encourage managers to concentrate excessively on short-term financial performance (Kaplan, 1984). The alleged problems with traditional management accounting systems have been extensively documented in the literature (Kaplan, 1984). For example, many management accounting techniques and methods (e.g., standard costing and variance analysis) have in essence not changed since the early 1920's and therefore may have reduced relevance within a contemporary organisational context (Kaplan, 1984; Johnson & Kaplan, 1987).

The scope and role of management accounting has continued to be an area of considerable academic debate (e.g., Bromwich & Bhimani, 1989; Dent, 1990; Eccles, 1991; Johnson, 1992; Cooper, 1996; Lord, 1996; Foster & Young, 1997; Shields, 1997; Otley, 1999; Hopper, Otley & Scapens, 2001; Maher, 2001; Otley, 2001; Parker, 2001; Chenhall, 2003; Chenhall & Langfield-Smith, 2003; Durden &

Perera, 2003; Hansen, Otley & Van der Stede, 2003; Otley, 2003). In particular, management accounting systems have been criticised for not always reflecting the changes in the contemporary business environment, which is characterised by, for example, flatter organisational structures, high-tech manufacturing and greater worker empowerment (Otley, 1994). This criticism seems to be even more relevant today, given the growing role of networked or boundaryless organisations (e.g., see Cross, Nohria & Parker, 2002; Goold & Campbell, 2002; Herman, 2002). It has also been argued that renewed emphasis should be placed on the 'management' part of 'management accounting', and that its boundaries may need to be expanded beyond traditional definitions and notions of organisational control (Otley, Broadbent & Berry, 1995; Otley, 2001; 2003).

In response to the various criticisms of management accounting, increased emphasis has been placed on developing systems which explicitly concentrate on information in the context of an organisation's strategies and long-term goals (Macintosh, 1998; Parker, 2001; Chenhall, 2003; Durden & Perera, 2003). This is seen as a means of developing a clearer long-term control focus and enabling systems to be better matched with the varying structures and designs of contemporary organisations. The underlying thrust is that the strategic alignment and focus of management accounting and control needs to be enhanced in order to improve its practical relevance within a contemporary organisational setting.

1.1 Background and Motivation for the Study

In highlighting the need for management accounting systems to be aligned more closely with an organisation's long-term goals and strategies, two main approaches are evident in the literature. The first relates to the adoption of various techniques and practices focused on organisational strategy and is generally described as 'strategic management accounting' (e.g., Simmonds, 1981; Bromwich, 1990; Dixon & Smith, 1993; Guilding, Cravens & Tayles, 2000; Roslender & Hart, 2003). However, this approach may have limited usefulness because it does not

explicitly consider the techniques and practices in the context of overall organisational control system design (Otley, 1999). The second approach is concerned with identification of the components of organisational control systems that allow for a stronger strategic and long-term focus (e.g., Simons, 1987; Daniel & Reitsperger, 1991; Dent, 1990; Roberts, 1990; Kaplan & Norton, 1996; Langfield-Smith, 1997; Vaivio, 1999; Chenhall, 2003). This approach recognises that: "...to talk of the 'management control system' may itself be misleading... Organisational control systems are more like packages. Different elements are added by different people at different times" (Otley, 1999, p.379).

An initial stimulus for this study was the idea of analysing the interface between management accounting and strategic control as a possible means of enhancing the relevance of management accounting systems. Strategic control is a type of organisational control directly focused on the control of strategy implementation and the accomplishment of strategic goals (Preble, 1992). Some organisational control studies have made reference to strategic control. For example, Daniel and Reitsperger (1991) investigated the links between quality strategies and control systems in Japanese firms and suggested that a close linkage between the two areas has contributed to their competitive success. Additionally, they suggest that Japanese firms generally have implemented effective and useful strategic control systems. Simons (1990) describes how managers can use selected control systems interactively. This enables managers to monitor closely strategic uncertainties they believe may impact on the achievement of organisational goals. While Simons (1990) does not adopt the specific term 'strategic control', he nonetheless illustrates an important benefit associated with the adoption of strategic control systems. A study by Ittner and Larcker (1997) examining the automotive and computer industries in Canada, Germany, Japan and the United States, found that organisations following a quality orientated strategy tended to adopt strategic control practices.

Closer examination of the underlying strategic control literature revealed a number of varying theoretical perspectives. As a result, the strategic control literature may arguably appear esoteric to practising managers and provide only limited guidance to assist in the implementation of such systems (e.g., Goold & Quinn, 1990; Preble, 1992; Parker, 1998; van Veen-Dirks & Wijn, 2002). Strategic control has been described as “multifaceted and ambiguous” (Quinn, 1996). In this regard it has been suggested:

One might speculate ... that the practice of strategic control is lagging behind the theory, that the benefits of such systems are being overstated, or that the systems need *further development* before they can be made more practical for organizations to use (Preble, 1992, p.396) [emphasis added].

Ideally the adoption of a strategic control system should provide organisations with a direct and tangible means of concentrating on longer term performance goals and should help avoid the problems often associated with using traditional short-term accounting measures for this task (Lorange & Murphy, 1984; Goold & Quinn, 1990). Aligning performance monitoring and control systems with long-term goals and strategies should positively influence organisational performance (Bart & Baetz, 1998; Miller & Cardinal, 1994; Ireland & Hitt, 1992). Hence, by implication, the implementation of an effective strategic control system should also positively influence performance. A greater focus on this area would also reflect Otley's (2001) call for management accounting research that is concerned with “...issues involved in designing and operating systems of *managing* performance” (p.243) [emphasis added].

Further analysis of the strategic control literature revealed that it did not seem to address adequately the issue of turbulence in the organisational environment in relation to the profound strategic impact of factors such as technology and globalisation (e.g., see Eisenhardt, 2002). For example, the balanced scorecard, which is intended to be a strategic control system, is orientated in terms of a

relatively predictable, or at least measurable, external organisational environment (Norreklit, 2000) and does not adequately deal with environmental turbulence. In this study it was considered important that issues of turbulence and unpredictability should be addressed in examining the nature of the interface between organisational strategy and management accounting. Furthermore, the use of the term 'control' in this context seemed paradoxical given that the organisational impact of environmental turbulence may not be entirely 'controllable'.

1.2 Research Aim

The field of management accounting continues to evolve. While there seems to be acceptance that traditional management accounting systems have limitations, the nature and form of any possible change is open to debate. In particular, the interface between organisational strategy and management accounting, and how this impacts on organisational performance, is an area that could be examined further. In this regard there is a gap in the literature examining the components of organisational control systems that could enable a stronger strategic focus in terms of the role and purpose of strategic control and its relationship with management accounting systems. Existing strategic control models, however, arguably do not deal adequately with the issue of turbulence in the organisational environment. The gap in the literature also links with the idea of *managing*, rather than measuring or *controlling* organisational performance and reflects Otley's (2001; 2003) arguments for a greater level of research in this area.

The aim of this study is to examine the interface between management accounting and organisational strategy, in terms of the broader context of performance management, with a view to explaining how the scope of management accounting systems could be expanded in order to deal more effectively with environmental turbulence.

The aim of this research is accomplished by focusing on four objectives. They are:

1. Examine literature covering problems associated with traditional management accounting systems and the approaches that can be used to enhance the interface between management accounting and organisational strategy.
2. Critically examine the concept of strategic control, focusing on various representative strategic control models.
3. Propose an approach which deals explicitly with environmental turbulence.
4. Undertake a case study that examines the dimensions of the proposed approach within an organisation operating in a turbulent environment.

Objectives one and two provide a foundation for objective three, which in turn provides the conceptual basis for objective four.

A key purpose of this study is to explore the possibility of suggesting an approach that deals with issues of strategy implementation and performance management in a turbulent environment. The underlying thrust of the study is theory development because there is no pre-existing theory explaining this phenomenon.

1.3 Justification for the Research

This study contributes to the literature dealing with the changing and evolving role and purpose of management accounting in contemporary organisations. A focus mainly on conventional financial and non-financial based measurement and control is considered too narrow in scope. Increasingly, there is an expectation that systems should be innovative in design, flexible in operation, and should enable rapid organisational change in response to capricious environmental circumstances (Otley et al., 1995; Chenhall, 2003). This implies an extension beyond traditional ideas of management accounting and organisational control. Such a position is

reflected in the aim and objectives of the study. Underpinning this thrust is the view that management accounting systems should be clearly linked to organisational strategy:

Management accounting must serve the strategic objectives of the firm. It cannot exist as a separate discipline, developing its own set of procedures and measurement systems and applying these uniformly to all firms without regard to the underlying values, goals and strategies of particular firms (Kaplan, 1984, p.414).

In other words, there is a need for close integration of management accounting with organisational strategy. On this point, the study will contribute to the literature concerning the design of strategically focused management accounting and organisational control systems. In particular, it will consider this issue in the context of a turbulent external organisational environment. Existing research does not appear to address adequately the issue of the impact of turbulence. In this respect the study builds on and extends a broad and non-traditional view of how management accounting should function in organisations:

Management accounting is a value-adding, continuous improvement process of planning, designing, measuring, and operating nonfinancial and financial information systems that guides management action, motivates behavior, and supports and creates the cultural values necessary to achieve an organization's strategic, tactical and operating objectives (Institute of Management Accountants, 1997).

Three separate but interrelated aspects can be identified in the definition above. First, management accounting should act as "...a value adding, continuous improvement process..." This implies that systems need to be flexible, evolve in response to organisational circumstances and facilitate organisational change. Second, management accounting "...guides management action, motivates

behaviour and supports and creates cultural values..." In order to realise these aims management accounting would need to be closely aligned with, and fit into, an organisation's structure. Finally, management accounting should concentrate on "...strategic, tactical and operating objectives". This encompasses a need for systems that are balanced, in terms of an integrative focus on both short-term and strategic decisions.

Arguably, conventional notions of management accounting do not adequately embrace the three aspects identified above. They largely highlight a more narrow or restrictive measurement and reporting role, with an emphasis on short-term control (e.g., budgets). In this study it is argued that the three aspects – flexibility, structural alignment and fit, and an integrative decision focus – represent core qualities that should be evident in the design of contemporary management accounting systems. The aspects are interrelated in scope and encompass a focus on linking management accounting and organisational strategy, and reflect a performance management thrust. They also guide the underlying direction and aim of this study, including the proposed approach to deal with environmental turbulence. Their importance in the design of management accounting systems is discussed in more detail below.

1.3.1 Flexibility

Conventional management accounting systems often lack flexibility. In the main, they are highly formal in structure and may inhibit change (Kaplan 1983; Johnson & Kaplan, 1987; Goldratt, 1990; Elliott, 1991). While traditional systems arguably provide a degree of stability and consistency to organisational operations and procedures, these could act as powerful impediments to timely and rapid organisational change (Greenwood & Hinings, 1996; Foster & Ward, 1994; Van de Ven & Poole, 1995). Generally, the focus of such systems is limited to a control framework incorporating a mix of financial and non-financial measures. However, this will possibly hinder the ability of managers to comprehend the impact of environmental factors that are not captured by the measures chosen. This in turn

could restrict or slow organisational change in response to these factors. In other words, due to relatively rigid (rather than flexible) management accounting and organisational control systems, managers might not adequately comprehend events occurring in the organisational environment. Ideally, management accounting systems should help organisations to adapt and evolve by providing information highlighting that change may be required (Elliott, 1991; Lingle & Schiemann, 1996; Atkinson et al., 1997; Shields, 1997). There is a need for flexible management accounting systems that enable managers to manage organisational direction more effectively. As Atkinson et al. explain:

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

Management accounting systems should enable rapid recognition of and response to changing environment conditions (Shields, 1997). They should highlight when organisations need to review strategic plans, explicitly monitor external conditions, and help to assess strategic priorities (Santori & Anderson, 1987; Elliott, 1991; Vokurka & Fliedner, 1995; Atkinson et al., 1997). This study builds on this position by examining how organisations can develop management accounting systems that are more flexible in nature. In particular, flexible systems are necessary when the operating environment is turbulent and therefore difficult to predict and comprehend (Fiegener, 1997).

1.3.2 Structural Alignment and Fit

Historically, management accounting systems have been highly generic in nature and designed to help managers maintain hierarchical control over subordinates (Meyer, 1994; Atkinson et al., 1997; Shields, 1997). Conventional ideas of control fit best in the context of hierarchical organisational structures. Arguably, the balanced scorecard merely represents a more recent and modern system of hierarchical

control (Norreklit, 2003). Contemporary organisations, on the other hand, are increasingly adopting flatter team-based and networked or boundaryless structures, where organisation members have greater control over their actions and are less reliant on management for direction and support (Meyer, 1994; Atkinson et al., 1997; Shields, 1997). In this regard, organisations are structured in various ways depending on the environmental and competitive pressures they face, in order to achieve particular goals. Accordingly, a relatively narrow and hierarchical 'one-size-fits-all' approach to management accounting is arguably no longer appropriate.

Management accounting systems should be designed to support the information needs of an organisation according to its particular structure and environmental pressures (Elliott, 1991; Atkinson et al., 1997; Chenhall, 2003). However, a problem to overcome relates to identifying a suitable overall control framework that better fits contemporary organisation designs. In this respect various solutions have been proposed. For example, it has been suggested that organisations consider adopting approaches such as horizontally aligned accounting systems, which are designed for flat and decentralised organisations utilising team-based operating structures (Shields, 1997). Other management accounting design innovations may also develop, such as organisational accounting or virtual accounting (e.g., see Elliott, 1991; Shields, 1997). These extend the focus beyond a regular accounting unit/department within organisations and involve a shift towards greater employee ownership of accounting information. Such a shift includes the compilation of management accounting information by non-accountants, and accounting assuming a more ubiquitous nature in organisations (Cooper, 1996, Shields, 1997; Parker, 2001). In this situation the demand for, and use of, management accounting information is likely to increase but the need for management accountants will probably decline (Cooper, 1995; 1996). As a result, standardised and regularly produced accounting reports may have less usefulness in the future or may even cease to exist. Furthermore, the information provided by such systems will increasingly become integrated with non-accounting information (e.g., human resources, marketing) (Elliott, 1991; Shields, 1997).

While the approaches described above are arguably useful, they remain situated within traditional notions of organisational control. Flatter and more innovative organisation designs may well require a greater focus on performance management, rather than control, as a core thrust of contemporary management accounting systems (Otley, 2001; 2003). Reinforcing a need for a lesser emphasis on traditional notions of organisational control is the increasing turbulence and unpredictability of the external organisational environment (Lissack & Roos, 2001; Eisenhardt, 2002). Building on these ideas, this study attempts to identify a more relevant control or performance management approach that better fits a contemporary organisational operating environment.

1.3.3 Integrative Decision Focus

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

major challenge for businesses and for information experts" (Drucker et al., 1997, p.22).

Some progress has been made in addressing the problem described above. During the 1990's increased emphasis has been placed on developing better linkages between long-term strategic plans and goals, and control systems (Lingle & Schiemann, 1996; Vokurka & Fliedner, 1995; Butler, Letza & Neale, 1997; Cravens et al., 1997; Shields, 1997; Chenhall, 2003). In this respect, various suggestions have been made regarding the design and operation of management accounting systems that are more integrative in terms of a focus on both short-term decisions and longer-term strategic decisions (e.g., Bromwich & Bhimani, 1989; Eccles, 1991; Dixon & Smith, 1993; Kaplan & Norton, 1996; MacArthur, 1996; Meyer, 1994; Simons, 2000). These approaches, however, are based largely on ideas of formal measurement and control and are often relatively prescriptive or rigid in nature (Norreklit, 2000; 2003). While they enable some degree of integrative focus, this is based on a formal management accounting framework, which effectively ignores factors that are not readily measurable. This is likely to be problematic in relation to the impact of a rapidly changing and turbulent external environment (Lissack & Roos, 2001). This study attempts to address this issue by proposing an approach that explicitly recognises the impact of turbulence. The issue is also considered by observing and examining an organisation operating in a turbulent environment. Accordingly, the study seeks to investigate how management accounting systems could develop a stronger and more relevant integrative decision focus.

1.4 Outline of Thesis

This section provides an overview of the remaining seven chapters of the thesis.

Chapter Two: Research Design and Methodology

This chapter explains the research design, methodology and methods adopted in the thesis. The research design comprises two main parts. The first part focuses on

selecting an approach to deal with environmental turbulence. This in turn provides a conceptual framework for examining the second part of the thesis, which is an in-depth case study of an organisation operating in a turbulent environment. Three main research methodologies were considered: positivist, interpretive and critical. An interpretive naturalistic perspective is selected as the research approach for the study using the case study method. A description of how the case study was undertaken covers the remainder of the chapter. This includes case selection, data validity and reliability, data collection, data analysis and theory generation and development.

Chapter Three: Literature Review

This chapter comprises two main parts. In the first part two aspects are addressed. First, problems associated with traditional management accounting systems are examined. Next, the development of strategy in management accounting since the early 1980's is considered. Two main themes that have emerged in this area are identified, namely strategic management accounting and organisational control system design. An underlying strategic control theme is also identified within each.

The second part of the chapter clarifies and examines the concept of strategic control. Within the literature there is only limited discussion concerning strategic control systems and the formal models available appear unrelated. In this respect the chapter explains the traditional strategic control models and identifies and critiques their key and common characteristics.

Chapter Four: From Strategic Control to Strategic Navigation

The idea of strategic navigation is presented in this chapter. It builds on and extends the concepts presented in Chapter Three. In particular, it incorporates ideas relating to organisational control and strategic control. The first part of the chapter explains the impact of environmental turbulence on conventional notions of control. Next, in relation to control system design, the idea of a process focus, as distinct from a formal measurement approach, is discussed. Following this, various

suggestions to help develop a process focus are explored. This then leads into a discussion concerning fastforward change and the strategic navigation approach, which explicitly deal with environmental turbulence. Finally, the relationship between management accounting and strategic navigation is considered.

Chapter Five: Case Findings – Strategy Formulation and Implementation

This chapter presents the findings from the research site relating to strategy formulation and strategy implementation. The underlying context guiding the data collection process was the nature and role of management accounting within the broader framework of organisational control, strategic control and strategic navigation. The key themes that emerged from the analysis of interview, observational and other site data are discussed.

Chapter Six: Case Findings – Feedback Control and Fastforward Change

This chapter is a continuation of Chapter Five and presents the findings from the research site relating to feedback control and fastforward change. As with Chapter Five, the underlying context guiding the data collection process was the nature and role of management accounting within the broader framework of organisational control, strategic control and strategic navigation. The key themes that emerged from the analysis of interview, observational and other site data are discussed.

Chapter Seven: Analysis and Discussion

Chapters Five and Six detailed and described the case findings. In this chapter those findings are analysed in relation to the management accounting and organisational control literature, and the proposed strategic navigation approach developed in Chapter Four. The interface between management accounting and organisational strategy at the case organisation is explained. Also considered is the type of management accounting information needed under the strategic navigation approach.

Chapter Eight: Conclusion

This chapter contains the thesis conclusion. The overall findings of the research are discussed in terms of the literature relating to strategic management accounting and organisational control system design, problems with strategic control, the idea of strategic navigation and the case study implications, and the relationship of strategic navigation and management accounting.

1.5 Summary

This chapter outlines the motivation for undertaking this study. It identifies the evolving nature of management accounting and highlights the increasing focus on developing management accounting systems more closely aligned with organisational strategy. In this respect, integration of strategic control is identified as a possible means of developing management accounting systems with a stronger strategic focus. The research aim is explained and four research objectives identified, which include closer examination of strategic control and the development of an approach to deal with environmental turbulence. The research is then justified and the structure of the rest of the thesis outlined.

Chapter Two

Research Design and Methodology

The purpose of this chapter is to explain the research design, methodology and methods adopted in this thesis. The chapter is organised as follows. Section 2.1 outlines the research design in terms of the framework developed and the case study undertaken. Section 2.2 discusses the methodological perspective underlying the overall study. In Section 2.3 the choice of the case study method and its application in this study are explained. A summary is contained in Section 2.4.

2.1 Research Design

Research within the social sciences has traditionally been dominated by positivist research methodologies and quantitative methods. However, the suitability of these approaches can be questioned when a research subject is difficult to study outside of its natural setting and the topic area has a low level of theoretical development (Ghuri, Gronhaug & Kristianslund, 1995; Chua, 1996). These considerations underlie the research design and methodology adopted in this thesis. In particular, examining the idea of strategic control in the context of management accounting is not conceptually addressed or directly considered in the literature and therefore has a low level of theoretical development. Furthermore, the objective of the empirical component of the research, which is to examine how an organisation operates in a turbulent environment, would be difficult to study outside of a natural organisational setting.

In order to accomplish the research objectives, a qualitative approach is adopted which consists of two main parts. The first part, contained in Chapters Three and Four, reflects objectives one, two and three and involves a review of the literature relating to strategy in management accounting and strategic control. Building on

this review and involving further analysis of the literature, a new conceptual approach is proposed that deals explicitly with environmental turbulence. The second part of the research, which is contained in Chapters Five, Six and Seven and addresses objective four, is a case study of an organisation – Hubbard Foods¹ (HF) – operating in a turbulent environmental setting. The first part of the study provides a conceptual framework for examining this case study, in relation to management accounting aspects and the proposed conceptual approach dealing with environmental turbulence.

As mentioned in Chapter One, the overall aim of the study is to examine the interface between management accounting and organisational strategy, in terms of the broader context of performance management, with a view to explaining how the scope of management accounting systems could be expanded in order to deal more effectively with environmental turbulence. The research design adopted reflects the overall aim of the study, in that it is concerned with theory development, which is focused on combining theoretical constructs in the areas of strategy, management accounting and strategic control, and developing a new approach to deal with turbulence in the organisational environment. This should allow for more effective management of performance within a contemporary organisational setting.

2.2 Methodological Perspective

Guiding the style and type of qualitative or quantitative research adopted is the philosophical and associated methodological position of the researcher. This ultimately will determine the type of research method adopted and how findings are interpreted. In a broad sense, and following Chua (1996), the various philosophical and methodological perspectives on research range across three categories: positivist, interpretivist, and critical. Each perspective encompasses varying ontological positions about the role of the researcher in the research

¹ Background information profiling HF is contained in Appendix Five

process and the 'objectivity' of the 'reality' being researched, which in turn influences the choice of research method and its conduct.

Positivism, while a dominant methodological position within the social sciences (Guba & Lincoln, 1994; Chua, 1996), was rejected as a basis for this study. The essence of positivism is that the world exists as a distinct entity and that it can be readily measured through objective (i.e., quantitative) methods, rather than being inferred in a subjective manner (Easterby-Smith, Thorpe & Lowe, 1991). This is also described as the hypothetico-deductivism approach to research and is considered to represent the 'scientific method' (Chua, 1986). This approach generally rejects qualitative research. On the other hand, some researchers may be less strongly positivist (e.g., post-positivist) and will accept the use of qualitative methods that are applied in a 'methodologically rigorous' manner (Guba & Lincoln, 1994; Eisenhardt, 1989; Miles & Huberman, 1994), as part of a method triangulation approach, or as an early research step in the development of positive theories (Scapens, 1990; Young & Preston, 1996). However, the positivist view does not match my own philosophical position. In this regard, positivism was considered too limiting and narrow in relation to the complex nature and theory development thrust of the current study.

My own methodological perspective is interpretive, which reflects the underlying basis of this qualitative study. Interpretive research aims to understand and interpret the world from the standpoint of those who live in it, the 'actors', rather than assuming the existence of a uniquely perceivable reality (Chua, 1986; Schwandt, 1994). In this sense the study has an overall focus on depth of analysis and knowing, rather than the breadth of representativeness associated with large sample size (positivist) research (Bonoma, 1985; Guba & Lincoln, 1994; Baxter & Chua, 2003). The study is based on the belief that people are social actors who create their own reality, an unambiguous social reality does not exist and reality is arguably nothing more than a mental construction (Hopwood, 1983; Guba & Lincoln, 1994; Macintosh, 1994; Schwandt, 1994).

Baxter and Chua (2003) reviewed 'alternative management accounting research' appearing in *Accounting, Organizations and Society* from 1976 until 1999. They classified this non-positivist (i.e., interpretive and critical) research in terms of seven perspectives: a non-rational design school; naturalistic research; the radical alternative; institutional theory; structuration theory; a Foucauldian approach; and a Latourian approach. Apart from the radical alternative, these perspectives encompass varying types of interpretive research. For example, the non-rational design school is focused on questioning "...presumptions of rationality in organisational choice" (Baxter & Chua, 2003, p.98) and how this relates to the operation and design of management accounting systems. Excluding naturalistic research, the remaining interpretive perspectives often examine management accounting issues, using different types of social theory as espoused by various theorists (e.g., Michel Foucault).

Critical research, such as Baxter and Chua's (2003) radical alternative, takes the interpretive approach further and assumes that reality has been shaped into some kind of 'real' structure due to the influences over time of political, cultural, economic, ethnic, and gender factors (Guba & Lincoln, 1994). Essentially a researcher adopting this approach is often challenging the existing view of reality as being merely a form of historical reality which may not be appropriate. Critical theorists seek to produce transformations in the social order (Denzin & Lincoln, 1994; Baxter & Chua, 2003) and attempt to use their work as a form of social or cultural critique (Kincheloe & McLaren, 1994). Approaches based on the radical alternative, social theories or the non-rational design school, do not reflect my own broader or more moderate, naturalistic interpretive perspective and therefore do not fall within the scope of this study.

The particular interpretive perspective adopted is naturalistic (Baxter & Chua, 2003). Following Baxter and Chua (2003, p.99), a naturalistic perspective is where the researcher "seeks to investigate management accounting practice in

its 'everyday' organisational context". The idea is to examine management accounting in its natural setting and from a practitioner viewpoint (Tomkins & Groves, 1983). A key focus of naturalistic interpretive research is the *practice* of management accounting in organisations, rather than, for example, its impact on human power relationships or behavioural interactions. In this sense a naturalistic approach is arguably somewhat more 'objective' or technical in thrust than other types of interpretive research. Naturalistic interpretive research requires close observation of actual organisational practice, which encompasses management accounting practice within its daily and continuing context of operation. Such research would be difficult to accomplish without in-depth observation of an actual organisational setting. This suggests that a case study approach would be a suitable research method.

2.3 Case Study Method

The research method adopted is a case study approach informed from a naturalistic interpretive perspective, but one that is also somewhat ethnographic in nature. A case study was chosen because it enables in-depth analysis of research subjects and is of particular usefulness when the aim of research is theory building (Chua, 1996). The case study provided a basis for examining how an organisation operates within a turbulent environment, in a natural setting (Yin, 1994). In this sense the case was a powerful means of studying an issue that is not well understood and of which little is known (Patton, 1990; Ferreira & Merchant, 1992; Yin 1994). Case studies often rely heavily on interview data, with only limited time spent observing the actual research site (Abernethy, Chua, Luckett & Selto, 1999). This study, while having a significant reliance on audiotaped interviews, also involved lengthy periods at the research site listening to and interacting with many organisation members and freely observing all parts of the operation. While this may not necessarily reflect the classic ethnographical approach of 'going native', it still reflects an extension of a more limited case study approach. In this sense the study mirrors an approach to qualitative

management accounting research often undertaken by many Scandinavian accounting researchers (Hagg & Hedlund, 1979; Jonsson & Macintosh, 1997; Kreiner, 2002). Such research is about "...small-scale case studies and concern with the empirically observable..." (Mouritsen, Larsen & Hansen, 2002, p.504).

The nature of the case study undertaken at HF reflects the following definition:

An empirical enquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between the phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1994, p.23).

On this view, the phenomena being researched are management accounting and organisational control, and the approach proposed to deal with environmental turbulence. The context is a natural, but also turbulent, organisation setting. Further, the study embodies three key characteristics generally associated with case study research in management accounting:

1. The researcher has direct, in-depth, and extended contact with the researched. In this sense the researcher is the prime research instrument;
2. Multiple types of data are collected from the research site, mainly through observation, interviews and document searches;
3. The researched are studied in their "natural" surroundings. The researcher has no direct control of processes or outcomes at the research site (Chua, 1996).

2.3.1 Case Selection

The case used in this study is HF, a privately owned breakfast cereal manufacturing company (see Appendix Five). HF was selected using a theoretical sampling approach (Patton, 1990; Scapens, 1990; Ferreira &

Merchant, 1992; Chua, 1996; Baxter & Chua, 1998). The aim was purposefully to select a suitable organisation that would likely provide a rich source of data for the study. In this sense the case selection could be described as opportunistic. This is because gaining access to suitable organisations for purposes of research can be difficult and uncertain, with organisations often unwilling or reluctant to take part in qualitative field studies (Baxter & Chua, 1998). In using HF the goal also was to select an 'outlier' organisation, which is considered innovative and that would potentially provide novel and useful insights about the phenomenon under investigation (Ferreira & Merchant, 1992).

The key theoretical factor that drove the identification and selection of a suitable case organisation was environmental turbulence, which is a defining characteristic within the proposed approach, strategic navigation, developed in Chapter Four. Initially, a list was compiled of five New Zealand (NZ) based organisations operating in what were considered to be turbulent environments and which had all been in existence for at least 10 years. A turbulent environment was identified in terms of organisations operating in highly competitive markets, exposed to both strong domestic and global competition, and within industries that could easily be threatened by technological change. HF was the first organisation on the list to be contacted. In relation to the criteria of turbulence, HF was selected for a number of reasons. One key reason is the relative size and market power of HF relative to its major competitors – Sanitarium and Kelloggs, and to a lesser extent Uncle Tobys – who each have well established and recognised brands, and market share. Each major competitor is significantly larger than HF and has direct access to international resources, both financial and product-related. Therefore they could, for example, operate their NZ operations in a loss-making or low profit situation, thereby attempting to place HF under severe financial stress. In view of this, HF has to be wary of the competitive reactions of the major market players. In order to help alleviate the risk of strong retaliatory action by competitors, HF attempts to differentiate its products strongly (i.e., unique and innovative niche products and packaging, and

supermarket 'house brands' – see Appendix Five), rather than being perceived as competing head-to-head. The technology relating to cereal manufacture and modes of customer/supplier interface is an area of rapid change and scale advantages. HF faces significant risk in both of these areas. The production and operating technology at HF is generally less advanced and more labour intensive than competitors, who have greater access to financial resources to acquire leading-edge technology. Competitors also have the advantage of larger physical production resources (both in NZ and overseas) and production runs, and therefore can potentially generate significant economy-of-scale cost advantages relative to HF. Finally, HF is often cited in the NZ business press as being innovative and progressive in relation to product range and operating methods and style, which is perhaps suggestive of an ability to manage successfully the impact of environmental turbulence.

Because the goal of the study was to provide much rich detail and insight about the phenomena of interest, a single case study was used (Campbell, 1975; Mintzberg, 1979; Ghauri, et al., 1995; Chua, 1996). Historically, single case studies have been very powerful in the generation of new or expanded theory (Dyer & Wilkins, 1991). Single cases can be used to confirm or challenge theory, or to represent a unique or revelatory situation (Yin, 1994). This particularly fits the analysis in this study of concepts relating to management accounting, organisational control and environmental turbulence. The study is cross-sectional in nature rather than longitudinal, which was due to the time and resource commitment available to complete the project. The fieldwork undertaken differed from traditional ethnographic studies, which are often completed over many months or years by researchers who have 'gone native'. At HF the on-site data gathering stage was intensive and detailed, and spanned a three-month period.

Initial contact was made with HF by writing a letter to the CEO. This briefly outlined the aim of the research and asked if he would be willing for HF to participate in the study (see Appendix Six). The letter indicated that I would follow

up the written request with a phone call approximately one week after sending the letter. When I phoned the CEO he said that he was willing for HF to be involved in the study. He subsequently confirmed this with a formal letter.

2.3.1.1 Research focus

The HF case study was undertaken based on the premise that management accounting systems are generally heavily intertwined with organisational functioning and therefore can only be understood by attempting to observe such systems within their context of operation (Hopwood, 1983; Kaplan, 1986; Scapens, 1990). This follows the view that:

Despite accounting being given organizational rationale, we have few insights into the factors which influence accounting systems in the contexts in which they operate... What is needed are more substantive investigations oriented towards providing bases for understanding or explaining the workings of ***accounting in action*** [emphasis added] (Hopwood, 1983, p.303-302).

In this regard the naturalistic interpretive focus at HF was on management accounting in action and its nature within the turbulent world of a real organisation setting (Chua, 1986). Interpretive management accounting researchers commonly assert that such research should be undertaken within actual organisations due to the close and co-dependent nature of management accounting and everyday organisational functioning, and how this should be detailed as part of the research findings (Hopwood, 1983; Scapens, 1990; Ahrens & Dent, 1998). In this sense, the examination of accounting at HF was not in the context of merely observing a relatively unproblematic technical support system (Hopwood, 1983). Rather, a key goal was to examine the actual nature of management accounting so as to better understand its interface and interaction with complex environmental pressures (Kaplan, 1986). In other words, the research reflected the view that: "...to obtain better understanding of how

management accounting functions in practice, field studies that bring the messy world of organizations closer to the reader are needed” (Ahrens & Dent, 1998).

This case study is also anchored in the idea that management accounting research should be focused on discovering the creative processes and ideas that underlie the operation of contemporary management accounting systems. In terms of the naturalistic interpretive methodological position adopted, this means that the case study findings represent a rich interpretation of the organisational systems observed at HF, rather than a relatively static ‘objective representation’ (Scapens, 1990). The findings are specific to the context of HF. In this respect, they reinforce how management accounting systems in contemporary organisations are increasingly diverse and unique (Otley et al., 1995). The findings contribute to knowledge about how organisations operate in response to varying environmental circumstances. From a theoretical perspective, this provides insights into management accounting system designs appropriate for different organisation types.

The research techniques used in this study to implement the case study method are not tightly prescribed, nor do they consist of completely uniform procedures (Scapens, 1990). This reflects the underlying naturalistic interpretive perspective, which means the research is aimed at capturing the richness of the setting being examined and recognises that the key research instrument is the researcher, rather than the actual research techniques adopted (Baxter & Chua, 2003). However, this also exposes a potential weakness of case study research of this nature, in that high reliance has been placed on my ability, as the researcher, to examine and report on what is discovered. Alternatively, other approaches to case study research, informed, for example, by post-positivist orientated methodological perspectives, may be more structured in relation to the research procedures followed and techniques adopted (e.g., Eisenhardt, 1989; Miles & Huberman, 1994). However, such a style of research is potentially limiting in

relation to identifying richness and depth within a case study (Dyer & Wilkins, 1991; Ahrens & Dent, 1998).

2.3.2 Validity and Reliability

The procedures used to assess validity and reliability in quantitative studies are not appropriate in case study research (McKinnon, 1988; Scapens, 1990; Yin, 1994; Chua, 1996). Rather, case study research follows procedures that are more variable and research site context dependent (Scapens, 1990; Gummesson, 1991). Validity covers such questions as whether the research provides a logical and theoretically valid interpretation of the data, and whether the researcher is studying that which he or she claims (Gummesson, 1991; McKinnon, 1988; Chua, 1996). Reliability focuses on the consistency of observations and research results obtained in relation to different researchers and the stability of observations over time (McKinnon, 1988; Chua, 1996).

McKinnon (1988) proposed a set of three general strategies to enhance the validity and reliability of case study research. These were used to guide the conduct of the HF case study and are listed and discussed below:

1. Using multiple observations;
2. Spending a significant amount of time in the field; and
3. Sensitive social behaviour while at the research site in terms of developing the confidence, trust and respect of participants.

Multiple sources of evidence were collected at the research site, following what is generally described as data triangulation (Scapens, 1990; Ferreira & Merchant, 1992; Yin, 1994; Chua, 1996). Organisation members from all parts of HF were interviewed, including board members, senior and middle management, factory and warehouse supervisors and office staff, with transcriptions subsequently returned to interviewees for checking and verification. Available documents relevant to the research area were also examined, including formal reports,

company notices and confidential documents such as the strategic plan. Additionally, extensive observation was made of a wide range of organisational activities, such as formal meetings, factory processes and the life of the organisation generally. Detailed written notes were made concerning these activities.

A considerable amount of time was spent at the HF site, with data collection and site visits taking place over a three month period. Visits typically were in five working day blocks and covered a daily period from approximately 8am to 5pm. During site visits a significant amount of time was spent organising and undertaking interviews. A considerable amount of time was also spent simply watching and listening to staff interactions and observing various facets of the HF operation. This provided the opportunity to view different parts of the operation on a repeated basis. During the site visits I always carried a pen and note book, which were used to record these various observations.

As my visits to HF progressed, staff quickly became less hesitant and more relaxed concerning my presence and were more willing to talk about their roles at, and impressions of, HF. In the course of conversations, staff would often ask about the purpose of my visits. I always mentioned that I was undertaking research as part of my PhD studies and that I was not working for HF management. This seemed to make them more relaxed about conversing further with me. In this sense, much effort was directed at building rapport with various HF staff while visiting the research site. The goal was to develop their trust and respect, which in turn was aimed at helping to unlock 'doors' to useful data (McKinnon, 1988). The apparent success of this strategy is perhaps illustrated by the fact that during my second week at HF I was invited to the regular Friday 'fish and chip lunch'. It seemed that by this stage I was no longer considered to be a mere 'outsider'.

The case study of HF is intended to be more than an interesting descriptive overview of the organisation. To further enhance its validity and reliability, an attempt was made to link the case observations to a pre-existing body of knowledge (Chua, 1996; Ferreira & Merchant, 1992). Such a step is considered important as it helps ensure that the evidence collected addresses the research aim (Yin, 1994; Atkinson & Shaffir, 1998). In this regard the approach followed the position advocated by Mintzberg (1979, p.585), who stated: "we have always tried to go into organizations with a well-defined focus". It has been suggested, however, that strong *a priori* conceptualisation may conflict with a theoretical emergence approach in case study research (Dyer & Wilkins, 1991; Ahrens & Dent, 1998). The HF case study is based on the position that some degree of prior theorising was necessary in order to focus the study effectively in terms of conducting relevant interviews and collecting other evidence. However, this was not done in the positivist sense of defining specific constructs and variables. Rather, the goal was for the prior theory to provide a suitable lens through which the organisation could be meaningfully observed. In other words, the aim was to develop some level of prior conceptualisation to help understand the areas of interest, but at a level that was not so prescriptive that it clouded the richness and uniqueness of the analysis that would be obtained from the fieldwork (Scapens, 1990; Ahrens & Dent, 1998). The process of prior theorising in relation to HF was also continuous and took place both before and also during the field observation period (Eisenhardt, 1989; Baxter & Chua, 1998). Theorising in the field can be considered as "reflective pauses" (Baxter & Chua, 1998) and in the case of HF involved constantly reflecting on what was being observed in relation to the study's theoretical framework. Many of these reflections were recorded as field notes.

The issue of validity and reliability in naturalistic interpretive case study research may appear highly variable. In particular, different researchers studying the same topic may obtain different insights and results from the same case study data. However, this does not necessarily imply that the data collection methods are

unreliable or lacking validity (Chua, 1996). Rather, it reinforces that naturalistic interpretive case study research is subjective and highly dependent on the researcher as the key research instrument, and the insights he or she obtains from the analysis of case data. This is arguably a key strength of naturalistic interpretive case study research, in that it reinforces and reflects the underlying contextual richness of the data examined.

2.3.3 Data Collection

I was assigned a liaison person, the company accountant, to assist me in organising all aspects of my visits to the research site. At the initial visit I spent a large amount of time with the accountant, viewing the entire HF complex and meeting with various staff. During the initial visit I asked for a copy of the HF organisation chart. I planned to use this to help identify potential interviewees. However, HF did not have an organisation chart. Instead, I obtained a copy of the internal phone directory, which was the only document available that provided an indication of organisation structure and staffing. I used the phone directory to target interviews with all management level employees and a selection of non-management level staff, covering office administration and the factory and warehouse areas. The accountant also provided me with the names and contact details of non-executive directors, who were also targeted for interviews. Three main sources of evidence were used in this study: audiotaped interviews, documents and direct observation. Of these sources, interviews are considered the most valuable (Chua, 1996; Baxter & Chua, 1998; Scapens, 1990; Gummesson, 1991). These were used extensively at HF. The interviews were semi-structured and held with a cross section of organisation members in order to capture different perspectives of the issues being researched (Ferreira & Merchant, 1992).

While interviewees covered various organisational roles, their actual names and job titles have been kept confidential and anonymous. In the research findings they are labelled generically as either senior manager, manager, office staff,

supervisor or board member. As detailed in Table 2.1, interviewees had been associated with HF for varying lengths of time and many held university degree level qualifications.

Table 2.1 – Interviewee Information

Interviewee	Years associated with HF	University degree level qualification
Senior manager 1	13	Science
Senior manager 2	2.5	Business
Senior manager 3	8	Science
Senior manager 4	3.5	Business
Manager 1	3	Science
Manager 2	4	Science
Manager 3	1 month	Nil
Manager 4	5	Science
Supervisor 1	12	Nil
Supervisor 2	13	Nil
Office staff 1	6	Nil
Office staff 2	5	Nil
Office staff 3	1	Nil
Board member 1	5	Science
Board Member 2	6 months	Business
Board Member 3	13	Business

Most staff were involved in a diverse range of organisational activities, although they had core responsibilities in particular areas. Accordingly, interviewees tended to have wide-ranging knowledge relating to a variety of organisational areas. The particular core responsibilities of interviewees encompassed the following organisational areas and/or roles (the figure in brackets indicates the number of interviewees in each area):

- Accounting (1);
- Factory and warehouse (3);
- Marketing (1);
- Product development (1);
- Technical (1);
- Purchasing (1);
- Office administration (3);

- Engineering (1);
- Overall company management, including the board (4).

In total, 17 formal interviews were organised and held with management staff, office staff, factory and warehouse supervisors and board members. One interviewee was interviewed twice. All interviews were audiotaped apart from two, where the interviewees did not want a taped record made. Interviews lasted between approximately 60 and 90 minutes. Interviewees were provided with a one page research information sheet (Appendix One) and asked to sign a consent form (Appendix Two), indicating that they had agreed to participate in the study under the conditions set out in the information sheet. Massey University Human Ethics Committee approval (PN Protocol 01/08) had been granted for the study, which was noted in the information sheet.

I approached the audiotaped interviews as a 'learner' and commenced these with background questions about the interviewee, such as how long they had been in their current position. The aim was to establish rapport with and the confidence of the interviewee (Alvesson, 2003). A semi-structured interview guide was used to steer the conversation with interviewees (Appendix Three). This was based on the study's theoretical underpinnings and was focused on strategy formulation and implementation, feedback control, fastforward change and management accounting systems. The core purpose of the interview guide was not as a list of set questions to put to the interviewees, but as a checklist for me, the researcher, to ensure that I covered the theoretical issues I intended (Alvesson, 2003). Therefore, the interviews progressed in a conversational and probing style, rather than in a 'question and answer' format. As a consequence, some interviewees expressed surprise when I turned the tape-recorder off, often asking with some surprise whether I had covered all my questions and saying that they had expected a more formal and structured interview. The periods prior to and after audiotaping were also important times for data capture. In particular, during the period immediately after the tape had been turned off, respondents often made

further comments in relation to the topics that had just been discussed. It was as if some respondents felt more relaxed after the tape recorder had been stopped and were then willing to make various 'off the record' comments. Once an interview had concluded I would make notes relating to my impressions of the interview and in particular any comments made by the interviewee when the tape recorder was not operating. Interview transcriptions, including a covering letter (Appendix Four), were subsequently returned to the interviewees for checking and verification.

Many informal conversations (interviews) of about 15 minutes duration (and sometimes significantly longer) took place with a variety of office and factory staff. These conversations were also an important source of data. They generally occurred as I was casually observing various facets of the HF operation. Often I would approach various staff and start a conversation by asking them about their jobs and how long they had been employed at HF. I would then progress to questions relating to the research topic. Immediately following an informal conversation I would make notes and record my impressions of what had just been discussed. I always tried to be alert to informal evidence and to the opportunity to collect data as opportunities arose (Scapens, 1990; Chua, 1996). For this purpose I constantly had a note book with me when I was at the research site, and would frequently record my observations and impressions of what I observed happening.

2.3.4 Data Analysis

A key difficulty with case study research is translating raw data into patterns and identifying emerging theory (Chua, 1996; Ahrens & Dent, 1998; Baxter & Chua, 1998). Miles and Huberman (1994, p.2) comment that it is difficult to "...see how the researcher got from 3,600 pages of field notes to the final conclusions, as sprinkled with vivid quotes as they may be". Therefore collection and analysis of case study data requires the adoption of some form of analytic strategy (Yin, 1994). However, the actual data collection and analysis procedures that underlie

'good' case study research is an area of varying and non-conclusive viewpoints (Chua, 1996). To a significant degree the approach taken depends on the philosophical and methodological perspective adopted by the researcher. Furthermore, the procedures followed by individual researchers will vary due to the complex and interactive nature of case research (Baxter & Chua, 1998). The key thrust, however, of all data analysis approaches is to translate data into a form that has theoretical relevance. In essence, the mode of analysis adopted can be relatively formal and structured or more 'subjective' and researcher dependent (Chua, 1996).

A key feature of a naturalistic interpretive approach to the collection and analysis of case study data is explicit recognition that the process will have a degree of subjectivity, and will be influenced by the prior knowledge and experience of the researcher (Chua, 1996; Baxter & Chua, 1998). In other words, the researcher is the key research instrument. While overall guidelines are suggested, there is not a single prescribed model that provides definitive rules regarding the conduct of naturalistic interpretive case study research (Scapens, 1990; Chua, 1996). This can be contrasted with other methodological perspectives where there might be more intensive focus on minimising the role of the researcher as the core instrument in the data analysis process (e.g., Miles & Huberman, 1994; Lillis, 1999). The lack of prescriptive rules and procedures concerning the conduct of interpretive case study research arguably allows for greater appreciation of the richness and authenticity of the data collected (Baxter & Chua, 1998).

Data analysis in this study initially relied on the underlying theoretical framework to help make sense of and categorise the data. However, as data analysis progressed, various themes and patterns started to emerge and less consideration was given to prior theory. In particular, extensive use was made of pattern matching or pattern making where the aim was to provide logical explanations of observed outcomes (Patton, 1990; Scapens, 1990; Baxter & Chua, 1998; Ahrens & Dent, 1998). By following a naturalistic interpretive

perspective it is acknowledged that a key strength of the data analysis approach used was its apparent 'subjectivity'. This relates to the core role of myself as the researcher in analysis of data, rather than treating this as a detached and 'independent' process. However, it is still accepted that this type of research should be systematic and rigorous and reflect what is considered good research practice (Silverman, 2000). In this regard, analysis of HF data commenced by coding or matching the interview transcriptions according to or with, the study's theoretical framework. This involved reviewing the hardcopy transcripts and classifying text as relating to either strategy formulation, strategy implementation, feedback control or fastforward change. Some text was classified in terms of more than one of the categories, and some did not fall logically within any of these areas. Classification of text was recorded in the margins of the hard-copy transcriptions. Also reviewed and classified were the many pages of field notes recorded while at the research site, and various documents collected and examined. Once all the evidence collected from the research site had been classified, this was then written up as detailed research 'summaries'. This was an intensive process that involved not only writing up the research evidence in light of the theoretical framework, but also identifying patterns and themes within the theoretical categories, and linking these with management accounting. The process was lengthy and required many iterations before analysis of the data was 'complete'. The process was undertaken in a critical and questioning manner, with care being taken to consider the data from various theoretical viewpoints, in terms of management accounting, organisational control and the proposed approach to deal with environmental turbulence.

2.3.5 Theory Generation and Development

Case study research is considered an important method or strategy for generating theory in order to provide greater understanding of the empirical world (Scapens, 1990; Chua, 1996). This is because empirical events arguably cannot be understood in isolation but only within the organisational context in which they occur (Schwandt, 1994). Such research is also useful for generating new theory

because it is not hindered by tight prior definition of expected theoretical relationships (Chua, 1996). Past evidence indicates that many 'classical' case studies based on 'rich' descriptions have generated useful and strong theory (Ahrens & Dent, 1998). The term rich, however, should not be confused with 'detailed'. Rich accounting research should make "...understandable the actions and motivations of often very skilful people who routinely mobilize accounting in their daily lives" (Ahrens & Dent, 1998, p.4). While positivist based research is generally concerned with testing and refining existing theories, the major purpose of interpretive case study research is to interpret reality in new ways and identify new theories (Dyer & Wilkinson, 1991; Gummesson, 1991; Baxter & Chua, 2003).

In order to highlight the role of case study research in theory generation and development, various classifications have been made of the theoretical contribution of different case study types. One framework proposed classifies cases as either theory discovery, theory refinement, or theory refutation focused (Keating, 1995). Scapens (1990) suggests the use of explanatory case studies as a means of generating new theory. These appear very similar to Keating's (1995) description of theory discovery and theory refinement cases. Atkinson and Shaffir (1998) describe case study research as either providing a description of practice, testing a theory developed elsewhere, or developing a (new) theory. All classification schemes emphasise either theory discovery and building or theory testing as the core and most valuable role of case study research. Classification schemes, however, may be open to debate because the differences between the various case study types may not be absolute (Scapens, 1990). But the schemes do arguably provide a useful indication of the potential role of case study research and in particular highlight that it should generally provide more than a mere description of practice. In other words, the underlying thrust should be the development of linkages to pre-existing and new theoretical knowledge (Ferreira & Merchant, 1992).

In this study, the overall aim was to obtain full and rich descriptions to help obtain a deep understanding and a fuller contextual sense of the phenomena being researched. More precisely, the goal was to examine empirically the applicability of an approach to deal with environmental turbulence and its relationship with management accounting. In this sense the HF case analysis is about helping to develop or build theory (Atkinson & Shaffir, 1998) that extends beyond existing conceptualisations of management accounting and organisational control. Alternatively, this suggests that the case analysis could also be described as explanatory (Scapens, 1990) or focused on theory refinement (Keating, 1995).

2.4 Summary

The research design used in this study comprises two main parts. In the first part an overall framework is developed, which includes an approach to deal with environmental turbulence. In the second part, this framework is used as the basis for analysis of an organisation operating in a turbulent environment. This reflects how the study involves a significant theory development thrust, which suggests that a qualitative research approach is suitable. Qualitative approaches are particularly appropriate when research projects require in-depth analysis of phenomena for which little is known, such as this study.

Various theorists have asserted that management accounting research should be undertaken in the field. This is because accounting practice is heavily intertwined with organisational functioning. A case study approach has been recommended for this style of research. The HF research was completed following a naturalistic interpretive perspective, which recognises the researcher as the prime research instrument. The study was focused on depth of analysis and the meanings attributed to organisational events by interviewees, rather than breadth of representativeness more generally associated with positivist research. In other words, the aim was to capture the richness and depth of accounting procedures

and routines and their interaction with HF's organisational practice. This reflects a key goal of interpretive management accounting research, which is to

...produce rich and deep understandings of how managers and employees in organizations understand, think about, interact with, and use management accounting and control systems. (Macintosh, 1994, p.4)

Case selection was purposeful and directed towards finding an organisation that was likely to have implemented innovative and progressive operating systems. Data for the study came from interviews, supplemented by observation and various documents. The data were collected with the goal of developing their theoretical relevance. In this sense, data analysis was orientated in terms of theory development and refinement and giving meaning to the empirical results, rather than merely case description.

Chapter Three

Literature Review

In addressing the issue of the interface between management accounting and organisational strategy, there are two concepts, apart from other aspects, that need to be clarified. These are strategy in management accounting and strategic control. The review of the literature in this chapter is focused on these two concepts, and is divided into two main sections – 3.1 and 3.2. A chapter summary is contained in Section 3.3.

3.1 Strategy in Management Accounting

During the 1980's a significant number of articles appeared in the literature which argued that management accounting needed to become more strategic in focus (e.g., Simmonds, 1981; Eiler, Goletz, & Keegan, 1982; Kaplan, 1983; Nanni, Miller, & Vollmann, 1988; Shank, 1989). In particular there was a call for the adoption of 'innovative' management accounting techniques, methods and approaches that would assist organisations in achieving their strategic goals. This call largely followed Kaplan's (1983; 1984) extensive criticism of existing management accounting practice, which he argued was dated and increasingly irrelevant to the needs of contemporary organisations.

The purpose of this section is to trace the development of strategy in management accounting since the early 1980's. Key issues that have emerged and have been developed in the literature will be identified. Two themes in particular are prominent. The first relates to what is generally described as 'strategic management accounting' and the second to organisational control system design. Strategic control seems to have been an implicit underlying dimension of many of the management accounting changes that have been proposed.

The remainder of this section is organised as follows. First, in Section 3.1.1, the problems associated with traditional management accounting systems are considered. Next, Section 3.1.2 examines strategic management accounting, while organisational control system design is examined in Section 3.1.3. The potential deficiencies of these approaches are described and an underlying implicit strategic control theme is also identified within each. Finally, Section 3.1.4 argues that the concept of strategic control should be considered more closely.

3.1.1 Problems with Traditional Management Accounting

Over the past 10-20 years the topics and practices which comprise the management accounting discipline and its role within organisations have been the subject of considerable academic scrutiny (e.g., Kaplan, 1984; Howell & Soucy, 1987; Johnson & Kaplan, 1987; Vollmann, 1990; Dent, 1990; Kaplan, 1990; Lord, 1996; Chenhall, 2003). This scrutiny largely developed following Kaplan's (1983) assertion that many organisations were not measuring the appropriate indicators of performance and that managers were too focused on simple aggregate short-term financial measures. It was argued that while the business and competitive environment had changed significantly, most existing management and cost accounting techniques had been fully developed by the early 1920's (Kaplan, 1984, Fry, 1992). Overall, it was claimed that little innovation had taken place in terms of the design and implementation of management accounting systems. Furthermore, the essential focus of existing systems was financial control (Hayes & Abernathy, 1980; Kaplan, 1984; Johnson & Kaplan, 1987).

3.1.1.1 Lack of responsiveness to environmental change

Traditional management accounting systems are arguably often not suitably matched to the needs of organisations operating in a contemporary business environment (Eiler et al., 1982). Such systems effectively ignore important elements within the business environment which have significantly evolved or changed over

time (Elliott, 1991; Vokurka & Fliedner, 1995). This environment is characterised by considerable transformation in terms of organisational design and function with less emphasis in particular being placed on hierarchical structures (Otley, 1994). Furthermore, the practice of management has been experiencing considerable change (e.g., see Greenberg & Baron, 1997; Drucker, 1992). Markets have also become more globalised and deregulated with, for example, firms operating and competing across a wide range of countries, which should lead to changed management accounting practices (Dixon & Smith, 1993; Cooper, 1996; Kaplan & Atkinson, 1998). Further changes include lean production systems, autonomous work teams and quality circles (Cooper, 1996). Overall, it has been contended that the provision of management accounting information should be more responsive and closely aligned with the needs of contemporary organisations (Elliott, 1991; Shields, 1997).

3.1.1.2 Financial focus

The basis of management accounting until at least the early 1980's is evident in the following definition:

[Management accounting is] the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of financial information used by management to plan, evaluate and control within an organisation... (NAA, 1981).

The major thrust of this definition is the collection and collation of financial information to facilitate control. Therefore, arguably the focus is relatively narrow because only financial information is considered relevant to the needs of managers. No explicit or implicit reference is made to the use of non-financial information in a management accounting context. Further, while control appears to be an important part of the definition, no mention is made of how this should relate to firm strategies and goals. For example, there is no reference to a firm's external environment and its influence on required management accounting information or how this

information may be used to enhance long-term firm performance. The overall emphasis appears implicitly to have been orientated in terms of a narrow engineering control paradigm, where the focus is on the computation of standards and budgets and the resulting variances (Atkinson et al., 1997). In essence, the above definition arguably locates the field of management accounting within a financial control vacuum.

3.1.1.3 Short-term orientation

Kaplan (1984) detailed a number of significant problems associated with management accounting systems based on definitions such as the one by the NAA (1981). His main thrust was that these systems encouraged managers to concentrate excessively on short-term financial performance. In this regard he states: "The ability of the firm and the division to increase reported profits while sacrificing the long-term economic health of the firm is a fundamental weakness in the accounting model" (1984, p. 411).

Kaplan (1984) outlines three management behaviours that he suggests have resulted in a focus on short-term profits. Firstly, the increased use of accounting conventions and rules which have encouraged managers to model internal accounting practice on external reporting rules. In this regard he states: "Firms use accounting conventions for internal planning and control, not because they support corporate strategy, but because they have been chosen via an external political process by regulators" (Kaplan, 1984, p.410). Johnson and Kaplan (1987) similarly argued that management accounting had become subservient to the needs and demands of financial accounting. In this regard they suggested that information provided for internal management purposes was no different to that provided for external reporting. Drury and Tayles (1997) surveyed UK manufacturing firms in order to collect information on management accounting practice and its relationship to external reporting. Their findings provide support for Kaplan's (1984) and Johnson and Kaplan's (1987) contention and suggest that companies use the same information for both internal and external reporting.

The second behaviour described by Kaplan (1984) is financial entrepreneurship. This is where managers generate increased short-term profits using financial transactions (e.g., mergers and acquisitions) which may not create longer-term value for the firm. The final factor is short-run opportunistic management behaviour by, for example, decreasing spending on discretionary and intangible investments in order to inflate short-term profits. Kaplan (1984) suggests various reasons that may explain why managers have concentrated excessively on short-term and speculative behaviour. These include factors such as managers spending on average less time employed by a single firm (rather than an entire career); greater use of executive bonus schemes focused on annual performance; more vigorous global competition rather than stable and predictable markets; larger organisations in which short-term optimising actions may be less obvious than in smaller firms; and reduced mean time between the promotions of managers when compared with historical practice.

Kaplan (1984) proposes that management accounting systems should be modified to include measures of performance that help predict, and encourage managers to concentrate to a greater extent on, future profitability, such as product innovation, customer satisfaction and employee skills and morale. He argues:

Financial performance measures, such as divisional profit, give an illusion of objectivity and precision. But these measures are relatively easy to manipulate in ways that do not enhance the long-term competitive position of the firm, and they become the focus of opportunistic behavior by divisional managers... Thus, there is probably a need for more ambiguous, less precise performance evaluation systems (1984, p.415).

As a solution, it has been suggested that management accountants should collect a broader range of both financial and non-financial information that is linked more closely with the accomplishment of long-term profitability and strategic goals (e.g.,

Guinding et al., 2000). The development of this idea is the focus of Sections 3.1.2 and 3.1.3.

3.1.2 Strategic Management Accounting

Much of the literature which has advocated the implementation of strategically relevant management accounting systems tends to recommend that this can be achieved by adopting various 'innovative' techniques and tools (e.g., Simmonds, 1981; Bromwich & Bhimani, 1989; Shank & Govindarajan, 1989; Guinding et al., 2000; Roslender & Hart, 2003). The underlying normative basis of this literature is generally described as 'strategic management accounting', which can be defined as follows:

The provision and analysis of information relating to a firm's internal activities, those of its competitors and current and future market trends, in order to assist in the strategy evaluation process (Dixon & Smith, 1993, p.605).

3.1.2.1 Technique based

According to Dixon and Smith (1993), strategic management accounting encompasses tools such as strategic cost analysis, competitor intelligence systems, strategic market analysis and strategic investment appraisal. More recently Guinding et al. (2000) have suggested that 12 practices comprise strategic management accounting. These are: attribute costing; brand value budgeting and monitoring; competitor cost assessment; competitor position monitoring; competitor appraisal based on published financial statements; life cycle costing; quality costing; strategic costing; strategic pricing; target costing; and value chain costing (p.117). Further, Nyamori, Perera and Lawrence (2001) express the view that the potential scope of strategic management accounting is broad. Bromwich (1990) argues that management accounting systems should be designed in a market- and competitor- centred manner in order to achieve a

strategic management accounting focus. He suggests that this could be accomplished, for example, by the provision of cost information which is specifically competitor and market focused.

Empirical research has examined issues related to the adoption of various tools and techniques that could form part of a strategic management accounting system. For example, Rickwood, Coates, and Stacy (1990) describe the results of a case study in which an organisation generated special purpose management accounting information to assist in the monitoring of strategic accomplishment. This information was obtained predominantly by searching the environment external to the firm and extended well beyond an analysis of past events. The special purpose information related to market intelligence, a net present value model and the preparation of special reports. The overriding thrust of this study concerned identifying various broad techniques and practices that could be used to assist the management accounting function in developing a strong strategic orientation.

Kellett and Sweeting (1991) describe how an organisation which had implemented new manufacturing techniques, also adapted and innovated its management accounting system to help achieve strategic goals. This study focused on the various tools and techniques which had been adopted in an attempt to enhance the relevance of existing management accounting practices. The overall emphasis of the study was the suitability and limitations of the actual tools and techniques adopted.

Dixon (1998) argues for the adoption of strategic management accounting and suggests that:

Management accounting and strategy are inextricably linked. The identification, formulation and implementation of strategy by management

is carried out using the techniques and language of the management accountant (p.273).

Dixon (1998) goes on to suggest that strategy can influence the procedures of management accounting and the design of management control systems to assist in the control of strategy (i.e., strategic control). Similarly, Guilding et al. (2000), also make passing reference to strategic control in relation to strategic management accounting and strategic cost management.

Palmer (1992) proposes a model that integrates strategic goals within the design of the overall management accounting system. As a key component of this model, Palmer recommends that organisations adopt techniques and tools such as strategic cost analysis, including competitor cost analysis, strategic performance measurement (both cost and non-cost based, and internal and external), and activity-based costing. Consistent with the views expressed by Dixon (1998) and Dixon and Smith (1993), Palmer's overall focus also seems to be mainly in terms of the tools and techniques used within the management accounting system. For example, in this regard he states:

The managerial accountant may then, through **creative adaptation of the accounting mechanism**, support organizational strategic management and enhance the organization's ability to survive and prosper [emphasis added] (Palmer, 1992, p.200).

It would also seem, however, that awareness and use of strategic management accounting ideas and practices within organisations are limited. Guilding et al. (2000) undertook an international survey of strategic management accounting practices, covering New Zealand, the United Kingdom and the United States. A significant finding of this survey was as follows:

It has been found that there is negligible use of the term 'strategic management accounting' in organisations and that the appreciation of the term amongst practising accountants is somewhat limited (Guilding et al., 2000, p.129).

3.1.2.2 Conceptual basis unclear

While the previous section discussed the nature of strategic management accounting, there is no clear articulation concerning how the various recommended techniques will actually support the overall strategic goals of an organisation. Palmer (1992), for example, attempts to develop this point but does not effectively convey why his approach would be successful. The reason for this would appear to result from Palmer's preoccupation with the *overall* strategic management process (Figure 3.1) and its possible relationship with management accounting. Hence, Palmer's focus of analysis is possibly too broad. It may be more useful to examine closely those parts of the strategic management process which are likely to have the greatest usefulness in developing strategically relevant management accounting systems. Arguably, this would be what Palmer (1992) describes as strategic feedback and control. This is because management accounting operates as a major organisational control mechanism within organisations (Anthony & Govindarajan, 1998). Therefore, enhancing the relationship between management accounting and strategic feedback and control may be useful in the context of designing management accounting systems which facilitate the accomplishment of strategic goals.

Dixon and Smith (1993), Bromwich (1990), Dixon (1998), Palmer (1992) and Guilding et al. (2000) all argue that a 'strategic management accounting' model should be adopted to help address the inherent strategic weaknesses of traditional management accounting systems. In essence their underlying goal is to propose a means of developing a longer-term focus within existing management accounting systems. However, as a possible shortcoming of this approach, the identification and adoption of a suitable control framework within

which a strategic management accounting system would operate was not explicitly addressed.

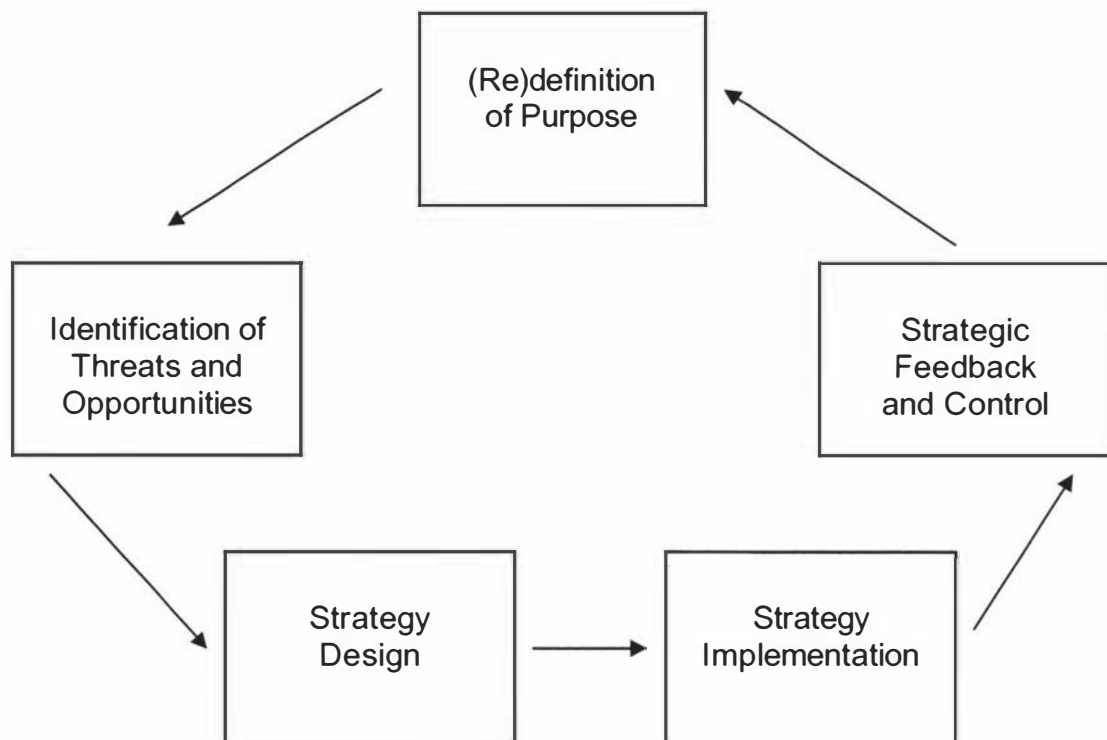


Figure 3.1 – The Strategic Management Process
Source: Palmer (1992), p.185.

Chenhall and Langfield-Smith (1998) used five case studies (one major and four minor cases) to examine how management accounting was utilised in the development of integrated performance measurement systems within organisations implementing change programs. An important part of Chenhall and Langfield-Smith's (1998) study relates to the selection of suitable tools and techniques to enhance the strategic relevance of management accounting. However, underlying their analysis and findings would seem to be a strategic control theme. This appears to be evident with respect to the following statement that relates to the major case study:

In this company, a lack of *integration* of operational performance measures with strategic priorities contributed to poor integration of team activities with overall strategy (Chenhall and Langfield-Smith, 1998, p.361) [emphasis added].

Arguably, a primary means of helping to overcome a lack of integration would be by designing a control framework emphasising strategic control, rather than by concentrating on the role of management accountants and the type of measures they adopt.

While authors often referred to the importance of *designing* suitable strategic management accounting systems, this aspect was not considered in any real detail. Dixon (1998), for example, suggests that management accounting and strategy are inextricably linked and that organisational control system design can be used to assist in the control of strategy. However, he also states that this is likely to be achieved using management accounting *techniques*. In relation to management accounting system design, Palmer (1992) discusses the strategic management process (see Figure 3.1) and identifies strategic feedback and control as a key component. However, he does not develop this aspect further as a means by which management accounting could contribute to strategic accomplishment in a more tangible manner, and thereby provide balance in relation to traditional accounting control measures, which tend to be short-term orientated. If management accounting and strategy are to be more closely linked, then this is likely to be achieved primarily through the design of a suitable control framework rather than via the adoption of various individual management accounting tools and techniques (Otley, 1999). Choices about which set of tools and techniques to adopt are arguably secondary issues in relation to control system design.

3.1.2.3 Implicit strategic control focus

Underlying the arguments supporting the use of various strategic management accounting techniques seems to be an implicit theme which suggests that the nature of the control framework is likely to have a significant influence on the usefulness of the actual tools and techniques adopted. It could be argued, therefore, that there is, in effect, an implicit strategic control dimension underlying some of the strategic management accounting ideas described. As a consequence, the design and adoption of suitable control systems emphasising strategic control may be an overlooked component of strategically orientated management accounting systems. In other words, strategic control may in effect be an *integral* component of management accounting system design emphasising strategic accomplishment, which needs to be more formally recognised and acknowledged. Some authors, implicitly at least, noted the role of strategic control in the context of enhancing the strategic relevance of management accounting. However, the formal integration or adoption of some form of strategic control framework within the overall management accounting system was not seriously considered.

3.1.3 Organisational Control System Design

A further theme evident in the literature highlights a need to concentrate on the design of organisational control systems, as a means of enhancing the strategic relevance of management accounting. This extends the 'strategic management accounting' approach outlined in the previous section by considering more closely the overall organisational control framework or package. It provides a means of addressing, to some degree, the shortcomings of the strategic management accounting approach outlined in the previous section. This approach also rests on the premise that an important role of management accounting systems is to facilitate the development and implementation of strategy (Ittner & Larcker, 1997; Nyamori et al., 2001; Marginson, 2002). In this context, a need for a tighter link between management accounting and strategy, which implies

a greater and more innovative role for accounting in the context of organisational control, has been frequently advocated in the literature (e.g., Markus & Pfeffer, 1983; Kaplan, 1984; Ferns & Tipgos, 1988; Rotch, 1993; Otley, 1999; Shields, 1997; Otley, 2001; Chenhall, 2003; Otley, 2003).

3.1.3.1 Conceptual basis

The organisational control theme is concerned with the design of control systems that include a component more directly focused on strategic goals (e.g., Bart, 1986; Simons, 1987; Dent, 1990; Simons, 1990; Daniel & Reitsperger, 1991). The term control in the literature is used in varying ways and is arguably highly ambiguous (Otley et al., 1995). In this thesis the terms 'management control' and 'organisational control' are considered synonymous (Otley, 1999). In general, however, usage of the term 'organisational control' is preferred in this thesis, which reflects Otley's (1999) idea of a control package and arguably better represents the idea of an overall control framework.

In relation to the idea of organisational control, Simons (1987a), for example, examined the relationship between accounting control systems and strategy and found evidence of an association between these two aspects and firm performance. The findings of his study highlight the importance of improving the linkages between control systems and strategy within a management accounting context. Traditionally, the idea of management control has been focused predominantly on accounting controls orientated towards the monitoring of short-term activities (e.g. budget goals) (Rotch, 1993; Otley et al., 1995; Langfield-Smith, 1997; Otley, 2001). As a result, management control and management accounting are often considered to be synonymous (Otley, 1999). However, a key problem with traditional management or organisational control tools, such as budgets, is that they generally concentrate only on short-term financial measures and do not enable managers to assess sufficiently organisational performance in the context of broader strategic, competitive and non-financial measures, which may provide a better indication of long-term performance and success (Roberts, 1990). The

traditional approach may have been influenced by early definitions of management control which did not explicitly emphasise monitoring the attainment of strategic goals (Langfield-Smith, 1997). For example, Anthony (1965) defined management control as “the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives” (p.17).

Researchers have increasingly argued that control systems should be focused to a greater extent on the accomplishment of strategic goals rather than narrowly measuring short-term operational and accounting factors (Horovitz, 1979; Govindarajan & Gupta, 1985; Rotch, 1993; Whelan & Sisson, 1993; Simons, 1994; Ittner and Larcker, 1997; Langfield-Smith, 1997; Chenhall, 2003; Hansen et al., 2003). Langfield-Smith (1997), for example, describes various forms of control such as management control, operational control, and strategic control. However, she argues that the distinction is often artificial, because of the interrelationships between the various forms of control, and suggests that contemporary control systems generally should be more closely linked to the formulation and implementation of strategy.

Daniel and Reitsperger (1991) investigated the links between management control systems and quality strategy within a sample of Japanese firms. Their findings reinforce the importance of modifying management controls to match strategy and provide evidence that an effective control framework may enhance long-term performance. They demonstrate the importance of adopting controls that are focused on strategic goals rather than narrowly relying on traditional management accounting controls (e.g., budgets). Shields (1997) found that management control research published by North Americans in the seven year period 1990-96 had a very heavy emphasis on the annual budgetary planning and control cycle. Contemporary definitions of management control now attempt to identify the relationship with strategy more explicitly. In this regard, for example, Anthony and Govindarajan (1998) define management control as

follows: "Management control is the process by which managers influence other members of the organization to implement the organization's strategies" (p.6).

A study by Roberts (1990) underscores the difficulties associated with developing accounting-based management controls that can be used to facilitate strategic goals. In particular, Roberts demonstrates that accounting results used to signal apparent strategic success may in fact be compromising the longer term strategic position of an organisation. This is because accounting tools are generally not designed to monitor and report on the accomplishment of longer term strategic goals. Roberts mentions a strategic control approach as a possible means of overcoming this problem. However, he also suggests that identifying measures of strategic effectiveness is difficult and that this could therefore limit the usefulness of a strategic control approach. In effect, Roberts has highlighted the possibility of exploring in greater depth the usefulness of strategic control as a means of improving the linkages between management accounting and strategy and demonstrates a potential need for some form of strategic control framework. Such a framework would help to further develop, by directly stressing strategic accomplishment, many existing accounting controls, which are only very broadly, at best, matched to monitoring the achievement of strategic goals (e.g., variance analysis).

3.1.3.2 Interactive control

As a means of focusing organisational control more clearly on strategic goals, the control framework proposed by Simons (1995; 2000) may be useful. From a strategic perspective Simons (1995; 2000) suggests that managers adopt what he describes as interactive controls. These can then be used to direct management attention towards strategic uncertainties and also allow the monitoring of emerging threats and opportunities. Interactive control is about monitoring a small number of variables very intensively. Lockett (1999) provides evidence which suggests that the way in which managers use certain performance measures is consistent with Simon's (1995; 2000) notion of

interactive control. Adopting such an approach is also likely to encourage organisational learning as a result of the debate and dialogue that should accompany the intensive use of interactive control. Organisational learning is important from the perspective of organisational control and strategy because it is a means of developing a feedforward control loop to help ensure continued validation and relevance of existing strategies and long-term goals.

Vaivio (1999) explored the emergence of various non-financial measures within a large UK-based service organisation. In relation to the accomplishment of strategic goals he found that certain non-financial measures assumed a high degree of importance. With regard to this issue he stated:

The systematization of non-financial measures into a regular and 'public' reporting format represented a culminating instance of the explored events. Systematization integrated the measurements into the company's management [control] process and turned them into organizationally constitutive artifacts (Vaivio, 1999, p.429).

Vaivio then goes on to suggest that the systematised non-financial measures became a vehicle of focused interactive control. He contrasts this with the diagnostic role often associated with non-financial measures in an accounting context. A diagnostic role is consistent with traditional management control and management accounting functions (Luckett, 1999). In effect, Vaivio is also providing support for the formal adoption of strategic control. If measures are used in an interactive sense then it could also be argued that they are, in effect, performing a strategic control function. This is because interactive control, like strategic control, is more specifically directed at the monitoring of *strategic* progress and the implementation of strategies.

A strategic control theme seems to underlie, or to be a natural progression of, many of the arguments examined. Roberts (1990), in particular, mentions the

concept directly but appears to suggest that its practical usefulness may be limited. The position taken by Simons (1987) and Vaivio (1999) in effect provides support for a stronger strategic control thrust within management accounting.

3.1.4 Beyond Organisational Control

The implicit strategic control dimension identified within the strategic management accounting and organisational control literature needs to be more formally recognised and developed further, and made an integral component of contemporary management accounting system design. While the arguments supporting the adoption of strategic management accounting and improved organisational control system design are useful, they arguably fall short for two reasons. First, there appears to be no clear underlying conceptual basis helping to explain why the changes should improve the strategic focus of management accounting. For example, strategic management accounting is largely technique orientated and it is unclear why this should result in an improved strategic focus. Otley (1999) highlights this underlying shortcoming:

Control systems need to reflect the aims of an organization and the plans that have been developed to achieve those aims. The 'strategic management accounting' movement has recognized this challenge, but has been more concerned to develop new techniques than to design overall control systems (p.380).

Furthermore, existing control systems are often largely focused on short-term planning and control cycle issues, which is inconsistent with a more strategically aligned management accounting orientation (Otley et al., 1995). Additionally, the uptake of strategic management accounting in practice is limited, which may suggest that organisations are unable to either perceive or realise the benefits of the various techniques advocated in the academic literature. The second reason follows Otley's (1999) argument that to concentrate on individual management accounting techniques or the overall organisational control system may be

misleading, and that the relevant *components* of the organisational control system or *package* should instead be identified. In this regard he states:

Indeed, to talk of the 'management control system' may itself be misleading... Organisational control systems are more like packages. Different elements are added by different people at different times (Otley, p.379, 1999).

By implication this suggests that there should be greater consideration of the specific part(s) of the organisational control package, in relation to strategic goals, which is (are) likely to be relevant in a management accounting and strategy context. This chapter argues that a specific, and neglected, part of the organisational control package likely to be of relevance is strategic control. In a similar vein, Simons (1990) also highlights the importance of developing a clearer perception and categorisation of the broad term management control by stating:

We need, in fact, a better language to describe management control processes. Control systems are used for multiple purposes: monitoring, learning, signalling, constraint, surveillance, motivation and others. Yet, we use a single descriptor – management control systems – to describe these distinctly different processes (p.142).

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

3.1.4.1 From organisational control to strategic control

While the adoption of strategically orientated organisational or management controls is arguably useful as a means of enhancing the strategic relevance of management accounting systems, the underlying strategic context could be clarified further. This could be achieved by identifying a specific strategic control dimension within the organisational control package. Therefore, control aspects having direct relevance to strategic accomplishment could be more clearly defined and these could be incorporated as components of the management accounting system. However, this does not necessarily signify, in the context of developing strategically orientated management accounting systems, that adoption of strategic management accounting tools are no longer of value. Rather, using the words of Guilding et al. (2000), it may represent

... a gradual expansion of the generally accepted management accounting paradigm rather than revolutionary developments signifying abandonment of the old order (p.129).

3.2 An Examination of Strategic Control

The purpose of this section is to examine the concept of strategic control and identify its key characteristics. The section is organised as follows. First, Section 3.2.1 deals with some of the issues concerning the concept of strategic control. Next, Section 3.2.2 explains the traditional strategic control models and identifies their key characteristics. In Section 3.2.3 the models are critiqued.

3.2.1 The Concept of Strategic Control

Strategic control can be described as a type of organisational or management control that is specifically focused on the implementation of strategy and the monitoring of strategic progress (Goold & Quinn, 1990; 1993; Muralidharan, 1997). In general, strategic control is operationalised using non-financial measures

(Goold & Quinn, 1990; Bungay & Goold, 1991; Parker, 1998) and forms part of the strategic management process (Preble, 1992; Muralidharan, 1997). The strategic management process is often explained (see Figure 3.2) in terms of three stages, i.e., formulation stage, implementation stage, and evaluation (or strategic control) stage (e.g., Pearce & Robinson, 1988; Preble, 1992; Thompson & Strickland, 1996). Formulation is concerned with forming strategies and implementation is focused on the subsequent transformation into actions (Johnson & Scholes, 1989). The evaluation stage ensures that strategies remain effective and relevant based on actual outcomes.

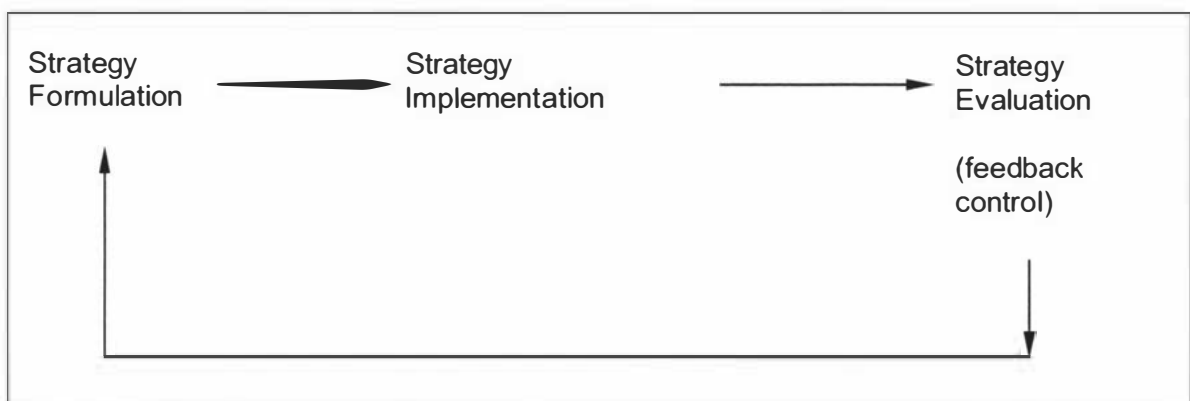


Figure 3.2. Traditional Explanation of the Strategic Management Process
Source: Preble (1992)

Conventionally, strategic control has been examined from a feedback control perspective (Preble, 1992; Muralidharan, 1997). This is where existing performance standards are assumed to be correct and deviations are considered as evidence of 'failure' (Schreyogg & Steinmann, 1987)². In this sense Schendel and Hofer (1979) define strategic control as follows:

Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended. The basic criteria used to answer these questions are derived from: (1) the strategy and action plans developed to implement strategy; and (2) the performance results that strategy is expected to

² From an organisational learning perspective, this is known as single loop learning.

produce. If a deviation occurs, then feedback takes place and the strategic management process recycles (p.118).

On the other hand, the availability of feedback control information is likely to be slow because it is generally not examined until processes are complete (Preble, 1992; Muralidharan, 1997). To overcome the problem of delay in feedback systems, strategic control could additionally incorporate a feedforward element, "by monitoring inputs and predicting their effects on outcome variables" (Koontz and Bradspies, 1972, p.29). Such an approach has also been variously described as future directed control, anticipatory feedback, strategic leap control and steering control (e.g., Koontz & Bradspies, 1972; Lorange, Morton & Ghoshal, 1986; Asch, 1992, Preble, 1992). Koontz and Bradspies (1972) explain that:

In doing so, action is taken, either automatically or by manipulation, to bring the system output into consonance with a desired standard before measurement of the output discloses deviation from standard. Thus, while feedback relies on detecting errors in controlled variables as system outputs, feedforward is based on detecting and measuring system disturbances, and correcting for these before the system output change occurs (p.29).

The use of feedforward control in a strategic control system means that established strategic plans and goals are also subjected to the control process and that performance is assessed in a manner which is continuous and future directed, rather than only on the basis of predetermined strategies and goals (Schreyogg & Steinmann, 1987; Preble, 1992), i.e., double loop learning. The aim is that an organisation should be able to examine performance continually in relation to existing strategic goals and at the same time critique the appropriateness of strategies and long-term goals in order to validate its performance.

3.2.1.1 'Strategy' in strategic control

The implicit underlying basis of strategic control is some form of conceptual understanding and explication of the expression 'strategy'. Common to most descriptions of strategy are aspects such as a future orientation, the idea of environmental 'fit' and a focus on longer term performance and business 'success' (Dent, 1990; Langfield-Smith, 1997; Farjoun, 2002; Pech & Durden, 2003). An early definition of strategy was expressed as follows: "The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action, and the allocation of resources necessary for carrying out these goals" (Chandler, 1962, p.13). Other definitions of strategy emphasize, for example, adaptive styles relating to assumptions about product and market opportunities (Miles & Snow, 1978), and competition and the concept of competitive advantage (Porter, 1985; Henderson, 1989). For organisations operating in competitive markets it has been suggested that:

Business strategy is all about competitive advantage. Without competitors there would be no need for strategy, for the sole purpose of strategic management is to enable the company to gain, as effectively as possible, a sustainable edge over its competitors (Ohmae, 1982, p.5).

Strategy has been identified in various sub-types, such as corporate strategy, business (or competitive) strategies, and operational strategies (Langfield-Smith, 1997). Corporate strategy is concerned with the types of business to operate and how resources should be focused to achieve competitive advantage. Business strategies are linked with the various individual business units that comprise the overall corporate organisation. Operational strategies relate to the contribution of various functional areas, within individual business units, to overall corporate and business strategies. Such descriptions of strategy often imply that its formulation and implementation are relatively mechanistic (Farjoun, 2002). Strategy in this sense can be regarded as a process which involves linking or matching explicitly an organisation's goals, structures, and operations with the environmental

circumstances it faces (Mintzberg, 1990; Farjoun, 2002). Following this view, organisations should logically ensure that there is a process in place to implement and evaluate strategy (Langfield-Smith, 1997).

Alternatively, strategy could be defined as a process of 'muddling through' to achieve organisational goals rather than in terms of identifiable and mechanistic processes. From this viewpoint, strategy is emergent and organic rather than planned (Mintzberg, Raisinghani, & Theoret, 1976; Mintzberg 1988; 1994; Farjoun, 2002; Pech & Durden, 2003). Following this view, strategy formulation and implementation processes cannot be readily subjected to systematic and formal procedures (Mintzberg, 1987; O'Shannassy, 2001). Mintzberg (1990) argues that there are potentially significant dangers associated with concentrating on a strategy that is clearly defined and well articulated. He states:

... a danger in articulating strategy is that while strategists may be sure for now, they can never be sure forever. The more clearly articulated the strategy, the more deeply imbedded it becomes in the habits of the organisation as well as the minds of its strategists (p.185).

Formal strategic planning may even be considered as a mere ritual, with real strategy development taking place outside of this process. For example, it has been pointed out that:

A more extreme view is that rational normative models of strategy exist in organizations only as ritual, and that the "true" strategy of an organization is not the one formally espoused in mission statements and company documents, strategy develops and resides in the minds of key managers (Langfield-Smith, 1997, p.210).

If strategy is considered organic or craft-like, it could be argued that conventional strategic control systems might impose an overly rigid strategic perspective and

therefore may limit innovation and long-term performance by constraining an organisation's ability to focus on valid measures or respond to competitive and environmental pressures (Mintzberg, 1987; Lorange & Murphy, 1984; Goold & Quinn, 1990; Mintzberg, 1994). These issues are explored further in Section 3.2.2, which discusses the traditional strategic control models, and Section 3.2.3, which critiques the idea of strategic control.

3.2.2 Strategic Control Models

A number of independently developed theoretical models are available in the literature that attempt to illustrate conceptually how organisations should construct, implement and manage strategic control systems. The first substantive theoretical approach to strategic control was outlined by Schreyogg and Steinmann (1987) who proposed a formal three-step model, which was later refined and extended by Preble (1992). Another model that deals more broadly with the idea of strategic control was developed by Simons (1995; 2000). Aspects of this model feature prominently in Kaplan and Norton's (1996) description of the balanced scorecard. Ittner and Larcker (1997) also describe and outline a formal model of strategic control. Other approaches to strategic control described in the literature tend to be based on the application of various techniques and methods and lack delineation of a clear theoretical foundation (e.g., Horovitz, 1979; Lorange, 1980; Glueck & Jauch, 1984; Lorange & Murphy, 1984; Goold & Quinn, 1993; Flitman, 1996; Kaplan & Norton, 1996; Muralidharan, 1997; Slater & Olsen, 1997; Parker, 1998; van Veen-Dirks & Wijn, 2002). The core attributes of these other approaches appear to be captured within the three models identified above, which are considered to represent the existing theoretical basis of strategic control.

The rest of this section describes each of the three models, labelled as Model 'A', Model 'B' and Model 'C', and their salient elements.

3.2.2.1 Model 'A' – Three step model of strategic control

The core components of this model, initially developed by Schreyogg and Steinmann (1987), are premise control (environmental monitoring), implementation control, and strategic surveillance (environmental scanning). The model was later extended and further developed to help facilitate its practical application by Preble (1992), who also added a special alert control component. Preble emphasised that control activities should be undertaken in a structured manner and focused on systematic monitoring of the external environment as a means of achieving this. The overall model is illustrated in Figure 3.3 below.

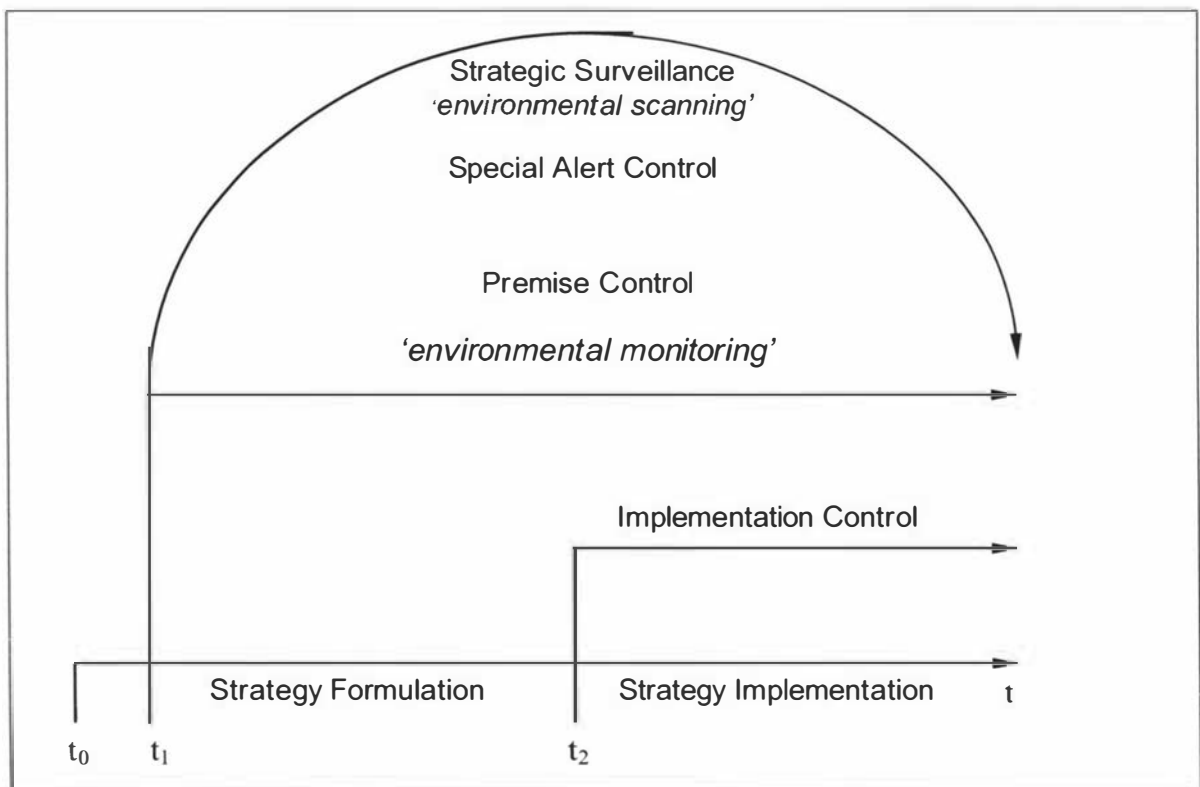


Figure 3.3 – Strategic Control in the Strategic Process

Source: Adapted from Schreyogg and Steinmann (1987) and Preble (1992).

The model indicates that formulation of strategy starts at time (t_0). Premise control is established at the point in time of initial premising (t_1). Strategic surveillance and special alert control also commence at this time. At the commencement of strategy implementation (t_2), implementation control is also initiated. All control components

are in operation from the time of strategy implementation (t_2) (Schreyogg & Steinmann, 1987).

3.2.2.1.1 Implementation control

Within this model, feedback control is labelled 'implementation control' and is concerned with monitoring the effects of actions as they impact on strategy and continuously questioning the basic direction of strategy. This would be a relatively formal process of comparing measures against targets. In this regard "strategic implementation controls [have a] relatively clear nature and measurement and ... existing operational control personnel can be assigned the responsibility for performing this task" (Preble, 1992, p.402). Implementation control is used to help assess the continuing viability of established strategies based on the feedback control information received (Schreyogg & Steinmann, 1987). Premise control, strategic surveillance and special alert control are designed to fulfil a feedforward function.

3.2.2.1.2 Premise control

Preble (1992, p.394) states that premise control: "...involves the systematic and continuous checking of environmental conditions to see if previously established planning premises are still valid". This requires a continuous process of 'environmental monitoring' in relation to external business, social, and industry environments with regard to factors such as forecasts of expected inflation, likely legislation and competitive changes (Jauch & Glueck, 1988; Lorange et al., 1986; Preble, 1992). The premises under consideration relate to expected or predicted conditions that were incorporated into the initial strategic planning process (Schreyogg & Steinmann, 1987). Specialists within an organisation who may have initially identified or forecasted a particular variable or factor could be assigned responsibility for tracking or monitoring that event (Preble, 1992). In general, premise control is a highly selective and focused activity that is concerned with monitoring relevant variables previously identified.

3.2.2.1.3 Strategic surveillance

Strategic surveillance is a broad but structured activity that involves formally and continuously scanning the environment to detect as early as possible events, both inside and outside the organisation, which may significantly destabilise the ongoing strategic direction (Schreyogg & Steinmann, 1987). The important focus is emerging and unexpected events (Preble, 1992). In this sense strategic surveillance "...must be kept unfocused as much as possible and should be designed as a broad monitoring activity" (Schreyogg & Steinmann, 1987, p.95).

Strategic surveillance can be achieved by adopting a process that first identifies various relevant environmental sectors, such as economic, industry-linked, social, and governmental. Each sector is then defined in terms of a cluster of important variables (e.g., economic – interest rates, inflation rates, income trends, employment and skill trends). The relevant variables are then scanned on a continuous basis (Preble, 1992). The data required to monitor the variables can be obtained from various sources such as trade journals and business publications, governmental reports, and information services (Preble, 1992). Data can also be acquired by using 'environmental monitors' – individuals who read and abstract a wide variety of publications to identify changing environmental conditions (Preble, 1992). Environmental monitors could also undertake environmental monitoring for premise control.

3.2.2.1.4 Special alert control

Special alert control is designed to deal with surprise events (e.g., natural disasters, terrorism, major product defects) that have a low likelihood of occurring but also pose a potential threat to the existence of an entire organisation (Preble, 1992). Essentially, this is a special type of strategic surveillance, which should be conducted on a continuous basis throughout the entire strategic management process (Preble, 1992). Organisations may need to reconsider the fundamental and

basic thrust of their strategic direction based on the likelihood of 'surprise' events taking place (Pearce & Robinson, 1988). Surprise events could include, for example, chemical spills, natural disasters, terrorism, major product defects, plane crashes and hostile take-overs. Special alert control will enable an organisation to react in a considered manner when events occur such as those listed above which are sudden, unexpected, and that may plunge the organisation into a state of crisis (Preble, 1992). The implementation of special alert control will generally encompass undertaking crisis audits and adopting crisis management practices so that the organisation can respond to high magnitude events in a timely manner.

The underlying relevance, however, of special alert control within a strategic control model needs to be examined. The notion of strategic control implies that organisations operate on a continuous basis within an environment of varying degrees of stability (Schreyogg & Steinmann, 1987). Special alert control is designed to deal with external shocks which are likely to be very large and that may significantly weaken the operating structures of an entire organisation. Such shocks will disrupt the continuous nature of an organisation's operations and may well require a full re-evaluation of the current and future strategic direction. This means that special alert control supersedes the notion of strategic control, because within a very short time period (e.g., days or even hours) the entire existing strategic direction may become obsolete and redundant. In other words, an organisation will in effect cease to operate in a continuous sense. While the usefulness of special alert control within organisations would seem to be a valid proposition, this chapter argues that placing it within the sphere of strategic control is inappropriate. Rather, special alert control could form part of a crisis control or risk management function. This is because the extreme and severe nature of the issues special alert control is being used to address encompass more than just a continuous review and reassessment of strategy.

3.2.2.2 Model 'B' – Business strategy and management control model

Simons (1995; 2000) has developed a formal management control framework, the four 'levers of control', which is intended to assist managers in controlling the formulation and implementation of strategy. Two of the levers, diagnostic control and in particular interactive control, have direct relevance from a specific strategic control perspective (Muralidharan, 1997). Belief systems and boundary systems, the other two levers, have a broader organisational control role, rather than a direct effect on controlling and evaluating strategy. The diagnostic and interactive control elements are defined as follows:

Diagnostic control systems: These are exemplified by business plans and budgets. Important performance variables are monitored and deviations from standard are corrected.

Interactive control systems: Formal systems used by senior management to regularly and personally involve themselves in the decision activities of subordinates. The factors influencing the design of interactive systems are perceived strategic uncertainties. Any diagnostic control system can be made interactive by continuing and frequent top management attention and interest (Simons, 1994, pp.170-171).

Diagnostic control forms the feedback component of the model. This is retrospective in focus and provides historical information about performance in relation to predetermined strategic goals and targets (e.g., business plans and budgets). If deviations from expected outcomes are identified, then diagnostic control will result in corrective action being taken (Simons, 1995; 2000). Interactive control is the intensive use of selected formal controls, such as diagnostic controls, and encompasses a feedforward focus. Simons (1995, 2000) describes how managers use interactive control systems as levers of strategic change and renewal to help concentrate on perceived strategic uncertainties. Information generated by interactive controls is reviewed on a regular basis by senior managers in face-to-face meetings with subordinates and peers. This involves "...continual challenge

and debate of the underlying data, assumptions, and action plans” (Simons, 1987b, p.352), which reflects a feedforward or double-loop learning approach.

The operation of interactive control systems is illustrated in Figure 3.4. This demonstrates that interactive controls are designed to help managers interpret and evaluate various strategic uncertainties that may impact on the implementation of business strategy. Interactive controls also signal how organisations should adapt or respond to the strategic uncertainties (i.e., organisational learning) and subsequently reformulate existing strategy.

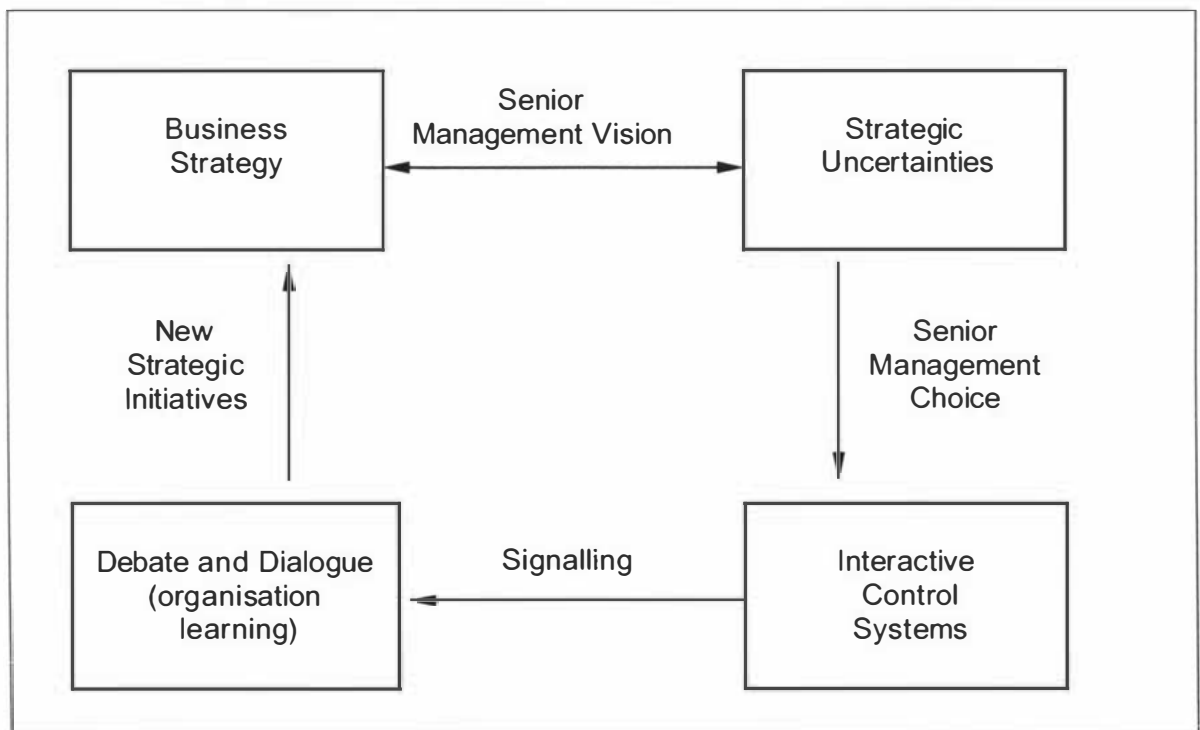


Figure 3.4 – Model of the Relationship between Business Strategy and Management Control Systems

Source: adapted from Simons R., (1991) and Simons R., (2000).

Simons (1995; 2000) recognises the importance of strategic evaluation that extends beyond a feedback loop approach (i.e., diagnostic control). In this regard he provides guidance concerning how strategy should be continuously evaluated and assessed, by developing the concept of interactive control. However, he suggests that interactive controls are only necessary in organisations that are

large and mature, such as a Fortune 500 company (2000, p.313). Simons' (1995; 2000) model is more extensive than the three-step model of strategic control because it encompasses a broader organisational control framework, which includes a particular focus on the control of strategy. In general, Simons is focused on articulating an innovative control framework, which is directed at the development of overall organisational performance measurement and monitoring systems.

3.2.2.3 Model 'C' – Process model of strategy, strategic control and organisational performance

A model of strategic control outlined by Ittner and Larcker (1997) is flow process orientated and includes three main components: implementation, internal monitoring, and external monitoring (see Figure 3.5). This model indicates that planned strategy implementation should be monitored in terms of both internal measures and targets (i.e., formal reporting cycle comparing actual results against planned outcomes) and external environment factors. The results of monitoring may then be used to effect changes in strategy formulation and implementation. Overall, this process should lead to higher organisational performance.

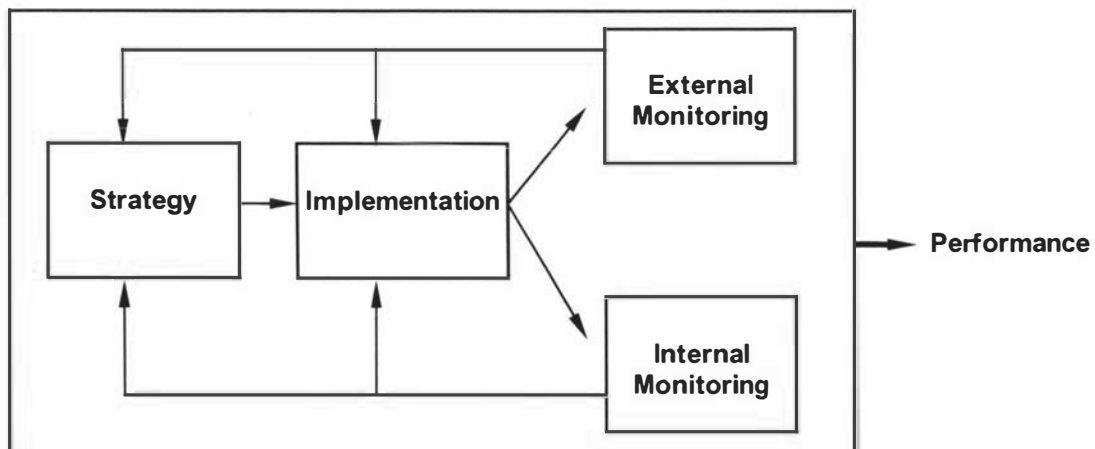


Figure 3.5 – Process Model Linking Strategy and Strategic Control Practices to Organisational Performance

Source: adapted from Ittner and Larcker (1997), p.295

The model has a significant feedback control emphasis. Two of its three main components – implementation and internal monitoring – are feedback-focused. In effect it defines these two aspects as prime dimensions of strategic control. Implementation includes the development of plans and targets for achieving strategic goals and assigning accountability for their achievement. It also involves linking compensation to the achievement of strategic targets in an attempt to avoid an overemphasis by organisation members on short-term financial results. Internal monitoring encompasses a formal reporting cycle that reports the actual results against planned outcomes. According to Ittner and Larcker (1997): “The provision of frequent feedback on strategic results versus expectations permits timely corrective action when interim strategic objectives or milestones are not being achieved, often before financial results turn down” (p.294). The reporting cycle should also be designed to help ensure that achievement of strategic goals is given a similar management priority to the achievement of short-term financial goals. The emphasis in the model on feedforward control is more limited. External monitoring captures this element, which should be undertaken to provide an assessment of strategic goals in the context of market dynamics including competitor and customer response. A further important component of external monitoring is assessing broader environmental circumstances to ensure that current strategies remain valid and appropriate and do not become obsolete.

Ittner and Larcker (1997) do not emphasize the overarching nature and significance of feedforward-orientated controls. The construction of their model appears to suggest that feedforward controls (external monitoring) are of similar importance to feedback controls (internal monitoring) (Figure 3.5). This contrasts with Schreyögg and Steinmann (1987), Preble (1992), and Simons (1995; 2000) whose models indicate that feedforward control (or interactive control, using Simon’s terminology) is of greater relevance to strategic control systems than feedback control (diagnostic control).

3.2.2.4 Summary

The elements that make up the various models reinforce the view that strategic control has traditionally comprised core elements of feedback control and feedforward control (see Table 3.1).

Table 3.1 – Classification of Strategic Control Model Components into Underlying Core Attributes

Strategic control model components	Core strategic control attributes	
	Feedback control (i.e., implementation and accomplishment of strategy)	Feedforward control (i.e., continuing viability of strategy)
Premise control*		✓
Implementation control*	✓	
Strategic surveillance*		✓
Interactive control**		✓
Diagnostic control**	✓	
Implementation***	✓	
Internal monitoring***	✓	
External monitoring***		✓

*Model 'A'; **Model 'B'; ***Model 'C'

The first core element focuses on controls relating to the implementation and accomplishment of strategy (i.e., feedback control). Implementation and internal monitoring, diagnostic control, or implementation control capture this element. The second element is focused on controls relating to the continuing viability (or otherwise) of strategy (i.e., feedforward control). External monitoring, interactive control, or premise control and strategic surveillance capture this element. The next section provides a critique of the traditional notions of strategic control.

3.2.3 Strategic Control: A Critique

The literature advocating strategic control is generally theoretical and would arguably appear esoteric to practising managers, with only little guidance provided to assist in the implementation of such systems (e.g., Preble, 1992; Ittner & Larcker, 1997). In particular, when compared with traditional management and operational controls (e.g., defect ratios, response rates), managers may perceive strategic control as a difficult and perplexing task and may be uncertain about how and

where it should operate within real-world organisations. Further, strategic control systems may be costly to install and operate, requiring a large investment in analysis, planning and bureaucracy, which could hinder organisational performance (Lorange & Murphy, 1984; Goold & Quinn, 1993). A key risk identified in this regard is that the costs of strategic control systems may outweigh the benefits and that the processes involved could degenerate into mechanistic exercises (Ittner & Larcker 1997). Organisations planning to adopt strategic controls may also encounter problems trying to devise measurable strategic objectives that are considered as tangible and credible as financial objectives (Asch, 1992).

3.2.3.1 Barriers and limitations to strategic control

Research indicates that the implementation of strategic control can be difficult. For example, Ittner and Larcker (1997) identified four main limitations of strategic control systems as follows:

1. Unfocused strategic action plans;
2. Limitations in performance measures, which were either incorrect and focused on the wrong objectives, or improvements in measures could not be linked to strategic outcomes;
3. Increased bureaucracy and associated costs which were greater than the benefits of a strategic control system; and
4. Inflexible control systems which prevent managers from identifying strategic opportunities or reacting to changed circumstances.

Lorange and Murphy (1984) identified various barriers to effective strategic control, which they grouped into three categories. The first category comprises systemic barriers, which relate to control system complexity and the associated difficulties of adequately developing and establishing performance measures for strategic control. The second category comprises behavioural barriers, which are concerned with corporate culture and the resistance of organisational members to accepting new patterns of measurement and control. Finally, they identified various political

barriers, which is about the political acceptability of an amended strategy that is altered according to a strategic control system.

Goold and Quinn (1990) argue that the implementation of strategic control is potentially complex and have identified various problems that they suggest organisations are likely to encounter when attempting to implement and operate such systems. The problems relate to the following issues:

1. Devising strategic controls that can accommodate uncertainty and flexibility in the implementation of strategy;
2. Defining strategic goals that are suitable for motivating managers;
3. Ensuring that strategic control systems assist, rather than attempt to replace, management judgement;
4. Building a strategic control system that enhances rather than destroys the mutual confidence between management levels (p.54)

The limitations highlighted by Ittner and Larcker (1997), the barriers to strategic control identified by Lorange and Murphy (1984) and the problems described by Goold and Quinn (1990) can each be classified into three broad categories, i.e., cost, measurement and behaviour (see Table 3.2). The first relates to the cost of creating and developing a strategic control function and subsequently promulgating a set of strategic control tools and measures throughout an organisation. The second relates to the potential complexity of strategic control and the importance of devising measures that are robust and workable. This requires strategic plans which are relatively lucid and measures that are explicitly linked to strategic outcomes. In this regard there is also a need for control systems that are flexible and which enhance management judgement. The third category relates to the development of a new control system and the motivational, behavioural and political barriers which may hinder its integration and use.

Overall, these categories would seem to relate mainly to the limitations of structure or identifying measures in relation to the idea of strategic control and to problems of on-going refinement in relation to the design of strategic control systems. More generally, research has indicated that conventional strategic control approaches may confine managers to pre-specified plans and goals, which in turn may prevent them from identifying new opportunities and reacting appropriately to threats (Ittner & Larcker, 1997). In this regard, it can be contended that: “[An] attempt to identify a ‘few key strategic control variables’ will inevitably screen out much information of relevance to the skilful manager, and an explicit strategic control system may conflict with his powers of judgement” (Goold & Quinn 1990, p.52).

Table 3.2 – Barriers and Limitations to Strategic Control

Barriers and limitations	<i>Cost</i>	<i>Measurement</i>	<i>Behavioural</i>
<i>Ittner and Larcker (1997)</i>			
Unfocused strategic action plans		✓	
Limitations in performance measures		✓	
Increased bureaucracy and associated costs	✓		
Inflexible control systems		✓	
<i>Lorange and Murphy (1984)</i>			
Systemic barriers and control system complexity		✓	
Behavioural barriers, corporate culture and resistance to change			✓
Political acceptability barriers			✓
<i>Goold and Quinn (1990)</i>			
Devising suitable strategic controls		✓	
Defining strategic goals to motivate managers			✓
Incorporating management judgement		✓	
Enhancing management confidence and cohesion			✓

Problems relating to effective measurement appear to be a significant hurdle to the accomplishment of strategic control. This is possibly because the development and application of strategic control systems is still in its infancy and further conceptual progress is required in terms of designing systems suitable for real-world organisations (Preble, 1992). A particular measurement issue that requires examination is the impact of a changing external environment on strategic control. If environmental change is rapid and unstable then it may be difficult to assess the relevant impact of deviations from predetermined (or emergent) strategic plans

using some combination of feedback and feedforward controls. This is because by the time feedback and in particular feedforward information is measured and processed it may, in effect, be rendered redundant for the reason that environmental circumstances necessitate a reformulation of strategy (e.g., see Lissack & Roos, 2001). Further, measurement mechanisms that can adequately capture the potential organisational impact and relevance of environmental turbulence may be difficult to develop (Stacey, 1996; Fiegenger, 1997; Chapman, 1998; Norreklit, 2000). This reflects a *fundamental* problem with feedforward control: "...if input variables are not known or unmeasurable, the [feedforward] system will not work" (Koontz & Bradspies, 1972).

3.2.3.2 Implementing strategic control

While persuasive arguments and detailed explanations are provided in the literature supporting the implementation of strategic control systems, surveys of practice, in particular within the context of US and European organisations, have found only minimal evidence of adoption (e.g., Goold & Campbell, 1987; Goold & Quinn, 1988). In general it seems that few organisations incorporate the idea of strategic control as part of an overall control package or framework (Horovitz, 1979; Lorange & Murphy, 1984; Goold & Quinn, 1990; Preble, 1992). In this regard it has been suggested:

One might speculate ... that the practice of strategic control is lagging behind the theory, that the benefits of such systems are being overstated, or that the systems need further development before they can be made more practical for organizations to use" (Preble, 1992, p.396).

In spite of the comments above, it is unclear how strategic control systems are used (or why they are not used) in practice. Further, only limited systematic research has been undertaken investigating the links between organisational strategy and control system design generally (Huff & Reger, 1987; Dermer, 1990; Abernethy & Lillis, 1995; Perera, Harrison & Poole, 1997). It may be that the benefits of strategic

control have been overstated. In this sense there is a need for research to provide further insights into our understanding of the extent to which strategic control systems are implemented in organisations and the concerns, if any, associated with such implementation.

3.3 Summary

The role of management accounting systems and how they can be linked more closely with issues of strategic and long-term accomplishment is an evolving area. In this respect, two main themes are prevalent in the literature. One theme encompasses 'innovative' techniques and the associated adoption of 'strategic management accounting' as a means of enhancing the strategic relevance of management accounting. The second theme relates to the design of improved organisational control systems, focused to a greater extent on the accomplishment of strategies and strategic goals and less on short-term accounting controls. The usefulness of the former approach could arguably be improved by incorporating strategic goals more explicitly as a component of the overall management accounting system. The latter approach is arguably more useful than strategic management accounting, where the emphasis is largely on adopting 'better' techniques. By following an organisational control approach, the strategic context in which a firm operates can be better taken into account, in terms of the specific controls adopted. Underlying both themes, however, would seem to be an implicit strategic control dimension. For example, various researchers in effect highlight the importance of a strategic control component within an overall package of organisational controls.

Strategic control forms part of the strategic management process, but is mainly comparable with relatively deterministic and formal interpretations of strategy. Its relevance in relation to an organic approach to strategy is less certain. The concept of strategic control is also evolving. Traditionally, it has been examined from a relatively narrow feedback control perspective. This means that the control

focus is solely on the implementation and accomplishment of existing strategic goals. Recent models have attempted to incorporate the notion of feedforward control into an overall strategic control framework. Feedforward control highlights that the evaluation and control of strategy should be overarching and future-orientated, rather than retrospective. However, the idea of feedforward control is also relatively narrow, in that it is based on formal and structured measurement and does not clearly recognise the idea of environmental turbulence. Reliance on a formal and relatively rigid control approach is arguably a key shortcoming of strategic control. Various barriers and limitations have also been identified which may possibly limit the effectiveness and application of strategic control systems. A particular shortcoming relates to identifying suitable measures which are flexible and supplement, rather than replace or hinder, management judgement. The next chapter develops the concept of strategic control further.

Chapter Four

From Strategic Control to Strategic Navigation

The idea of strategic navigation builds on the concepts presented in Chapter Three, in particular organisational control and strategic control. It recognises more explicitly the impact of environmental turbulence, reflects an integrative approach that links together the concepts of feedback control and feedforward control, and replaces the latter with the idea of fastforward change, to recognise more effectively that organisations may need to make frequent and rapid strategic adjustments in response to environmental turbulence. In this sense it is characterised by being flexible and forward looking in terms of *navigation*, rather than being deterministic or restrictive in relation to the *control* of organisational activities.

The remainder of the chapter is organised as follows. Section 4.1 examines the impact of environment turbulence on strategy. Section 4.2 discusses a measurement versus process orientation in relation to comprehending a turbulent environment. In Section 4.3 the idea of a process focus is developed. Section 4.4 argues that organisations may require a focus on fastforward change, while Section 4.5 outlines the strategic navigation approach. The relationship of management accounting and strategic navigation is discussed in Section 4.6. Finally, Section 4.7 contains the chapter summary.

4.1 The Impact of Environmental Turbulence

The overriding difficulty with the various notions of strategic control discussed in Chapter Three is that they rest on ideas of rational plans in a predictable world. Such an approach assumes that organisations are able to select an appropriate mix of strategic control measurement and monitoring tools based on the environmental circumstances that they may face, and process the strategic control data they

collect in a meaningful way. Lissack and Roos (2001) assert that such thinking is based on five often unspoken and generally false assumptions:

- a. The world is stable enough that changes that may occur are foreseeable.
- b. Prediction is possible.
- c. Boundaries are clearly defined. The fuzziness which characterizes the networked firm of today goes unrecognised.
- d. Identity is assumed and has no need for articulation.
- e. Outcomes are more important than processes (p.57).

These assumptions are of particular relevance in the context of feedforward control, which assumes the measurability of factors (i.e., input variables) that will impact on the future shape of strategies and long-term goals. However, as Lissack and Roos (2001) indicate, such factors (e.g., technology, globalisation) may not necessarily be measurable. In order to manage an organisational environment subject to problems of measurability and rapid change requires “a transformation of cherished ideas about, first, strategic analysis and positioning; and second, approaches to gathering and validating information for executives” (Quinn, 2002, p.96). Stressing a similar theme, Pech and Durden (2003) note that: “Linear, formulaic planning that leads to predictable behaviour is not an option in a turbulent environment” (p.174).

Kugler (1995) warned of increasing global societal turbulence when he predicted that the twenty-first century would be ever changing and increasingly more complex. Theorists have argued that the pace of change is more likely to accelerate than decelerate and that economic systems are non-linear, like the weather, and therefore predicting the behaviour of these systems will be difficult, if not impossible (De Kluyver, 2000; Janszen, 2000; Eisenhardt, 2002). Questioning the traditional notions of strategy, Pitt (2001) states:

Strategy is no longer long-term, as the half-life of ideas diminishes. The five-year plan or the long-term strategy is no longer viable, and the value of the annual strategic planning session is to be questioned. Strategy becomes incremental, rather than planned. It is revisited and revised not annually or even bi-annually, but monthly, probably weekly, and possibly, daily (p.14).

Pech and Durden (2003) argue that traditional approaches to strategic planning and decision-making are no longer appropriate. They suggest that organisations should adopt what they describe as 'manoeuvre warfare', which is "... a strategic approach that is more in keeping with the turbulent quantum dynamics of the twenty-first century business landscape" (p.178). Manoeuvre warfare is based on the idea that organisations must adapt and adjust rapidly to environment circumstances and that strategic orthodoxy (i.e., long-term planning) may result in competitive failure and decline. Pech and Slade (2003) build on the idea of manoeuvre warfare and propose the theoretical idea of asymmetric competition, a situation where notions of predictability, stability and traditional measurement no longer have relevance. An asymmetric competitive approach emphasises creative and proactive (rather than reactive) behaviours within organisations and

...action through manoeuvre, speed, and an external focus, rather than rewarding a mindset of managerialism that is consumed with maintenance of the status quo, careerism, and the construction of more complex and speed-reducing structures and the slowing of decision processes (p.23).

The underlying stimuli of the unpredictable change in the strategic environment include the unyielding pace at which competition is becoming global, continual and constant technological advancement and deregulation of markets (De Kluyver, 2000; Barkema, Baum & Mannix, 2002; Eisenhardt, 2002). Lissack and Roos (2001) reinforce the view of a highly turbulent business environment:

Continuity is but a fragile, temporary, and illusionary notion, the assumption of predictability does not hold anymore... Prediction, at best, is possible in the very short-term: the dartboard works better in the long-term. Boundaries are always shifting: composition of work teams, temporary organizations, the company, the industry, and the competitive environment are rarely predictable (p.57, 58).

Following these views, the term 'strategic control', in its traditional format and as discussed in Chapter Three, could be described as an oxymoron: how can we control that which cannot be predicted?

4.2 Measurement versus Process Focus

Understanding and comprehending a turbulent external environment may be difficult to accomplish solely via the use of a 'comprehensive' data capture and strategic control and/or management accounting framework. Empirical research suggests that formal and structured strategic controls may be less useful within organisations operating in dynamic environments (Fiegner, 1997). Accordingly, continuing use of conventional formal management accounting measurement tools, such as the balanced scorecard, may be of questionable value for some organisations (also see van Veen-Dirks & Wijn, 2002; Maltz, Shenhar & Reilly, 2003). When the environment is unpredictable and constantly changing, formal and systematic collection and measurement of relevant data (i.e., input and output variables) is likely to be problematic (Kootnz & Bradspies, 1972; Elliot, 1991; Mintzberg, 1994; Stacey, 1996; Lissack & Roos, 2001; Eisenhardt, 2002). In such circumstances, relevant data may not be amenable to traditional methods of capture, measurement and analysis (Ouchi, 1979; Flamholtz, Das & Tsui, 1985; Fiegner, 1997). As Otley et al. (1995) argue, the prediction of the consequences of environmental change is becoming more difficult. They suggest: "An alternative response is to develop the **flexibility** to adapt to the consequences of change as they become apparent" (Otley et al., 1995) [emphasis added].

Simons' (1995; 2000) concept of interactive control provides some recognition of a more flexible organisational control framework, in that it highlights an informal face-to-face approach relating to the analysis of control information. This reflects how managers can use informal *processes*, relating to, for example, management interactions and organisational structures, to assist in comprehending the control information they are dealing with. However, interactive control is grounded within an overarching formal measurement framework and does not explicitly recognise the possible role of an independent or stand-alone process focus. In this context Simons (2000) notes various limitations historically with formal management accounting and control information: limited scope; too aggregated and general; too late; and unreliable. He then claims: "Today, with better information technology and a better understanding of how to use performance measurement and control systems effectively, these limitations have been overcome" (p.74). Such a stance, however, effectively negates the potential relevance and usefulness of a stand-alone process orientation in respect of management accounting and control, and managing organisational performance.

Conventional ideas of strategic control and management accounting and control, such as the balanced scorecard, address process issues only in the context of the measurement framework adopted, which is their primary focus (e.g., Goold & Quinn, 1993; Flitman, 1996; Kaplan & Norton, 1996; Muralidharan, 1997; Slater & Olsen, 1997; Anthony & Govindarajan, 1998; Mooraj, Oyon & Hostettler, 1999; Simons, 2000; Hudson, Lean & Smart, 2001; Nilsson & Kald, 2002). In this sense process appears to be contingent on or subservient to the measurement framework and tools adopted. Such approaches do not recognise the role of an explicit process orientation in responding to environmental turbulence. At best these conventional approaches recognise the existence of informal control, commonly in respect of smaller or less mature organisations. However, the continuing use of such controls is argued to be undesirable, problematic and useful only in rare

circumstances (Goold & Quinn, 1990; Goold, 1991; Goold & Quinn, 1993; Simons, 2000). Therefore, use of informal – or process-based – ‘control’ seems to be viewed as a ‘second best’ option: “Informal strategic controls are frequently chosen by default, rather than as a conscious matter of corporate policy” (Goold, 1991, p.77). In general, the literature argues or implies that structured and systematic monitoring and measurement tools are either more appropriate or desirable (Goold & Quinn, 1993; Rotch, 1993; Goold, 1991; Kaplan & Norton, 1996; Simons, 2000; Quinn, 2002). While a focus on formal measurement and control is necessary, it is not sufficient in a turbulent environment. What is needed in such an environment is a dual focus with two distinct elements, i.e., formal measurement and process, to anchor control systems. This has not been addressed to any great length within the strategic control or management accounting literature.

4.3 Developing a Process Focus

A process focus would encompass aspects such as informal monitoring and data capture, the tacit knowledge of organisation members who are interacting with the external environment and the business ethics notion of ‘good conversation’³. By implication, such a process orientation would require high involvement and interaction among line managers, rather than reliance on functional or staff specialists (Fiegenger, 1997). Additionally, the concepts of networked or ‘boundaryless’ organisations based on informal networks could form a core part of a process orientation (Cross et al., 2002; Barkema et al., 2002; Goold & Campbell, 2002). Less formal modes of control, such as organisational learning, empowerment and trust, could be used to encourage employee initiative and to recognise organisation members as a core source of knowledge in uncertain and turbulent environments (Otley et al., 1995; Pant, 2001; Tomkins, 2001; Chenhall & Langfield-Smith, 2003). Quinn (1996) argues that “extensive discussion” (p.387) should occur between parties involved in the strategic control process. He suggests

³ Quinn (1996), following Bird (1990), advocates the business ethics notion of ‘good conversation’ as an important component of the strategic control process.

that such discussion, “should be vocal, reciprocating, issues-orientated, rational, imaginative, and honest” (p.387).

Tacit knowledge is considered implicit and “...seen most often as something hidden, abstract and almost inaccessible” (Boiral, 2002, p.292). It is arguably a core means of generating competitive advantage and can be both individual and group based (Berman, Down, & Hill, 2002). Group tacit knowledge is “difficult-to-articulate and socially diffused”, and is about:

a collective mind, which can be defined as the combination of individual schemata, patterns, or gestalts acquired through mutual experience and expressed through unconscious synchronicity of action when the group is confronted with complex tasks that must be performed within the context of a **challenging environment** (Berman et al., 2002, p.16) [emphasis added].

Tacit knowledge, which is difficult to manage in a traditional sense, fits with the idea of a process focus (Anand, Glick & Manz, 2002; Boiral, 2002). This means that tacit knowledge “cannot be reduced to ‘variables’ or ‘things’ that managers can **control**” (Boiral, 2002, p.293) [emphasis added]. Also connected with tacit knowledge is the idea of social capital:

Firms are realizing that they must increasingly draw on the knowledge of agents outside the organisation to meet their knowledge requirements. Organizational social capital refers to the knowledge and information that organizations can access using their employees, formal and informal ties with outsiders such as customers, partner organizations, connected employees of other organizations and so on (Anand et al., p.88, 2002).

In terms of managing organisational performance, Stacey (1996) argues that organisations should attempt to harness the “shadow organisation”, which is essentially the basis of covert politics within organisations: “It is a highly complex

system that produces patterns of behaviour which are both beneficial and harmful” (p.441). He suggests that harnessing this system, using what he describes as a process of “extraordinary management”, is an important means of creating new knowledge and dealing effectively with environmental turbulence. Stacey (1996) explains:

The practice of ordinary management through the instruments of hierarchy, bureaucracy and Management Information and Control Systems is all about the processing of information, primarily quantitative information. The practice of extraordinary management, on the other hand, is above all else concerned with the creation of new knowledge, largely of a qualitative kind – it is only through new knowledge that an organisation can innovate and develop new strategic directions (p.450).

Stacey (1996) describes a number of ‘extraordinary management’ processes that organisations could adopt to help harness the beneficial power of the shadow system. These include, for example, the use of self organising groups, multiple cultures, developing organisational flexibility and creating resource slack (pp.460-468). Such processes could form part of the fastforward change element within the idea of a strategic navigation approach, which is developed in the following sections.

4.4 The Need for Fastforward Change

It is important that systems purporting to ‘control’ organisational strategy recognise explicitly the impact of an increasingly unpredictable and uncertain turbulent business environment (Otley et al., 1995). The goal of management accounting systems in this context should be to help organisations act proactively and anticipate the need for change in an environment that may necessitate continual reassessment and questioning of existing strategies and goals. In this regard, such systems should enable flexible and rapid organisational adjustment and/or change

in response to environmental turbulence. This could be described as *fastforward change*, the focus of which is proactive and forward-looking in order to help organisations make rapid strategic adjustments in response to environmental turbulence. This arguably requires that attention be given to both measurement and process issues. The notion of fastforward change subsumes the concept of feedforward control, which is also forward-looking but does not recognise the role of an explicit process focus. Further, the term fastforward change is more pertinent than feedforward control because organisations increasingly operate in environments that are rapidly changing, capricious and likely to necessitate greater consideration of the appropriateness of strategic direction and goals (see also, Drucker, 1992; Elliott, 1991; Otley, 1994; Shields, 1997; Drucker et al., 1997; Otley, 1999; Zahra, 1999; O'Shannassy, 2001; Barkema et al., 2002; Eisenhardt, 2002). The operating environment encompasses globalisation and the threats posed by information technology and innovative business models, such as e-business (Elliott, 1991; Pitt, 2001). As Pitt (2001) explains:

Not knowing where competition may come from, because it may not be up-front and visible, will also require a constant revisiting of strategy. When competition comes head on, or at least from the side or from behind, it can be seen and dealt with, even if slowly. When competition has the potential to come from a computer in the bedroom of a 17-year old in another country, life becomes less predictable (Pitt, 2001, p.14).

A key point is that fastforward change processes should be considered separably from, and independently of, any measurement tools adopted. This is because of potential measurement difficulties in relation to traditional feedback and feedforward data. This also builds on Pech and Durden's (2003) manoeuvre warfare strategic thinking idea:

"... a business must be able to change direction or alter its line of focus quickly and effectively without stalling (crashing in the process). These

criteria suggest a *change in the management focus away from control and technology and towards knowledge management and responsiveness*” [emphasis added] (p.177).

4.5 From Strategic Control to Strategic Navigation

The concept of strategic navigation in relation to performance management, as proposed in this thesis, builds on the traditional ideas of measurement and strategic control and combines these with a process focus and fastforward change (see Figure 4.1).

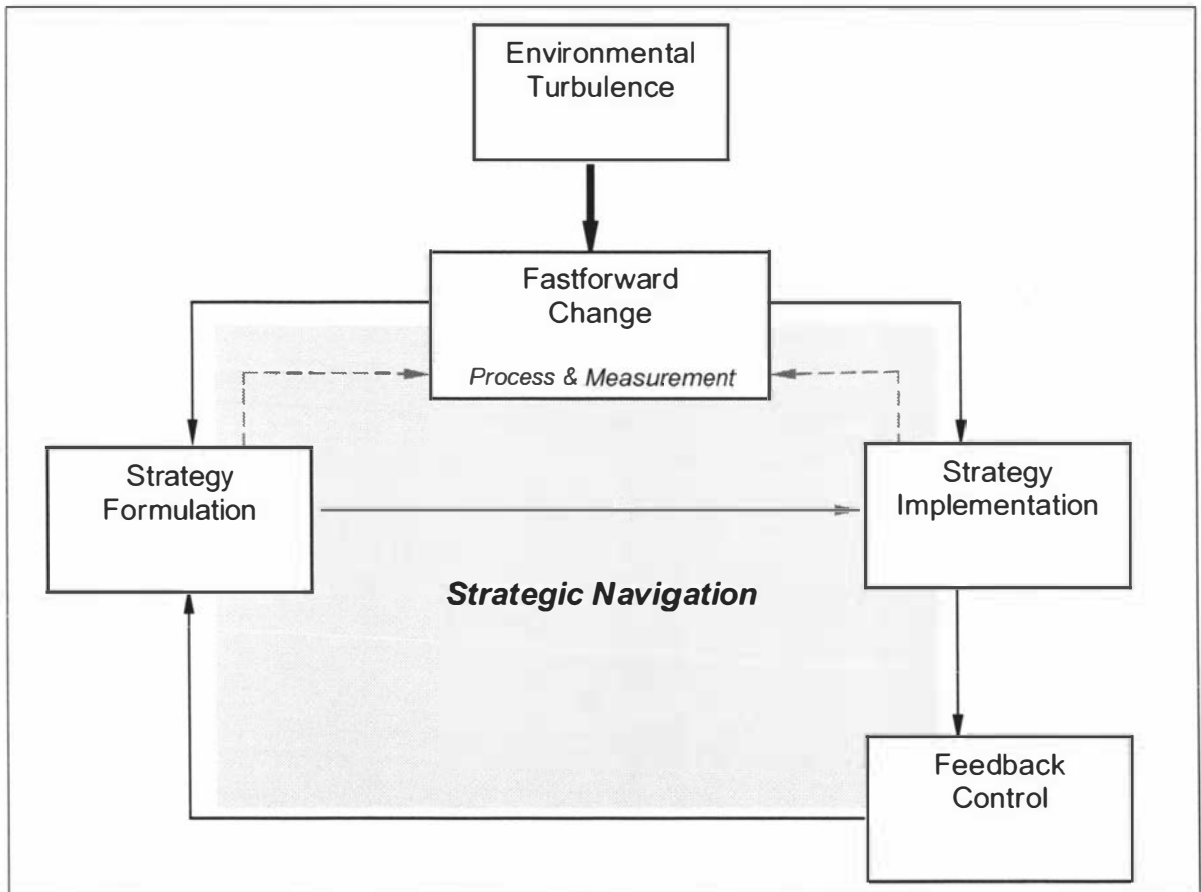


Figure 4.1 Strategic Navigation Approach to Performance Management

In terms of building on strategic control, feedback control is an explicit part of the strategic navigation approach. However, feedforward control is subsumed within the

broader and more pertinent concept of fastforward change, which comprises two dimensions – process and measurement. In this respect, feedforward control forms the basis of the measurement dimension of fastforward change.

Strategic navigation and fastforward change, via a focus on both measurement and process, recognise explicitly the pervasive influence of environmental turbulence and the need for rapid organisational change in response to this. In this sense it represents an approach that is much less formal and rigid, and more flexible and anticipatory, than traditional strategic control ideas. Strategic navigation provides a means of incorporating an explicit informal dimension, namely fastforward change processes, within a performance management approach. The traditional concept of strategic control is anchored in a formal measurement framework, which may be problematic in a turbulent environment. Strategic navigation is dynamic in thrust and does not assume a cyclical, regular or systematic organisational environment. It operates continuously and instinctively according to the degree of environmental turbulence and has an immediate and direct effect on both strategy formulation and strategy implementation.

Figure 4.1 indicates that strategic navigation effectively acts as a virtual shield to the formulation and implementation of strategy. While the conventional feedback control loop element of strategic control remains a component of the strategic navigation approach (i.e., single loop learning), the effectiveness of this component is determined to a large extent by the fastforward change element, depending on the degree of environmental turbulence. In terms of Figure 4.1, environmental turbulence represents unforeseen pressures and events, in relation to initial strategy formulation, which arise between strategy formulation and strategy implementation and that may threaten strategic accomplishment. Such events activate the operation of strategic navigation and fastforward change.

The solid line from fastforward change to strategy implementation indicates that environmental turbulence may trigger a direct effect on, or change in, how strategy

is implemented. This is likely to moderate or override planned implementation of strategy that would have been based initially on the strategy formulation stage. The solid line from fastforward change to strategy formulation indicates that environmental turbulence also has a direct effect on strategy formulation. Additionally, fastforward change reflects the ideas of organisational learning and double loop learning, and how organisations need to develop effective mechanisms for learning, understanding and responding to changes taking place in the external environment (Argyris, 1977; 1999; Bumes, Cooper & West, 2003).

The dashed lines from strategy implementation and strategy formulation signify that these components will influence the likely form and operation of strategic navigation, in terms of the fastforward change processes and measures that are used. In particular, the processes used to comprehend and respond to the external environment potentially may be more relevant than how any underlying data are captured and measured (Fiegener, 1997; Lissack & Roos, 2001). This is not to suggest that formal measurement is unimportant, but rather that strategic navigation, in terms of effective fastforward change, needs a dual focus on process and measurement. This dual focus represents a core point of distinction between the proposed strategic navigation approach and conventional strategic control applications, such as the balanced scorecard, which are measurement-focused.

The extent to which fastforward change and strategic navigation directly affect strategy formulation and implementation is contingent on the level of environmental turbulence: the higher (lower) the level of turbulence then the greater (lesser) the likely effect on implementation and formulation. If environmental turbulence is high, for example, but fastforward change is not operative, then interpretation of the feedback control information is likely to be difficult or even meaningless. This is because feedback information is lagging and iterative and as a result strategy implementation could end up being based on a strategy formulation stage that has become irrelevant due to environmental turbulence. If a traditional strategic control approach is used, which lacks a process dimension, feedforward control may fail to

adequately recognise and deal with a high level of environmental turbulence. Conversely, in a situation of low environmental turbulence a combination of feedback control and feedforward control information may be sufficient. However, organisations are likely to experience difficulty identifying precisely the degree or level of environmental turbulence they are (or will be) encountering over a particular period of time. Furthermore, by its nature environmental turbulence is uncertain and unpredictable, rather than in a steady state (Lissack & Roos, 2001; Eisenhardt, 2002). Therefore, the process and measurement dimensions of fastforward change and feedback control are important within the strategic navigation approach. In this sense a fastforward change focus helps to ensure the integrity of both the feedback control component and the overall strategic navigation approach.

4.6 Management Accounting and Strategic Navigation

The role of management accounting in strategic navigation is not to act as a means of 'control', but to provide an organisation's managers with a high degree of flexibility and scope for informed judgement, in relation to a dynamic external environment and its relevance to strategic direction and organisational performance. To fulfil such a thrust, management accounting systems arguably should have a strong external focus, be 'looser' in nature and should recognise explicitly that total reliance on formal measurement may not adequately capture relevant information about the external organisational environment. This could be achieved by adopting a modified formal measurement approach and designing systems that help facilitate a process focus. In terms of measurement, emphasis should be placed on fastforward change measures, relating to various dimensions of the external environment. This would largely reflect the existing strategic control element of feedforward control and, for example, the ideas of premise control and strategic surveillance (Preble, 1992). The measures adopted could be less precise and broader in their scope, focusing on target ranges rather than specific outcome levels (Hope & Fraser, 2003). This would help moderate the notional appearance of

'scientific' predictability or certainty often associated with traditional measurement approaches.

Facilitating a fastforward change process focus would involve considering the design and function of the underlying organisational context in which the management accounting system operates. This would mean *explicitly* taking into consideration how managers can source and obtain information about the external environment that may not be adequately captured using formal measurement approaches. This could relate to, for example, the level and frequency of interaction managers have with agents and entities outside their own organisation. Further, management interaction with other organisational members, both within and across different levels and units, could be considered. In other words, the design and role of organisational structures could be examined in relation to how they can facilitate, rather than hinder or restrict, frequent management interaction and conversation. The aim should be to develop process-related dimensions such as those discussed in Section 4.3, for example reliance on tacit knowledge, trust, 'extensive conversation' among managers and building social capital. Accordingly, the designers of contemporary management accounting systems should consider such dimensions in relation to organisational structure and its operation. This would be in addition to the conventional focus on how formal data is captured, measured and conveyed to managers. Such contemporary systems should encourage managers to frequently discuss, challenge and debate organisational direction and enable rapid response to external developments (Otley, 2003).

Historically, management accounting has adopted a strong control focus in terms of the relationship between organisational performance and strategy (Otley, 1994). Often this focus has tended to be very operational and short-term (Otley et al., 1995; Otley, 2001). Strategic navigation provides a basis for enhancing the relevance and usefulness of management accounting within organisations, because it facilitates a focus on managing performance, rather than controlling performance. It incorporates a strong process focus and is not constrained by a dominant

emphasis on measurement and feedback. In this sense the proposed strategic navigation approach is reflective of Otley's (2001) ideas relating to developing systems of performance management, and attempts to move beyond the control and measurement thrust often associated with traditional management accounting systems.

A strategic navigation approach provides a basis for the designers of strategically focused management accounting systems to view methods of comprehending the external environment as an integrative package, which is concentrated on both measurement and process issues, as *distinct* and *independent*, but also interrelated, components. Conventionally, comprehension of the external environment has been achieved by concentrating on measurement tools, with an increasing focus on the use of non-financial measures (Otley et al., 1995). Research suggests however, that models which emphasise measurement, such as the balanced scorecard, may only be appropriate if an organisation's external environment is relatively stable (Fiegener, 1997). Hence measurement approaches could potentially be increasingly difficult and problematic to design and interpret. The position taken in this thesis is that the emphasis should therefore move to encompass a strategic navigation approach, which organisations could adopt in order to better interpret and comprehend turbulence in the external environment (e.g., also see Quinn, 1996; Stacey, 1996; Fiegener, 1997; Berman et al., 2002; Eisenhardt, 2002; Goold & Quinn, 2002; Herman, 2002). Further, this would coincide with the growing call for management accounting to move beyond traditional notions of control and place greater focus on performance management (Otley et al., 1995; Otley, 1999; 2001; 2003).

Conventional thinking relating to the nature and operation of systems of cost accounting and cost management, performance measurement, and management accounting generally, is arguably no longer adequate in contemporary organisations. This view is premised on the rapidly changing business environment and evolving function of management accounting in practice, which suggests

evidence of a move away from narrow and idealistic neo-classical economic assumptions about the decision focus of such systems (Scapens et al., 1996; Scapens, 1997). The changes in the business environment may also be accompanied by moves towards new organisational forms and designs, such as networked organisations (Otley et al., 1995; Lowe, 2001; Goold & Campbell, 2002; Herman, 2002). These arguments suggest a need for a new 'measurement' approach in management accounting, such as strategic navigation. Such an approach would provide a more comprehensive means of comprehending the external organisational environment. This could be achieved by incorporating two key dimensions in the design of management accounting systems. First, a formal measurement component incorporating conventional feedback measures and, in particular, fastforward change measures, with a wide-ranging external orientation. Second, organisational designs and structures that support the operation of fastforward change processes. In this context it has been argued that organisational structure "...appears to be overlooked as a control in its own right. In general, structure tends to be taken as given, rather than something which is consciously selected" (Otley, 2003, p.320). Effective application of strategic navigation and its proposed relationship with management accounting would also require recognition that the approach should be integrated throughout an organisation. This would span different levels and functional units, rather than being seen solely as a senior management tool. In this respect, the relative emphasis on process and measurement could vary. For example, at operational levels there may be a lesser concentration on process, with the main emphasis on measurement.

It has been argued that management accounting systems should be transformed into broader organisational accounting and information systems that are able to deal with environmental complexity in terms of addressing both current operating, and longer term strategic aspects (e.g., Shields, 1997). Such systems would integrate consideration of measurement, organisational factors, financial results and performance evaluation, with a particular emphasis on an organisation's strategies and long-term goals, and concentrate less on solely operational aspects (Hopper et

al., 2001; Scapens, 1997, Shields, 1997). Scapens (1997) discusses the need for greater understanding of the interface between management accounting and strategic control in terms of what he describes as 'commercial awareness', which is about "...managing the strategic dimensions of the business and its competitive position, with the expectation that profits will flow to a well-managed and competitive business" (p.3).

4.7 Summary

This chapter has proposed an approach that deals with the organisational impact of environmental turbulence. The approach, strategic navigation, expands the concept of strategic control and could be integrated as part of the design of management accounting systems. The ideas presented in this chapter suggest that the evaluation and control of strategy should be overarching, continuous and increasingly process orientated in nature. The concept of strategic navigation encompasses these aspects. It also reflects the call in the strategy literature for a greater emphasis to be placed on issues relating to strategy implementation (Farjoun, 2002). An underlying theme throughout this chapter has been that continuing use of the expression 'control' may no longer be appropriate, given the context of an unpredictable and capricious organisational environment. The proposed new approach – strategic navigation – aims to reflect the idea of organisations making strategic adjustments in response to environmental turbulence in order to manage organisational performance. It also provides a more relevant basis for comprehending and managing environmental turbulence and a focus for the design of management accounting systems.

The strategic control models examined in Chapter Three have all moved beyond a feedback-focused strategic control approach and attempt to incorporate the notion of feedforward control into an overall strategic control framework. This chapter extends existing approaches by replacing feedforward control with fastforward change to enable organisations to better comprehend the influence and potential

impact of a turbulent organisational environment. The chapter reflects the idea that "...performance management systems can be seen as a major plank in the process of implementing strategic intent" (Otley, 2001, p.260). Further, it has been suggested that "...organizations are giving up budgetary [systems] as a primary means of effecting overall control and are having to resort to other techniques. It is not clear what those techniques should be" (Otley, 2001, p.254). Strategic navigation provides an example of what could be used to help fill this management accounting and control void. An analysis of the applicability of the idea of strategic navigation and its relationship with management accounting and organisational control, within a turbulent organisational environment, is presented in Chapters Five, Six and Seven.

Chapter Five

Case Findings – Strategy Formulation and Implementation

This chapter presents the findings from the research site relating to strategy formulation and strategy implementation. The underlying context guiding the data collection process was the nature and role of management accounting within the broader framework of organisational control and strategic navigation. In this sense, issues relating to management accounting, organisational control and strategic navigation were examined concurrently. A key purpose of management accounting is to act as a tool for organisational control (Chapman, 1998). The realm of organisational control, however, is also broader and increasingly extends beyond conventional notions of management accounting (Chenhall, 2003), which is the position adopted in this study. Generally, though, the two concepts are very closely related and are often addressed in the literature as one (Otley, 1999; Chenhall, 2003).

The study respondents represent a broad cross section of organisational roles, and their responses provide insights into management accounting and control issues relating to strategy formulation and implementation. Three of the respondents, senior manager 2, board member 2, and board member 3 are professionally qualified accountants. The structure of this chapter reflects the various patterns and themes identified in the data, which form the basis of various subheadings and sections used. For the purpose of analysis this chapter makes a conceptual distinction between strategy formulation and implementation, although these aspects are closely interlinked.

5.1 Strategy Formulation

The first part of this section provides a descriptive overview of the strategic planning process at HF, which underpins strategy formulation. The role of management accounting within this is highlighted. Next, five key themes that emerged from analysis of interview, observational and other site data are discussed. In relation to these, it was observed that the role and function of management accounting was strongly informal. The five themes are:

- Endpoints and pathways;
- External feedback;
- Management philosophy and company culture;
- Staff interactions;
- Flexibility and informality versus structure.

5.1.1 Strategic Planning

Historically, strategic planning was based solely on the owner and CEO's view of where the company should head. The first formal strategic plan (the '20/20 vision' document) was developed in 1993 and was written by the CEO while holidaying on a beach in the Fiji islands. This was seven pages long and set out a business plan reaching forward to 2000. One respondent, an accountant, described this as: *"Dick's view of the future, I think we can grow and this is what the numbers will be and why not"* (board member 2). The plan provided a focus for the company in its early years, including accounting and financial targets, with most of the strategic goals set achieved before 2000.

The CEO was asked what he considered were the advantages of his approach to strategic planning:

I think its given me as chief executive a sense of focus and some endpoints. If you take the first one in 1994, I was just a little tin-pot muesli

company operating out of Onehunga. And we set the strategy that involved us getting into high-tech cereal processing – rice bubbles, cornflakes and all of that. That involved shifting to these premises here, the building of the factory, the development of the site. They were fairly ambitious goals from the base that we did it from. And in actual fact most of them came to fruition. And then I look around now and say, well it's very hard for me to imagine what the company is going to be like in ten years time. But I've got to take a stab at what I'd like it to be and then work from there. If we've got say a turnover of 25/27 million for this year, in 10 years time we might be looking at 100 million. It's very hard to imagine sitting here now, and imagining what it would be like with a company right around us with a 100 million turnover. But you know if you set that as a target, and work toward it, you will get there. It was absolutely impossible for me to imagine back in 1994 what I would be doing now with the structure and the staff, and this whole setup.

A second strategic plan (13 pages) was developed in 2000 covering the period 2000-2010 (the '100/100 vision' document). The CEO initially developed the 100/100 vision with assistance from an advisory board, which was later replaced by a formal board of directors in early 2001. Apart from the owners of HF, Dick and Diana Hubbard, the board comprises two senior managers and three external directors. The new board became involved with refining and reviewing the '100/100 vision', and have assumed an important role in identifying and developing strategic goals. In terms of board composition and function, there is increased emphasis on management accounting-related issues after the recent appointment of an external director with an extensive CEO and accounting background, and the regular attendance of the company accountant at board meetings. A manager speculated on the reasons why Dick Hubbard established a formal board, highlighting accounting-related issues of control and regulation:

Why did he do it? I suspect it was to get another point of view and also the fact that the further we go, the busier he gets... So he set up a board I think probably to get some more regulation, and some more overview over the place and get some more control on it. I guess those people as a group now are setting the direction. (manager 4)

This reflects how the processes used to develop the strategic plan and set long-term goals have become more formal and structured, which is indicative of a growing formal management accounting focus. The accountant, who is involved in the strategic planning process, described this: *"This year [2001] its become quite structured. We had a couple of strategic planning meetings that were facilitated by [board member 2]. A couple of half day sessions off site, earlier in the year"* (senior manager 2). The board member who facilitated these meetings is an accountant with an extensive CEO background. He described what took place at one of the strategic planning meetings as follows:

I think it was quite a healthy session. [The CEO] had a view focused on ten years and I pulled it back to three. He can have a view about ten that's fine, we might get there. But let's look somewhere where we're in close enough proximity too, but that's also far enough away that we have to stretch a bit outside our normal boxes and comfort zones. So we talked around three years and about what we expect to have happen in three years. For example, what's the business going to look like? So we did all that. Then tell me about today. Okay, what's the difference? What are the steps you're going to use to get from here to there? That's the process we followed and we came up with things to do. (board member 2)

Board member 2's comments indicate how the board decided that the ten year period covered by the new strategic plan needed to be segmented into a more achievable and manageable time frame, hence the three year focus. This also

suggests a growing management accounting influence in terms of the view that greater control of the strategic plan was required.

5.1.2 Endpoints and Pathways

The processes at HF that are used to facilitate the determination of strategic direction are evolving and dynamic. In this sense, strategic planning and formulating strategies to achieve those plans can be seen as two distinct aspects. These were highlighted and differentiated by the CEO:

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

[emphasis added]

The 'endpoint' is about strategic planning and setting long-term goals for the business, while the 'pathway' is focused on formulating and implementing strategies to achieve those goals. The pathway is a highly fluid and dynamic process, overseen by company management, and well integrated with daily operations, rather than being a core responsibility of the board of directors. The accountant at HF is a key part of the management team that develops the pathway. The board has a particular interest in the endpoint goals within the strategic plan and breaking these into what they consider are realistic and achievable targets, hence the three year focus, which reflects a growing management accounting emphasis. The pathway aspect seems less of a concern to the board so long as the overall targets are achieved. As a result the pathway is left largely to the management team to determine, who have a high degree of flexibility and influence in this regard. This aspect also has significant overlap with strategy implementation processes.

It was suggested to the accountant (senior manager 2) that the monitoring of strategic plans and goals, given that endpoints were relatively static but that the pathway was flexible, needed clear commitment and 'buy-in' from individual managers. He commented:

Yes. The board has various goals in place and timelines for when things have got to be done by. Thus far, a lot is reported back to the board and it's about telling them you're on track and that things are happening, plus how it's going to happen... There's a lot of self governance.

The emphasis on 'self governance' reflects a reporting and control framework that is less structured than traditional management accounting approaches.

5.1.3 External Feedback

Strategy formulation relies heavily on feedback collected externally to HF. However, this feedback is generally not in the form of conventional financial or non-financial management accounting information. A board member described how the HF approach worked:

Knowing through [AC] Neilson and through other market feedback where we're positioned in this market and what the opportunities are. Working very, very closely with the buyers of the major stores. [The CEO] has a very good rapport with all the [store] buyers, he is constantly in the market place. (board member 1)

Much feedback is of an informal nature and is 'collected' when visiting, interacting with and observing customers, buyers and other external parties. This reflects the use of an informal management accounting approach that is fluid and responsive, and which extends beyond the realm of traditional and formal measurement. It is perhaps also reflective of the relatively small size of the HF business. The key people involved with collecting the information are the CEO, marketing manager,

and an external contractor who operates the sales merchandising function for HF. This person communicates his feedback to the CEO and the marketing manager and has also presented information to the board, which signifies his importance within the HF operation, even though the business he controls is separate and distinct from HF. A senior manager spoke about the use of external feedback:

It's not that structured and it's not that formalised. But we know there are a variety of routes that we can go and we'll take the one the market says to go. (senior manager 4)

Responsiveness to external feedback reinforces the endpoint and flexible pathway approach described by the CEO. Often the pathway will change very quickly, depending on perceptions of what the marketplace is 'saying'. This suggests that strategy formulation is treated as a continuing and ongoing part of daily operations, rather than as a periodic or discrete organisational function. In other words, strategy formulation, including the management accounting information that supports this, is embedded and integrated within the operational side of the HF business. A senior manager commented on how this worked:

Just playing with market ideas and looking at what competitors are doing... and listening to what the trade is saying. This is where being out and talking to the trade [customers] is powerful – you get a feeling for the gaps and how to get smarter than the competition. (senior manager 4)

Staff frequently observed the operational impact of market information that had been 'collected' by the CEO. In this context a manager said: *"He's a gambler. It amazes me that he still regularly goes out and markets products that we haven't got a clue how to make"* (manager 4). Such an approach is at variance with the operation of traditional management accounting systems, which generally reflect conservatism and are strongly control-focused. HF may have firm long-term goals or endpoints but there is a high degree of flexibility associated with achieving

those goals (the pathway). Strategy formulation is highly proactive in relation to seizing opportunities that may arise. In essence the process of strategy formulation is continuously flexible and attempts to anticipate market conditions. There is likely to be uncertainty about when various opportunities may arise and strategy formulation must accommodate that uncertainty. This reflects an emphasis not necessarily evident in conventional management accounting systems, which are generally feedback-orientated rather than proactive in focus. The HF approach places pressure on operations because once a particular strategy is adopted then an operational commitment will quickly follow, which could involve, for example, making an entirely new product. A manager spoke about the operational impact of strategic change.

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

In this sense the timing of strategic decisions can be significantly influenced by emerging and often capricious market conditions, rather than by strict adherence to a particular strategy or plan. Hence responsiveness to external feedback is a key feature of the informal management accounting system, which results in a highly fluid strategy formulation thrust.

5.1.4 Management Philosophy and Company Culture

A significant factor underpinning strategy formation at HF is the company culture and management philosophy practised by the CEO. This factor helps facilitate

the operation of a strongly informal management accounting approach. According to one respondent: *“He doesn’t ever want to consider himself a ‘corporate’ company. He’s got this very special philosophy and there’s a warmth and a soul in this company”* (office staff 1). In this context various informal processes were observed relating to how staff interacted and communicated with each other. These processes facilitated flexibility within HF and helped to limit any negative effects arising from the implementation of more formal control structures associated with business growth. In this regard a senior manager said: *“Structure will come [at Hubbard Foods] but formality won’t come. It’s the culture, which is very much preserved by [the CEO]”* (senior manager 4).

Some of the attributes relating to management style and philosophy seemed to be habits of history rather than conscious choices and perhaps arose because administrative systems, including management accounting, have lagged company growth (e.g., lack of formal job descriptions and no organisation chart). In this context, a full-time and qualified accountant has only been part of the management team for approximately two and a half years. Other attributes seemed more deliberate and reflected how the CEO believed a business should operate and treat people. Examples are active discouragement of formal communications between staff and minimal use of scheduled formal meetings to make decisions. The focus at HF is on staff interactions via face-to-face and/or verbal contact. Such an emphasis is reflective of the changing and evolving function of contemporary management accounting systems (e.g., Scapens & Jazayeri, 2003). This point was illustrated, for example, when a manager commented on how HF maintained a balance, or avoided conflict, between its strong people interaction approach and creeping bureaucracy, such as a formal management accounting system, which is generally associated with organisations as they become larger:

Hubbards is very lean – we’re not into memos and we’re not into meeting minutes and those sorts of things. If I’ve said something, then I remember

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

The management philosophy and culture at HF is perhaps symbolised by the large sign placed directly next to the main office entrance, which reads:

Warning: This is a 'no-nonsense' management zone. No management excesses, corporate ego-trips, committee decisions, inter-company memos, buck-passing, back-stabbing, or any other dubious management practices allowed on these premises.

Another sign with a similar message was on the wall in a small meeting room in the upstairs office area:

Warning: This is a 'no-nonsense' speaking zone. No oratorical excesses, grandiose verbosity, garrulous gossip, mumbling interlocution, ineloquent verbal intercourse, vernacular colloquialisms, forked tongues, or any other dubious speaking practices allowed on these premises.

Comments made by staff reinforced the content of these messages. They seemed to be more than just catchy sounding slogans displayed in prominent places, but rather reflected a core component of the way HF operated.

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

A mixture of formally and informally, but they're not done as just rigid formal presentations. I believe that what we have got to do here is create a culture that to a certain extent is intangible. It involves trust, I guess, in both directions. As a result of that you can't have really a rigid situation whereby you formally announce plans and implement them.... you can't be too soft and have no structure and you can't have all structure and no heart.

It was suggested to the CEO that HF appeared to have quite a strong emphasis on informal control:

Yes, there is a reasonable amount. I think it's very important that you make sure – operating the sort of model that we do, with a reasonable degree of informality and with a social component as well – that you don't use that as an excuse for bad non-scientific management. You still have to use a lot of those scientific management practices that give you early warnings about issues. You still have to look at strategy in terms of customers and what's happening out in the marketplace. You have to know your financial numbers. So its got to be a mixture of the head and the heart. The head being sort of rational, the heart can be a-rational – not irrational – and you're got to have a blend between the two.

The idea of 'scientific management practices' encompasses the role of more formal management accounting systems as a factor helping to underpin the strategy formulation process.

5.1.4.1 Open-door management style

A key part of the management philosophy is an 'open-door' policy, or high accessibility, on the part of the senior management team and in particular the CEO. During site visits the CEO's office door was seldom closed and people

could be seen coming and going. Often people appeared to be just 'dropping in' on the chance that the CEO could see them. "[The CEO's] door is always open and that's where we would go. Directly to [the CEO]. He is approachable and very accessible – always" (office staff 1), commented an office staff member. However, the accountant wondered if the CEO was perhaps too open: "[His] door is always open. All staff are welcome to go in at anytime. He takes a huge interest in his staff. He is always accessible to them to discuss anything. Too much sometimes I think".

One manager highlighted the frustration that an 'open door' approach may cause:

You probably notice that we all just walk into [senior manager 1's] office whenever, or walk into [senior manager 3's] office whenever. So, if I asked [senior manager 1] for a formal meeting with him, he wouldn't do it really. That is good, and bad as well. I sometimes find it frustrating trying to squeeze in between people. I'd feel a bit more comfortable if I could have a half hour blocked out for me. But that's not how we operate here.
(manager 1)

5.1.4.2 Risk taking

HF's management philosophy also encompassed active encouragement of staff to be proactive and innovative when making decisions, even if that involved some degree of risk to the business. This contrasts with the general conservatism and risk-averse nature of conventional management accounting systems. A manager described how the HF approach worked:

We're not criticised for making mistakes. If you make a mistake you're told that it probably wasn't the right thing to do. If you make the same mistake twice it's a different story. You learn from your mistakes. It's certainly very much a direction in this company that we're not going to grow without making mistakes. People aren't going to develop if they don't make

mistakes either, which is really quite nice because you're not scared of making mistakes. (manager 1)

The approach to risk reflected the leadership and control style of the executive directors and in particular the CEO. Based on observations of senior management interactions with staff, the style calls for frequent contact, a highly supportive attitude and much positive reinforcement in relation to tasks and projects being undertaken. One respondent spoke of the large amount of positive reinforcement and compliments she received from the general manager and CEO. She said that they would regularly come by her work area and say: “*that was good*” or “*well done*”. (manager 1)

The accountant used a short story to illustrate the attitude of the CEO toward risk taking and making mistakes:

I told him a story once and it sums up the way he operates. There was a computer company some years ago and this guy – I don't know what he did, but whatever it was, it cost his company a million bucks – he stuffed up something absolutely horrendously. The company realised what had happened and there was crap flying around everywhere. So the guy sat down at his desk and wrote out his resignation letter, walked into the CEO's office, put the resignation in front of the CEO and went to walk out. The CEO stopped him, sat him down, and said “you can't resign mate, you've just invested a million bucks in your training. There's no way you can walk out of this place now. So get back and use that million dollars worth of training to its best advantage”. [The CEO] is pretty much like that. He won't stand for incompetence and he won't suffer fools, but if you've done the wrong thing for the right reasons, it's okay. He always says he celebrates failures. (senior manager 2)

5.1.5 Staff Interactions

A high level of informal discussion and interaction involving staff from all levels within the organisation, including the accountant, was an obvious feature at HF. This is made possible, in part, by the limited number of formal scheduled meetings. According to one manager the meetings he attended were: “*always entirely ad hoc and as required*” (manager 4). In this context the accountant was frequently observed to be away from his desk and interacting with other staff and management.

Frequent contact and interaction between the management team was used to discuss and clarify market dynamics and formulate appropriate strategic responses. The accountant was an integral part of this activity. Observation suggested that contact and interaction did not rely on formal documentation and/or formal meetings, but appeared to be spontaneous. Due to dynamic market conditions facing HF – meaning the possibility of very sudden and unpredicted rapid change – a strategy formulation approach based to a large degree on formal control, in terms of documentation, meetings and consultation to progress proposals would perhaps be too slow and would result in lost opportunities. The informal interaction approach at HF relies on brainstorming, spontaneity and minimal formality to build ideas into more tangible proposals. Once it is decided to implement a proposal, then more formal operational aspects are considered. But often the entire process, including implementation, would seem to happen very rapidly. A senior manager described this:

It might be [the accountant] and I on the phone going ‘blllllaaaah’ because he’s got an idea, it’s that informal. It might be [senior manager 1] in Queenstown phoning me or [senior manager 1] from London – we had that last week – saying ‘I know you are doing research but what about this’. It’s that informal and that much contact – it ‘floats’ and it needs to ‘float’.
(senior manager 4)

Extensive interaction among the management team also illustrates the strong collective focus underlying strategy-related decisions. This further illustrates the active involvement of accounting in strategic decisions, which is highlighted in senior manager 4's comments above. While certain individuals have core responsibility in various areas, extensive staff interaction helps to engender a strong collective decision making approach. Ultimately the responsibility for signing off on major decisions rests with the CEO, but once a proposal reaches this stage there will be a strong collective view among managers, including the CEO, supporting it as the preferred course of action. The accountant outlined how this worked, including his own direct involvement in the process:

We're always in informal discussions. Say the likes of me and [senior manager 4] or [senior manager 3] and [senior manager1]. Perhaps it's slightly less with the outside directors because they're not here, but for the rest of us we always have a natter about 'this, that and the other'. If an idea or a line of thought comes out of it then we just keep talking about it informally until I guess we decide that, yes, it is on the right track. Then it's firmed up and more senior people are brought on board until suddenly you find yourself talking about going in a different direction. That happens informally.

As indicated by the message on the large sign adjacent to the front entrance, HF 'bans' the use of memos and other formal communications, which would likely both encourage and necessitate greater formal interactions among staff. Staff were observed to have numerous casual meetings seemingly as and when they were required. These could be either informal and casual interactions or more formal 'sit-down' meetings, which often appeared to be arranged at very short notice. For example, on a number of occasions while interviewing HF staff, another staff member would knock on the door and ask about scheduling a meeting with the interviewee as soon as he or she was free.

The spontaneity of staff meetings and interactions was reinforced by the availability of two small meeting rooms, each with a circular table and four or five chairs, in the administration/corporate office area. There was no formal booking system for these rooms. It was a case of if they were empty, then they could be used. Hence room availability was generally not an impediment to scheduling informal meetings to facilitate staff interactions. Such meetings would 'happen' as required (this excludes meetings with parties external to HF, where specific meeting times would be organised). The CEO's office was also used for informal (and formal) meetings and had a large oval table for this purpose. Often this was used for informal meetings held with or by the CEO, or if the CEO was off-site then effectively his office was available for more general use.

5.1.6 Flexibility and Informality versus Structure

Historically HF has been relatively unstructured in relation to organisational controls and accountability. In part this reflects how an on-site and qualified accountant is only a relatively recent addition to the management team. Some long serving staff commented on how the lack of formal control seemed to have enabled much spontaneity and flair within HF. For example:

Part of the strength of the organisation was the degree of artistic flair – lets dream up something weird and fanciful that tastes good and looks appealing and make it tomorrow. I think structure tends to stifle that. I do still see a bit of a creative flair coming through and there's still some new products leaping out of the woodwork from time to time that seem to get out there and work well. So I suppose the flair is still there. (manager 4)

To some degree this could be explained by a small firm size and the CEO's ability to manage and monitor the entire HF operation due to a limited span of control. In this sense, the CEO had some years earlier described the HF management approach as: "...a 'loose tight' management structure; tight on the fundamental principles and loose on the means to achieve them" (Light, 1995).

As HF has grown it has become more difficult for one person to manage and control the entire business. This is necessitating greater structure and formality within the HF operation. A key role of the board has been to require greater accountability for the achievement of strategic goals, and to initiate the development of better formal management accounting systems to monitor business progress against these goals. This is reflected, for example, in the recent appointment of board member 2, a qualified accountant, who has an extensive CEO background. In this context a board member said: *"The review, I think, will be a lot more formal and a lot more regular"* (board member 3). However, this also seemed to be creating a degree of tension within HF with some respondents expressing reservations about the growing formal control thrust. A senior manager remarked informally that the increasing number of reports he was required to provide for the board is starting to irritate him. In relation to the reporting requirements associated with her job, a manager commented: *"It used to be free but not so much now"* (manager 1). Senior management in general, however, spoke about the importance of maintaining creativity and flair within the organisation and how they sought to design control systems that would provide better information and control, but at the same time would not stifle the existing 'looseness' and flexibility of the organisation. One senior manager commented:

I think that we will never get to a stage – not if I can help it – where writing a report will be more important than doing things. We'll never get to a stage where people will wait to have a meeting to get the co-ordination and communication done, to get things done. (senior manager 3)

To some degree the apparent conflict between structure and flexibility is reconciled with the 'endpoint' and 'pathway' viewpoint expressed by the CEO. In this context, so long as the pathway is flexible and not strictly prescribed by the board or within the strategic plan, which in turn is reflected in the design of

management accounting systems, this should assist with maintaining flexibility and responsiveness.

A further factor that appeared to encourage and preserve flexibility was the role of the CEO, other executive directors and the accountant in effectively acting as shields for lower level staff in relation to the greater business performance and accountability focus required by the board. Various staff commented on the freedom HF allowed them to pursue their job tasks without the interference of structure or burdensome reporting requirements. In this context some staff remarked that administrative and accounting aspects were generally dealt with by senior management and not driven down to lower levels. In particular, this was evident in relation to budgeting issues. One manager said:

It's not a huge issue... Certainly for me – or since I've been here – I've never had a review based on, "oh, your budget has been blown". Its never ever been an issue. I've had the odd question, "gee, you've spent a lot of money this last month, do you know what the problem was?", that sort of thing... But [senior manager 3] and [senior manager 1], I'm sure do focus closely when they go through the end of month statements. But it's certainly not pushed onto us that you've got this budget and you've got to stick within it. (manager 2)

5.2 Strategy Implementation

The CEO spoke broadly about how strategy is implemented at HF:

I think it's by informal communication and trying to structure it so that people are talking and passing on bits of information, some of it's relevant, some of it's not. One of the hazards associated is that occasionally someone will get missed for some critical bit of information. But you've got to look at it in terms of swings and roundabouts and say, well the

advantages of that approach outweigh the disadvantages. You accept that every so often something won't quite work, but you're still miles ahead with that sort of approach.

The three executive directors are the link between the board, which oversees the strategic planning process and the setting of long-term goals (i.e., the 'endpoints'), and lower level managers and staff. As a starting point, the executive directors communicate verbally with lower level managers about what the strategic goals and plans are, and how they are expected to contribute in relation to strategy formulation and implementation. A senior manager commented: *"It's informally communicated in that I don't have a meeting... I communicate to each person where we are going and what we want to achieve"* (senior manager 4).

In association with individual and informal verbal communication, what is titled the 'New Product Development' (NPD) meeting is used to coordinate and manage the translation of long-term goals more formally into strategies, and ultimately, operational outcomes. In tandem with weekly NPD meetings, informal interaction among the management team is used to develop strategies, which may have been tentatively indicated or implied within the strategic plan, and to create entirely new strategies (i.e., the 'flexible pathway'). The accountant, who is part of this process, commented on how it worked:

The plan is driven from the top and the senior people in the company. The plan is broken down into parts that relate to operations and sales. The various areas are championed by the appropriate people who are given enough 'rope' in terms of how they develop things and what resource they need to make it happen.

Outside of the management team the long-term goals and strategies are communicated using what are known as 'KFC meetings' and also direct verbal

communication where particular strategic outcomes may impact more directly on the jobs of certain staff (e.g., engineering and purchasing).

Overall, the processes related to implementation are closely related to formulation and it is conceptually difficult to separate clearly the two activities in terms of the daily operations at HF. Like strategy formulation, the underlying foundation of implementation is control processes that are highly informal and interactive.

The remainder of this chapter explains the attributes of strategy implementation that emerged from analysis of the research site. This is presented in terms of six main themes:

- Informal communication;
- NPD meetings;
- KFC meetings;
- Non-hierarchical structures;
- Rapid response;
- Naturalisation of strategy.

As was the case with strategy formulation, the role of management accounting in relation to strategy implementation was observed to be strongly informal.

5.2.1 Informal Communication

High reliance on informal communication to implement strategies fitted the overall emphasis in HF on strategy being a flexible pathway and 'living', and was a deliberate tactic on the part of the CEO. Accounting information and the accountant were integral parts of this informal approach. The informal approach was evident when observing daily operations at HF, in that there was no obvious distinction between management activities related to either strategic or operational issues – the two issues seemed very closely interlinked with no

apparent priority or dominance associated with either. In this regard the CEO was critical of the formal approach to strategy implementation he observed in larger corporations:

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

The informal approach followed by HF enabled strategies to be more easily integrated into daily operations, in that staff accepted strategy as a natural part of operations rather than a separate and unique function. An important part of the informal strategy implementation process involves senior managers explaining to middle managers and other lower level staff where to concentrate and direct their attention. In this regard a manager commented:

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

The interactive and informal approach was also reflective of how management accounting information was used and the role of the accountant at HF. For example, if particular accounting information was required this would be directly communicated to relevant managers, rather than being produced as part of a formal accounting report on a regular basis.

The process of strategy implementation is two-way and if managers are uncertain about where to focus then they will ask:

I'll often say to [the CEO] 'what's my priority now?' Because there're so many house brand projects happening at the moment, I need to know which direction I need to go. And he will say, 'oh, this is the plan' and that sort of thing. (manager 1)

This reinforces the high level of informal staff interaction observed at HF. Staff need to interact to determine where to focus their work. This is because strategies are communicated informally and there is essentially no system of internal memos. Staff also have the opportunity to potentially alter final strategic outcomes, in terms of actual implementation:

Some products that [senior manager 4] has recommended Hubbard's do, I've said, 'I don't think so' and she has definitely taken on board my opinion. (manager 1)

5.2.2 NPD Meetings

A key instrument of strategy implementation is the New Product Development (NPD) meeting. A senior manager commented: *"The NPD is the only regular meeting. Otherwise we just catch up as we need to"* (senior manager 4). The NPD meeting is a means of identifying strategic issues relevant in the short to medium term. It has a strong coordinating role in relation to organising and managing the operational facets, including financial and accounting-related issues, involved in progressing strategies through to successful implementation. This approach within the NPD meeting makes distinguishing between strategy implementation and formulation difficult. For example, because the meeting is action-orientated in relation to translating strategies into daily operations, if there are apparent implementation problems then strategies will be re-formulated at the meeting where a particular problem becomes evident (or possibly a subsequent meeting) to enable implementation.

The meeting is generally held weekly and enables coordination of the overall strategy implementation process. Strategic issues largely drive the meeting agenda, whereas operational aspects dominate the discussion, which reinforces the role of NPD meetings in terms of translating strategic issues into operational outcomes. In this respect, NPD meetings provide the basis for converting strategies into more detailed action plans and assigning responsibility for their achievement. A prime purpose of the NPD meeting is to merge strategic and operational issues. The accountant, a member of the NPD group, described this:

We've got a list of about 20 projects that we're working on. Some are new products that are new concepts, which are sort of right out there 'flitting around in outer space'. Another one might be just to change a word on a piece of packaging.

A mix of five senior and middle managers comprise the NPD meeting group, but generally the CEO does not attend. The accountant, a senior manager, is an active participant in the NPD meeting. The marketing manager organises and coordinates the NPD agenda, but the overall thrust evident at meetings is strongly team-based. Short-term strategic goals derived from the strategic plan and knowledge of competitive pressures and opportunities are used by the marketing manager to construct an agenda of action points and tasks for NPD group members to discuss. She commented: *"The whole hub of what I do here is the NPD. It either goes up from the NPD or down and out from the NPD. That's the one critical meeting"* (senior manager 4).

A NPD meeting attended and observed was highly interactive, with all participants actively contributing to the discussion. Even though the meeting lasted just over one and a half hours, it seemed to proceed quickly, was very focused on the agenda and achieved strong group consensus in relation to decisions made. There was no evidence of 'politicking' or empire building, or dominance of the discussion by any particular group members. The progression

of the NPD meeting was guided by a written agenda that was headed “Hubbards NPD Summary”. The length of the agenda was three sides of A4 paper, which comprised a mix of strategic issues requiring immediate operational action and others that would have a longer term operational impact. This was a numbered list comprising 25 topic headings in bold type focused on various specific products, broad product categories and certain trade or customer groups, such as *Honey Bumbles*, *Easy Eat Muesli*, or *First Choice Hong Kong*. Short points were listed under each topic heading which provided the basis for discussion among NPD group members. The issues covered included aspects such as new product launches, product costings, competitive responses to sudden market changes, refinements to existing products (e.g., packaging size), product re-launches and trade customer changes.

Specific accounting-related issues were a relatively small part of the NPD agenda. At times the issue of particular product profit margins arose, but this was never a principal issue for discussion. However, the involvement and role of the accountant in the NPD meeting extended beyond accounting-related issues. In this regard he actively contributed ideas and suggestions to all agenda items and also provided a coordinating role in relation to reconciling various conflicts between marketing, production and financial aspects. Overall, the scope of the NPD meeting was future orientated and focused on aspects critical to moving and driving HF forward in terms of sales growth, market share and overall profitability. This was evident when listening to the discussion and conversation that took place.

5.2.3 KFC Meetings

Part of the strategy implementation process involves verbally communicating long-term plans and strategies to small groups of staff (‘team members’) using what are commonly called ‘KFC meetings’. The meetings are often described as ‘KFC lunch meetings’ by staff because the scheduled timing of each meeting coincides with lunch breaks in the factory (which operates three shifts on a 24

hour basis). The focus of these meetings is a talk by the CEO about upcoming events at HF over a large feast of KFC chicken. This might be about new or revised products, large upcoming export orders, or new plant and equipment soon to be installed and commissioned. The information passed on by the CEO is selective and encompasses those parts of the long-term plan and strategies that are about to impact operations. A manager described how this worked:

[The CEO] has regular – well maybe two monthly, three monthly – KFC meetings with about ten staff per meeting. And certainly he says some things at those that I haven't heard. That's where we all get the direction of the company and what our plans are. Whether we are getting any new machinery, new product developments, new supermarket interest and that sort of thing – we find that out in those two to three monthly meetings... It's not so much a focus on what's happening in the next ten years but what's happening in the next few months. (manager 2)

While visiting the research site the opportunity arose to sit in on and observe a KFC meeting. The meeting attended comprised 14 people, which included the CEO, accountant and three office staff and nine factory workers. The office staff were all dressed informally, including the CEO and accountant, with no one wearing a tie. The factory workers were all wearing white overalls. The meeting was held in the CEO's office, which is long and rectangular, around a large oval table. The table was in the middle of the office, with the CEO's desk to one end. On the oval table were two or three large packs of KFC, fries, bottles of Pepsi and Sprite lemonade. Initially, things were fairly quiet as people arrived, sat down around the table, and waited for the meeting to start. In terms of the seating pattern, factory workers tended to sit as a single group around one end of the table and the office staff were at the other. While office and factory staff sat in largely separate groupings, informal interaction and discussion between them was still evident. The CEO was seated between both groups. Once everyone was present the CEO invited the staff to help themselves to the food and start eating.

From here the meeting proceeded in a low-key manner, with some limited discussion or chatter among those present. Generally, all seemed content to quietly eat and enjoy the food.

After staff at the meeting had been eating for about 15-20 minutes, the CEO said *"Well, are we all here then?"* At this point the more 'formal' part of the meeting commenced, which was very much an information-sharing session rather than a group discussion. While the staff continued to eat, the CEO spoke about new product orders and expanding business in Australia and Hong Kong. He also mentioned a new product HF was about to start producing, cereal in a small 90 gram sachet, and how this was aimed at supermarkets and the hospitality industry. The rationale behind the profit share cheques, which were to be distributed in the 2-3 weeks following the KFC meeting, was explained and discussed by the CEO. He also talked about the installation of large new ovens in the factory and the reasons why these were being installed.

The communication at the meeting was essentially one way – from the CEO to the staff present. He invited questions as he spoke but received few responses. However, all those present seemed to be listening closely and there were no apparent signs of restlessness or boredom as the meeting progressed (e.g., gazing out of the window or fidgeting). There were plenty of smiles and some laughter in response to the CEO's comments. For example, the CEO said he hoped more female factory workers would assume greater responsibility for operating the new ovens. After the CEO mentioned this one of the female factory workers commented, in a light-hearted manner, that she spent enough time over the oven at home and didn't want to spend more time over the oven at work. There was immediate laughter in response to her comments. In this sense the atmosphere at the meeting was very open and seemed almost family-like.

The information passed on at the KFC meeting covered both long-term goals, which were being translated into strategic outcomes that would impact current

operations, and 'house-keeping' matters. For example, the CEO spoke about the "boy's toilet" in the factory and how the cleaners had mentioned some problems with this. He talked about the staff and family day being organised for a forthcoming Saturday when HF planned to hire buses and take staff and their families to a marine aquarium, museum and then back to the HF site for a barbeque at the back of the factory. He asked for people to sign a sheet so as to give an indication of numbers, for organising buses and food etc. Staff and family outings, which are fully funded by HF, take place once or twice a year. The aim is to take staff and families, in particular those from the factory, on a trip to a location they would not commonly go (perhaps due to family budget constraints). The most notable outing was during June 1998 when HF celebrated its tenth anniversary by chartering a plane and taking all staff (approximately 94) on an all-expenses paid weekend trip to Western Samoa, which is where many of the Polynesian factory staff originate and still have family ties.

The meeting finished after the CEO stopped speaking and there was a pause in proceedings. One of the factory workers then got up and said "*thanks Dick*" to the CEO as he headed out the door. At this point three or four other factory workers left the meeting, also saying "*thanks Dick*". The remaining staff then began to clean up the food scraps and containers left on the large oval table (there was no food left over) and once the CEO's office was tidy, they left. In total the meeting lasted approximately 40 minutes.

5.2.4 Non-Hierarchical Structure

A non-hierarchical management approach at HF supported strategy implementation by encouraging broad staff involvement in business decisions. This placed significant value on the collective knowledge of staff from across the business – in relation to issues affecting strategy implementation – rather than relying solely on the knowledge of particular managers. This indicates how, for example, the accounting function does not hold a privileged or dominant position at HF as a primary source of management information. In this sense the

organisation has a strong team focus, supported by a flat organisation structure. In particular this was evident in the context of frequent face-to-face interactions among the management team, and other staff, which resulted in a diverse and broad decision-making approach in terms of more effective capture of information across all facets of the business. In this regard a manager commented:

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

HF did not have a formal or clearly defined organisation structure. As a senior manager commented: *"Have you noticed that there is no hierarchy at Hubbard's?"* (senior manager 3). There was no documentation that detailed a hierarchy, such as an organisation chart or formal job descriptions, specifying the roles and relationships among various staff. The document most similar to an organisation chart was the phone directory. But even this did not reflect a formal structure, in that it was alphabetically ordered by first name and not by company seniority.

The lack of formal documentation describing the roles of various positions created the impression of a flat and informal organisation structure. Aspects such as the phone directory listed according to first name illustrate the informality of both structure and relationships between staff. In relation to the lack of emphasis on formal structures, various respondents spoke about the management of HF being strongly team-based, with a strong 'team culture' approach to the way decisions were made. In this sense staff and management interacted freely and there were no demarcations based on rank, seniority or function, such as accounting. In relation to the lack of formal structure, a manager commented:

I think that one of the biggest positives is that we're a very flat management team and we're a very flat staff to management structure.

Hierarchy doesn't really come into it here. [The CEO] is out there in the factory every day just about and I'm out there in my gears mixing if I have to... It's many hands I think and many eyes. (manager 2)

In this respect management accounting is an *integrative*, rather than a *distinct*, part of the flat HF management structure. The accountant was actively involved in non-accounting areas, such as production, rather than solely accounting matters. In a similar context, various other staff had involvement in accounting matters. For example, the product and development manager was partly responsible for developing product costs.

Implicit indicators of job rank and position, such as a large office size (apart from the CEO's office) or reserved car parking, were not evident. Apart from the separation based on dress between factory and office workers (i.e., overalls versus smart-casual), there were no obvious clues of status or position. Reporting relationships also reflected a non-hierarchical approach:

Everyone probably thinks they report to [the CEO], because he's the boss. But actually in some areas you report to [senior manager 3] and some areas you report to [senior manager 4] and others report to [The CEO]. (manager 1)

The office layout at HF was very open, with few separate offices. In terms of the layout, the accountant commented: *"There are no physical out of bounds areas anywhere in the company. Anybody can go anywhere and talk to anybody"*. For example, the accountant sat at one end of a long open plan office area with only a short wall separating him from the clerical staff, which made for ease of accessibility. In the opposite corner to the accountant and not partitioned off was a desk used by the marketing manager. However, when she was in the office the desk seemed to be mainly used to place papers and personal belongings

because, rather than 'working' at her desk, she was busy meeting and talking with other staff.

5.2.5 Rapid Response

The process of strategy implementation at HF is fluid and generally extremely fast, with new strategies potentially implemented within days or even less. Once the management team (and the NPD meeting members) have collectively agreed on a (new) strategy then action will very quickly follow. The informal approach to strategy implementation helps to facilitate rapid change and modification of company direction. This predicated a management accounting approach that is very informal, with a high degree of reliance placed on verbal communication of information and management interaction. Rapid responsiveness, in turn, reinforces the informality and helps to drive what is effectively a 'virtuous circle'. During a non-taped conversation a senior manager spoke about how outsiders often speculated that HF had been successful because of highly effective formal organisational control systems. The senior manager laughed in reaction to this view and said that the outsiders were wrong. He said that the success of HF resulted from staff, particularly at management level, being proactive and innovative, taking ownership of decisions, and responding rapidly and effectively to market and external pressure. In this regard, there are no formal reports to be written, committee approvals to be obtained or other administrative procedures to be complied with. A manager described how this worked:

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

We're quick off the mark and we get things done and get it out there.
(manager 2)

Such an approach means that strong reliance on traditional management accounting reports and information would be difficult. By the time such information was available the imperative for making a decision may have passed. Hence the use of conventional management accounting information by managers is relatively low. Relevant information is either produced by individual managers on their own informal systems or by the accountant on an ad-hoc basis, and is generally communicated verbally.

Historically, the CEO has highlighted the ability to change direction rapidly as a core strength of HF. The following comments made by the CEO in 1995 still reflected what was observed at HF in 2001:

It's important to have the ability to move fast, to change direction quickly and to take short cuts; to dance on your toes. Managers need to be able to move in, organise, without over analysis, and to make instant decisions. This ability has given us an edge over more formalised companies with boards and slow internal communication. Sometimes we end up with the practice or 'ready, fire, aim', rather than 'ready, aim, fire' (Light, 1995).

Rapid and constant change was very evident when observing operations at HF and at times some parts of the business appeared almost chaotic. For example, production plans were determined each Friday for the following week. However, as the week progressed the cumulative production outputs tended to only have a vague relationship with the initial plan due to unscheduled changes in production resulting from new orders and, in particular, product trials and testing. A senior manager commented: *"Things go on trial day-in-and-day-out, you know forever [and] every time you run a trial in that extruder it basically takes out an eight-hour shift"* (senior manager 4). While this was seen as disruptive, and costly in terms

of lost production, the constant and frequent testing of new equipment and products was recognised by staff as an important strength of HF. In this context a board member commented:

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

5.2.6 Naturalisation of Strategy

Strategy implementation is so well integrated within ongoing operations at HF that it appears to have become a natural part of the continuing business. In part this is facilitated by a lack of written memos and formal meetings and the strong reliance placed on informal verbal communications. This also encompasses the role of management accounting. The accountant is involved with all facets of the business and provides information to other managers informally and as required. Information about new or revised products, new market opportunities, plant expansion and machinery purchases are verbally communicated to staff. This then becomes a regular part of staff interaction and conversation and effectively permeates throughout the organisation. A manager who had only been employed at HF a few weeks, spoke about what she had picked up informally about long-term plans and strategies.

I believe that they are changing a little bit of their market, from niche market[s] to bringing on board a bit of mainstream. Once again this is highly confidential because it hasn't been launched yet. But they are changing their direction a little bit. They're looking to grow. I was advised that they hope to be about [xx] million in five years, which is huge growth. That's just from talking with people from around the place. Hubbard's has grown rapidly in the past two or three years as well I gather. (manager 3)

There also appeared to be a perception factor influencing explicit awareness of strategic plans and goals. Some staff were more directly aware of company direction and goals, whereas other staff were less conscious of strategic aspects as distinct from ongoing operations and expressed uncertainty about company direction. As one office staff member commented: *"I don't even know where Hubbards wants to go – no one's ever really said"* (office staff 3). But speaking further with the same respondent revealed that information about company direction and strategies was picked up informally. In this context she proceeded to talk about a casual conversation with a manager, which included discussion about strategies and plans:

By asking [manager 1] in development about the 'Good as Gold' [cereal]. I think they're trying to aim at the more 'boring' food, even though I don't find it a boring food at all – more of the middle road. Probably like Sanitarium and cornflakes and things like that. (office staff 3)

This illustrates how some staff did not necessarily perceive the strategic focus of various tasks they were involved with. This is because the processes of strategy implementation and formulation are imbedded within the daily operations of HF rather than being viewed as separate and stand-alone. A senior manager illustrated this point:

Anyone and everyone feels they can stick their head up and go, "why are you doing that?" I mean we even get stuff from the accounts department because sometimes we just chuck stuff out in the kitchen and say, "what do you think?" Then we launch something else and then we get, "who said you could launch that? It looks different". I mean everyone feels they can have a go. (senior manager 4)

Conversely, various other staff seemed more certain in relation to awareness of strategic plans and long-term goals for HF. They would speak about such information being communicated and discussed at KFC lunch meetings and impacting on factory operations (e.g., new ovens).

5.3 Summary

This chapter has presented the case findings in relation to strategy formulation and strategy implementation. The organisational control processes relating to these two areas are largely informal, which also encompasses the nature and role of management accounting. Underlying strategy formulation and implementation is a clear strategic planning process, which involves developing long-term strategic goals. At HF these are described as 'endpoints' and are formally developed as part of the strategic planning process. In this context the board uses formal management accounting information to control and monitor performance against endpoint goals. The achievement of the endpoint goals is considered a pathway that is highly flexible, depending on changing and varying external environmental factors. This in particular relates to the formulation of strategies to achieve the endpoint goals and is undertaken by management, including the accountant, who have a high level of discretion in this regard.

Factors influencing the formulation of strategies include extensive use of informally collected external management accounting information. This is accomplished via the interaction of managers with many parties external to HF. The accountant and accounting information are integral parts of this process of strategy formulation. Various aspects of the company culture significantly underpin strategy formulation. For example, HF is considered by senior management to be a caring and responsive organisation. This is reflected in senior management having an open door management style, and by their active support and encouragement of staff to use initiative and discretion, and to take risks. Other factors influencing strategy formulation include a high degree of staff

interaction, which is highly casual and informal, and the lack of emphasis on formal or conventional management accounting systems. To some degree this probably also reflects the relatively small size of HF. The organisational control structure at HF is very loose and non-hierarchical, which facilitates broad staff involvement in strategy formulation, rather than this being solely the responsibility of particular managers.

Strategy implementation, like formulation, is also strongly informal. Information about how and when various strategies will be implemented is largely communicated verbally. This includes associated accounting information. While there are few formal organisational control processes relating to the implementation of strategy, its core basis is the NPD meeting, which provides a semi-formal anchor to the translation of strategy into the daily business. The NPD comprises a small group of management, including the accountant, and is an important link between strategy and operations. Another meeting that underpins strategy implementation is the KFC meeting. This is aimed in the main at lower level staff and is used to communicate information about near-term strategy implementation. Various other factors support strategy implementation at HF. These include the non-hierarchical structure, which results in strategy implementation being considered as everyone's responsibility and enables issues related to strategy to permeate all organisation levels. This reinforces how management accounting has an integrative, rather than a stand-alone or purely financial, role at HF. The focus within HF is rapid strategy implementation. In this sense strategy is used to drive and direct operations and not vice versa. Decisions are often made before operational capability is clear.

Overall, the various organisational control processes relating to both strategy formulation and implementation result in these issues, including management accounting-related aspects, being seen by staff as a regular and natural part of the continuing business. However, this is accomplished in a manner that gives no obvious or particular emphasis to strategy. Rather, the various aspects examined

in this chapter are perceived as a normal part of the daily business and are not labelled as 'strategic'.

Chapter Six

Case Findings – Feedback Control and Fastforward Change

This chapter is a continuation of Chapter Five and presents the findings from the research site relating to feedback control and fastforward change. Feedback control encompasses the operation and design of traditional management accounting systems. As with Chapter Five, the underlying context guiding the data collection process was the nature and role of management accounting within the broader framework of organisational control and strategic navigation. In this sense, issues relating to management accounting, organisational control and strategic navigation were examined concurrently. The structure of this chapter reflects the various patterns and themes identified in the data.

In relation to feedback control and fastforward change, six themes emerged. These are:

- The role and influence of the board;
- Management accounting reports – profitability and KPI's.
- Management reporting systems;
- Operational feedback;
- Triple bottom line reporting;
- Clipboard newsletter.

Of these themes, management reporting systems and the Clipboard newsletter reflect the operation of a fastforward change element. The other four themes primarily reflect a feedback control thrust.

6.1 The Role and Influence of the Board

The internal reporting system is primarily designed to satisfy the needs of the board and senior managers, rather than lower level managers and other operating personnel. The accountant spoke about the type of information provided to the board:

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

Even though there was a growing focus on various KPI's, the board considered the internal reporting system at HF deficient. This is because it lacked coherent structure, was ad-hoc in design and in need of improvement and development. As a result, various board decisions were being made using only limited or partial formal performance-monitoring information. A board member, an accountant, commented on this:

My perception, from where I have come from, is that a real tough commercial evaluation of the business is low... I think the information that I have seen in the form in which it's been provided, is really an indication of the internal reporting systems being quite poor... they just haven't got the commercial tightness. (board member 2)

The board was planning, however, to oversee the installation of improved reporting systems that would enable individual product and customer profitability levels to be more effectively monitored and understood, and in turn linked to the accomplishment of long-term goals and strategies. Improvements to systems used to monitor business performance were also linked with a need for better

information technology (IT) and enterprise resource planning (ERP) systems. The CEO mentioned the need for change in this area:

We're fairly light on the IT side at the moment. One advantage of a good IT system is it will give you a lot more reports. So we're just setting up some structures now that are sort of semi-manual, and they'll give us a better idea of how to set up the appropriate IT structure. I think that later on this year and early next year, we'll be putting in a total new IT system, including some manufacturing software that will give us control over our factory, our sales, all sorts.

Guiding interpretation of the internal reports is the strategic plan, which is considered an integral aspect of the reporting framework. In this regard a board member commented:

Now as we go through our [board] meetings those [strategic] points come forward ... in the minutes and into the discussion. I have no doubt in my mind that the strategy is well and truly alive in reporting terms monthly.
(board member 1)

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

You've got to look at this general map to see that we are moving in the right direction. And it's the general direction that the board is looking at – are we getting there? But then the street map of how to get there, on the operations side, shows us: how well we're controlling the budgets; how

well we're training our people; how well we're monitoring our efficiencies; productivity; manning levels; output etc. (senior manager 3)

6.2 Management Accounting Reports – Profitability and KPI's

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

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

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

The two measurements that are used at every board meeting are, first of all, did we get the turnover – where did we get the turnover – and did we get the gross margin? And then we'll look at the bottom line. That tends to be the pattern of analysis. We have set a certain turnover figure for this

year, for the next year, for the following year – a growth factor (senior manager 3).

On the subject of accounting measurement, respondents spoke about the growing concentration at board level on the KPI's. In this regard a senior manager remarked:

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

As the business grows and changes, what are considered appropriate KPI's are added. In this sense the KPI report is driven by requests from board members. However, the overall thrust of this approach is relatively ad-hoc and uncoordinated in terms of the links back to strategies and long-term plans. The accountant described how this worked:

Looking at operations, for example, we said we were going to spend the money and put in machines. So the board knows which of the machines have been ordered and what the timelines are for them to arrive. Once they are commissioned the board is asking to see the savings and to see the payback. Hence there's going to be some data capture and some numbers crunched to show that they are paying for themselves. (senior manager 2)

Other respondents seemed less certain about the usefulness of the evolving KPI report. The board member with an accounting and CEO background commented:

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

Existing management accounting reports were considered to be particularly weak in areas such as the tracking of plant operating costs and their associated impact on margins. Also, the reports do not appear effective in relation to feedback on particular strategies. For example, during non-taped conversations management level respondents expressed only limited awareness of earnings streams in particular product and/or customer areas, which implied that linkages between segment and/or product profitability and particular strategies and long-term plans were unclear. The ability to 'drill-down' below aggregate sales and profitability figures was limited. This is an important area for improvement in the view of the board, in terms of structuring management accounting information into more detailed categories and the installation of improved IT and ERP systems. Some respondents expressed concern about the lack of segmented information, in relation to different product types and market groups. A senior manager commented:

There are huge opportunities to identify where profitability is coming from. That's a problem with the whole financial system in that we can't say for example that mueslis go better than extrusions, which go better than flakes. And we can't then divide that into chains and look at a chain. Say, for example, New World [supermarket] might be much better in flakes in terms of a contribution margin than say what Woolworths [supermarket] does, that sort of thing. That's where we need to go and that's a lot of [board member 2's] focus and contribution for our board meetings and the structures we need to develop. (senior manager 4)

It was notable that the KPI report did not capture externally orientated measures, designed, for example, to provide information in relation to areas such as competitors and market changes. Rather, this type of management accounting information is informally collected and communicated to managers and other relevant operating staff. Discussion relating to such information forms a core part of staff interactions and is an important component of the regular weekly NPD meeting. Some managers even maintain their own systems relating to the collation of this information: *"I've set up my own informal systems using Excel and things like that"* (senior manager 4). HF is very reliant on board members and senior managers interacting with people outside the organisation and then feeding the information acquired back into HF via board meetings and various other staff interactions. This illustrates how there is a strong informal dimension to the management accounting system. Further, there is a much stronger emphasis on management accounting information, rather than the actual accounting function. In this sense managers may not even perceive information they receive as 'management accounting' related. The focus is on information in the context of the experience or 'collective knowledge' of the external board members and senior managers. A board member described this:

A lot of experience. With [board member 2] and myself in food, as well as [senior manager 1] and [senior manager 3], who has worked for companies such as, not Griffins, but a major snack food company. [senior manager 4] who works for another major food company, [name deleted], or has done and has also been in food. So collectively there's a lot of knowledge and input there. (board member 1)

There is a drive, though, towards supplementing this informal information with more hard data and formal measures, but at the same time maintaining flexibility in relation to how such data are interpreted and used. A board member spoke about improving the formal management accounting system:

Any systems that are taken on board must be for improved information flow and improved, if you like, control. But not a rigid structure which says: "you can't do this or you can't do that". (board member 1)

6.3 Management Reporting Systems

Diverse views were expressed by respondents in relation to the type of management accounting information used and/or needed by operating managers and supervisory staff. Some argued that a greater level of formal information was needed, whereas others said that the existing, largely informal, approaches allowed for better flexibility and responsiveness. In this respect existing approaches reflect the operation of a fastforward change element, which is a key component of strategic navigation. Senior managers had a dual perspective, in that they were interested in management accounting information from the viewpoint of both the board and as operating managers.

After speaking with various managers and observing daily operations it was evident that only limited management accounting information was provided to managers via formal reports. In this regard one manager commented:

I see the sales report but it's not printed off for me. It's not printed off and chucked on my desk – it's up to me to go and find it and have a look, which is fine really. There's no point just generating a report that no one looks at. We don't have a lot of reports and the only meeting minutes are those from the NPD – and that's only because there's so much going on – otherwise we don't have meeting minutes either. (manager 2)

The approach to management accounting at the 'middle' management level is fluid and informal. Managers appeared to collect, assimilate and process information about the business via their detailed knowledge of operations, and through constant interaction with other managers and organisational members,

rather than by the use of formal reports. Observations at the HF site revealed flexible and rapid information flows in relation to the management of daily operations. Various managers and supervisory personnel were frequently seen away from their desks, either interacting with other staff or involving themselves directly in some aspect of operations (e.g., product testing). In general these staff were seldom seen at their formal workstations. It appeared that through various informal 'interaction processes', managers and a number of other staff were able to glean intimate knowledge about events happening within, or in relation to, various areas of the business. This included the factory, warehouse, various other operating areas, market demands and other external pressures, and their cumulative impact on, and relevance to, HF. The flexible and rapid nature of these processes reflects the idea of fastforward change. This indicates how high reliance is placed on the ability of individual managers to assimilate management accounting information rapidly from a diverse set of informal sources, rather than relying on a formal and systematic reporting framework. A senior manager described how this worked:

We can actually walk around the company, and we do, and we know if our people are working to the efficiency set by our standards. We know if materials are there, we know if we're overstocked or understocked. We know if our sales are high or low, we know if our production is high or low and can see the bottlenecks. And so we don't depend on reports. I know before a report is handed to me on packing levels whether we've had a good or bad day. So that means that the emphasis on reports has never been there to drive the company. (senior manager 3)

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

You've got to look at also, the positiveness that comes in with customer input. People phoning up and praising your products or service, or you might hear from a supplier how well somebody looked after them in the organisation. And so you can see I suppose the morale, and you can see whether the wheels are well oiled or not. (senior manager 3)

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

I always had a stack of reports but no one had the time to look at them or maybe it's an effort to look at them. The variance was happening month after month after month and no one really looked at it, or maybe the account or actual report wasn't correct? (manager 2)

But some respondents expressed frustration about the lack of reports and formal control systems at HF and how a high level of reliance was placed on information communicated and assimilated informally. One manager gave an example: "There're a lot of manual steps involved in getting out a report of what to purchase, but there's nothing to compare stocks on hand. You've got to go and physically count. So I think systems are needed" (manager 3). The costing system, arguably a core source of management accounting information, was in urgent need of an upgrade. This was predominantly in relation to labour and overhead allocations, as one manager explained:

Compared to what I would have done at [company name deleted], it doesn't have a lot of overheads, etcetera in it. We would have a lot more marketing costs added as well, like promotions and such like. In regard to

labour calculations, for example, it should be different. From what I can see I'd say it should be different for each product, but it's not. (manager 1)

Other factors that appeared to have influenced the development of an informal management accounting approach at HF are its limited size and the strong desire of the owner and senior staff to continue to grow the business even if well developed formal organisational controls were not in place. A senior manager commented:

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

The impact of rapid growth at HF has hindered the design and implementation of more formal management accounting reports and systems. The focus, historically, has been on generating aggregate sales, cash flow and business growth, with seemingly little time devoted to understanding the detail of the underlying organisational performance dynamics. However, as the business continues to expand, this view seems to be changing, with respondents talking about the importance of understanding the business better via improved management accounting measures and reports. A manager commented on this: *"It'll be a learning process. Once you understand things, then you understand the measures that you need to continually monitor and continue to improve"* (senior manager 4).

6.4 Operational Feedback

Information on business performance is conveyed to staff generally using a mixture of formal reports and informal verbal communication. Various

management accounting reports, which provide feedback on factory and warehouse performance, are produced and correlated semi-manually using Excel spreadsheet models. These are then posted on notice boards in the production supervisors' office. Single A4 sheets of paper were displayed with headings such as "*Waste Costs in Dollars \$\$\$*" and "*Overtime Hours*", which were categorised according to factory, warehouse, engineer and supervision. Another A4 sheet of paper was headed "*Store Costs*" and had "*Well done!!*" at the bottom, which appeared to be in reference to a fall in monthly unit costs from \$0.44 to \$0.32 per carton. Some of this information is also collated for use in the board of directors' KPI report.

The factory and warehouse reports were discussed further at regular meetings with supervisors and deputy supervisors. A senior manager described this:

It gets addressed at deputy [supervisor] and supervisor meetings, every two weeks, where we discuss each item in great detail, informally. I don't have a management meeting as such... I believe that if you're going to involve people in participating in that strategy, you've got to tell them what the goals are. But you also have to give them feedback as to how the company performs. So what I do is, right up to deputy supervisor level, I give them financial information. They know how much we've spent on breakdowns, on factory expenses, on labour, on waste removal, on cleaning materials, everything. But I also give them information on how much we've spent on the administrative side, how much on marketing and sales side, and freight and all that sort of thing. So they can see that their costs are part of the whole cost and they can see the bottom line. (senior manager 3)

Supervisors then used this information to help improve the performance of their individual operating areas.

6.4.1 Communications Meetings

In terms of providing information to lower level staff, what are described as 'communications meetings' are held on a semi-regular basis. These differ from KFC meetings in that they are more interactive and focused specifically on factory, warehouse and administration-related matters and feedback. An office staff member contrasted the two meetings:

In a KFC meeting it's bigger and less people want to say things because there's more people around the table. I think the more people there are the more timid people get. Whereas with the communications meeting there was only [senior manager 3] and four office staff. It was quite good as you could get your word in and ask questions and all without feeling intimidated. (office staff 3)

The opportunity arose to sit in on and observe a communications meeting, which was held with a group of factory and warehouse staff in the CEO's office. Before the meeting had commenced, and while people were still arriving, a number of staff were spoken with informally and asked for their opinions and views on communications meetings. All responded positively and said the meetings provided a good opportunity to raise issues and interact with management. They said problems and suggestions raised by staff at the meetings were taken seriously and generally acted on by management.

The meeting commenced and was chaired by senior manager 3 with assistance from a production supervisor. It lasted approximately one hour, with active involvement from many of the ten factory staff present (which was in contrast to the largely one-way communication flow at a KFC meeting attended). Various operational matters were discussed, such as, for example, staff gradings and associated hourly wage rates and how this related to actual work responsibilities. Another issue was the possible installation of some kind of canopy weather covering between the factory and warehouse area. A factory staff member

pointed out that walking between the factory and warehouse could be unpleasant during bad weather, especially in winter. Senior manager 3 spoke about a major piece of new equipment going 'live' in a few days time and the need for staff to learn how to operate this. The issue of high absenteeism levels was raised and the work disruption this caused in the factory and warehouse, and the resulting negative impact on cost levels. This is because overtime is paid if factory or warehouse staff need to be called back to work extra shifts due to the absenteeism of other staff. Senior manager 3 said that absenteeism was very high, running at about 6% per person, or 15 days per year. He said the target level was 3% or 5-6 days per year per person

Some staff members still expressed limited knowledge about the ongoing performance of HF, even though semi-regular communication meetings are held. One office staff member commented:

it's not really a negative thing – but it'd be good to know how Hubbard's is actually doing in the marketplace. You hear that Hubbard's is innovative and is really good to staff, and the profit share, but it'd be nice if they said this is where we are in the market and this is where our competition is, and isn't it great that a multi-million dollar company, we're keeping up there with them, or something like that – something that's encouraging and knowing where we are... it would be nice to see where we are, the position in the market, how the efforts of everybody – the whole team – are going.
(office staff 2)

This view perhaps reflects a focus within HF on providing management accounting information to staff at supervisory levels or higher, rather than to those at lower levels. The accountant explained this distinction:

The factory staff on the floor are not interested. I know that some people say they are interested but the way I see it is that they're just interested in

coming here to work... They're only here to work to earn money. Supervisors and deputy supervisors are starting to understand a whole lot more about various issues such as cost per carton and the number of cartons that we've produced during a week. Real things that they can relate to and compare from one week to the next.

6.4.2 Factory and Warehouse Performance

There was tension evident concerning a perceived lack of accountability in the factory and warehouse area, in terms of its operating performance, and how this was considered by some respondents to be hindering company profitability. This was compounded by operational limitations in terms of matching continuing output growth to plant and equipment capacity, and weaknesses in the existing management accounting system. Various respondents made reference to the mix of plant and equipment that was in many cases old and prone to breakdowns, a lack of staff training, and production scheduling pressures arising from constant product testing and trials. A senior manager commented on the role of the KPI report in relation to the factory and warehouse areas:

Certainly at factory level there is a hell of a lot more focus. The KPI's in terms of wastage, wages, overtime and hours worked – it used to be a very broad brush focus. That's now being driven down much further. A lot more heat is being placed on that area... Cashflow was always very good until an extrusion machine was installed three years ago I suppose. I don't think anybody realised just how big a machine this was in terms of what effect it was going to have on factory operations. It was easily the biggest investment the company had made, in pure dollar terms. And the learning curve to make it operate, it took a lot longer and quite a bit of experimentation to make it work. (senior manager 4)

These pressures were having a negative effect on the morale of some staff, supervisors and deputy supervisors in particular. During a non-taped interview a

supervisor (supervisor 2) spoke at some length about job pressures and problems that he said had arisen, or had become more pronounced, as a result of the growing emphasis on formal management accounting reports and information within the factory and warehouse. He described an increasing focus on the measurement and tracking of factors such as cost per carton, waste costs and overtime hours and costs, and said that monitoring these factors was becoming a more time-consuming and stressful part of his job. For example, supervisor 2 described how each Friday morning the factory and warehouse supervisors held a meeting to formulate a production plan for the forthcoming week. He said, however, that as the week progressed, invariably they would be asked to schedule in various product trials and testing or to produce product to fill additional orders, which he found frustrating because it disrupted the production plan, and could therefore result in customer-related complaints (e.g., late delivery) and contributed to the pressure in relation to the cost factors he had described. Supervisor 2 also talked about problems with various pieces of equipment, which he said were prone to breakdown and/or could create major disruption if they were out of action. Again, he described how these aspects could then negatively impact on costs and increase the pressure on him to achieve lower, or at least stable, cost per carton figures, for example.

Waste is a significant cost and also forms part of the board of directors' KPI report. Supervisor 2 spoke about the increasing emphasis on minimising and/or eliminating waste and said that actual waste was not always accurately recorded. He gave an example of how the records had indicated that two tonnes of waste was on hand, but when the 'pig man' came to collect the waste three tonnes was loaded on to his truck (its weight limit), and that large bins of waste were still remaining. Hence actual waste levels were obviously higher than what was documented, which was not being captured by the management accounting system. Supervisor 2 attributed the disparity between actual and documented levels to the manual systems used to record production yields, which he said enabled factory staff to under-record actual losses arising from a process. In this

context he talked about data capture errors in the factory, in that staff would record incorrect production yields so as to enhance productivity. He said that there needed to be big improvements in control systems and documentation within the factory and warehouse.

Supervisor 2 spoke at length about the change-over period between shifts in the factory, which he said had a significant negative impact on costs. He described the half-hour overlap period between each of the three eight-hour shifts in the factory that resulted in two groups of workers on different shifts being paid for an extra 30 minutes each day (the plant generally operates 24 hours per day seven days per week, excluding certain public holidays). He expressed frustration that this time was unproductive and argued that it should be possible to accomplish the change-over more efficiently. He said the time is set aside so that staff can sweep the floors and ensure that work areas are tidy before the next shift starts. But he said that people simply made a habit of looking busy during this time because they didn't want to lose the associated income. Hence, these factors are creating tension, as a greater focus is placed on developing more detailed and informative control information in relation to the factory and warehouse.

Factory and warehouse staff below supervisory level expressed concern about their future job security. They were aware of the growing emphasis on cost control and minimisation in the factory and had observed a move towards more automated and less labour-intensive equipment. Existing operations were often highly labour-intensive. For example, a factory worker was seen to be individually sealing with tape each 750 gram packet of porridge coming off a packing line. Another worker was placing cereal packets into cardboard liners and then into a sealing machine, as they came off a packing machine. Factory and warehouse staff were unsure how any changes in the factory and warehouse would ultimately impact on their jobs. However, a number also said that HF was generally a good employer and they considered forums such as KFC lunches and communications meetings as evidence of management being concerned for the

well-being of factory and warehouse staff, and expressed a degree of certainty that their longer-term employment at HF would remain secure. In their view increasing sales volumes would mitigate any potential negative impact on staffing levels arising from the installation of more modern plant and equipment that was less labour-intensive and costly to operate.

6.5 Triple Bottom Line Performance

Various respondents spoke about business success at HF being more than just the achievement of a satisfactory profit result. This reflected HF's strategic plan, which emphasised social and environmental dimensions, along with financial performance. A senior manager described how overall business performance was assessed:

Using a triple bottom line approach that we're working through now, looking at the quality of the profit as well as the quantity, and looking at the overall performance in a wider sphere. I'm very hot on the idea that you don't just measure performance of the company in terms of just financial results. We'll be looking at the financial, social, and environmental side of things. (senior manager 1)

The emphasis on a broader performance perspective was not at the expense of more traditional financial measures. Management and the board explicitly highlighted the importance of continuing to achieve satisfactory levels of profitability. As one senior manager said:

It's socially irresponsible to run the company at a loss. So financial performance is important. You can't denigrate it or knock it out of the ring. You've just got to realise it's not the sole determinant of the success of the company. (senior manager 1)

While socially-orientated dimensions were a core component of HF's strategic plan and ongoing business brand and image, they were not internalised in relation to the KPI report. This is because the focus on the triple bottom line is aimed externally, helping to project the image and brand of HF, rather than being used as a formal control tool. A manager (manager 4), during a non-taped conversation, spoke about this. He said that HF projected a particular social responsibility image to the outside world, which differed from the reality of measurement and organisational control within the organisation. One reason for this divergence relates to uncertainty concerning how these aspects should be measured and reported within a management accounting system. The accountant spoke about this:

Social performance is a whole lot harder to measure and can only be measured against some idea of community expectations. Then there's the environmental side of things. It's not an area that we have a huge impact on. We're doing what we see as being good things, or trying to. Again, no formal measurement of that. But we're trying to minimise what goes into solid waste or we're putting some of our money into various environmental projects. We've just had a look at our carbon outputs. I'm not too sure where that one's going to end up.

Therefore the focus on triple bottom line dimensions is largely informal or anecdotal. A board member described how some of these non-financial aspects were monitored:

If I told the board or [the CEO] that we have exceeded budgeted expectations on every facet, but now we've got a huge dissatisfied work force, it would not be a happy situation... Those are not reported, those are not physical reports. They can't be measured, except by say talking to people, getting their individual reactions, sensing the atmosphere in there. And it could be as small as whether people smile at you or whether they

avoid you. You can sense that feeling of, you know, people are happy. You can judge it by the laughter in the canteen, or a sombre environment (senior manager 3).

Board member 2, an accountant, emphasised the importance of developing the triple bottom line and social responsibility approaches so that they could be better integrated with the management and control of operations. He questioned whether the importance of social responsibility related issues, in terms of the strategic position and future of HF, was adequately captured or understood in relation to the design of existing management accounting systems:

Market capabilities are extremely strong and you can assign them to him actually – Dick Hubbard. But I'm not sure yet if the whole business has been assigned to 'Dick'. I'm talking about, say, if you're socially responsible what do you do about the factory? Dick has got wonderful personal qualities. So if you're going to represent yourself in the market, in a position I think he does really well, and build a 'franchise' for it, then let's go across and see what are we doing with all our products. How do we market our brand? Not Dick Hubbard, but the brand. Is it in line with Dick Hubbard? (board member 2)

6.6 Clipboard Newsletter

An important control tool, used to monitor performance and shape future company direction at HF, is analysis of customer, market and other feedback received in response to content appearing in the Clipboard Newsletter. Clipboard is a small (approx 15cm x 21cm) printed newsletter, usually about four pages in length, which is placed inside every packet of cereal sent out from HF. A new Clipboard is produced approximately every six to eight weeks. On the first and last pages it will generally have a message written by the CEO, while the body of the newsletter will contain, for example, various items such as information

snippets (e.g., 'The power of chocolate'), quotations of famous people and contributions from customers, including poems and various stories about their life experiences.

Clipboard started as an experimental 'fact and information sheet' type newsletter, rather than as a planned or systematic control tool for gathering and understanding customer and market feedback. The CEO spoke about the reasons for creating Clipboard:

It just seemed like a good idea at the time, like a lot of things. I saw that someone was doing something in America, but a little bit different. I thought, well it's part of the personalised approach, I'll go and do it. Just something that we do that the opposition don't do. If everyone yawns after two or three editions, then we'll quietly sort of discontinue it. So we didn't make a splash about it. When I look back now, the first ones are sort of very wooden and stiff and starchy and didn't say a hang of a lot. I guess for the first three to four years we didn't attach a great deal of importance to Clipboard. I spent about an hour writing them out every couple of months and popping them in the [cereal] boxes. They were very factual and stuck to recipe information, nutrition information and what-have-you. It was about 1994-1995 when I started putting in a bit of opinion – doing a bit of an editorial type of thing and starting to express some of the values and some of the beliefs. That's when the responses started to come back. I realised then that I was tapping into something that was quite a bit more powerful than I had originally envisaged... Once I started personalising it and putting opinion in, values in, what we stood for and what our beliefs were, that's when it really started to fire it up.

Clipboard is a tool used by the CEO to communicate with customers and, based on the feedback received, help formulate and refine ideas about company direction and strategy. According to the CEO: *"It's saying that you can have a*

relationship with a customer even though you have never met them". Only the CEO writes Clipboard: "I've had lots of offers to ghost write it over the years. A lot of material comes in from people and I sift it through. But it's hugely important that it goes out under my signature".

The board and senior management consider it important that only the CEO writes Clipboard because this has enabled a strong and personalised link to be established with customers and stakeholders. In this sense it acts as a novel and innovative management accounting approach and reflects the idea of fastforward change. A senior manager spoke about this:

It is what keeps current users in tune with what the company is doing and all that. It just keeps that profile out there for [the CEO] and enables us to push in different areas and bits and pieces. That's what drives us – the personality, the brand and the packaging. But what the Clipboard has done is underpin in words so that everyone feels they have a common understanding of what the brand means. (senior manager 4)

Clipboard is used to both communicate with customers and engender response and comment, which in turn is fed back into company thinking. In this sense the response and comment acts as a useful source of fastforward change information, and is an important influence on the strategic direction of HF. The CEO described this:

It taps into a lot. I find it very instrumental in helping develop my thinking. I'm taking say 200 or 300 letters and sort of summing up the general theme and tone and tenor. It vindicates what we're doing and what we stand for. Yes, it's hugely important. Its actually got me tapping into a lot of very good 'feelers' for what's happening out in the market place.

The CEO responds to all Clipboard feedback received. Various managers are also provided with copies of feedback that suggests changes, problems, likes and dislikes about products. Changes could then be made in response to this information. A staff member responsible for sorting the CEO's mail described this:

The product development manager and the marketing manager always receive anything I feel is relevant. Customers feel they know [the CEO] and they will write to him and say: "we absolutely loved a particular product, but the packets are too small, our family go through it in two days, will you make a larger packet?". Or it might be: "some packets are too big, will you make smaller ones?", or "will you put more fruit in?" or "we don't like coconut, will you take it out?". Often people will come back from overseas with the outer packaging of a product they bought, and absolutely loved, and they send it into [the CEO] and say: "would you have a go at making it, it's beautiful". Yes, we get a lot of very valuable information and our customers also make wonderful suggestions. (office staff 1)

The relevance and impact of customer-sourced management accounting information was illustrated in a Clipboard that had a few lines of text mentioning how the product *Forever Feijoa* had apparently been lacking in Feijoa flavour. Immediately after the *Forever Feijoa* comment the word "*fixed!*" was written. The CEO indicated that the stimulus for making the change to *Forever Feijoa* came from Clipboard. He explained:

I might have got three or four comments saying the flavour is down a little bit. We had a look at that and decided that there was some substance to it, so you go back. People certainly appreciate the fact when they can see their comments are being taken on board. Obviously some comments we don't take on board and some things people suggest are not right or unworkable. But we try and get that feedback going... You get some quite

good ideas sometimes. We've had some quite good ideas that were incorporated into products or packaging as a result of people writing in from the Clipboard. We've used it for a little bit of market research and gone out with a questionnaire on occasion.

A senior manager spoke about the fluid and informal nature of Clipboard and its future:

It will follow its nose. It changes about every six to eight weeks – the content varies. It's as fluid as the issues it covers. I mean it certainly doesn't have a strategy and it doesn't want a strategy. [The CEO] and I might talk about what the next six months of Clipboards might have in them etcetera. I'll pick out bits and pieces of that, but then maybe [the CEO] will have an absolute flash about something totally different and run that. That's how it's meant to be, it's of [the CEO]. It's not a company strategy; it's of [the CEO]. (senior manager 4)

6.7 Summary

This chapter has examined the case study findings in relation to feedback control and fastforward change. The board has a key role in the monitoring of endpoint goals in the strategic plan and the measures that relate to their achievement. The management accounting reports used by the board are centred on a monthly profit and loss report. This is supplemented with various KPI's which, however, lack a systematic basis for inclusion and appear ad-hoc. Further, the management accounting information provided by the KPI measures is considered inadequate by the board. Hence the board is requesting more extensive information. This also includes a need to redesign and upgrade existing formal systems.

Management accounting systems at the management level are very loose and informal, with only minimal use of structured information. Instead, management at HF places extensive reliance on an informal and interactive control approach, which involves frequent staff contact and close observation of, and involvement in, operations. Such an approach facilitates the flexible pathway at HF. This is because managers are not constrained by formal management accounting reports and information, which could limit responsiveness to changing and dynamic external environmental factors. This fits with the idea of fastforward change, which is a key part of the strategic navigation approach. The limited emphasis on traditional control systems means that managers are able to glean information about external factors rapidly, due to their constant and informal interaction with both other HF management and staff or parties outside of HF. Monitoring of the factory and warehouse areas is a more formal element of the control system, with various measures collated relating to this area. However, this information is relatively broad, and is not considered sufficient by the board in relation to monitoring and understanding factory and warehouse performance. The triple bottom line is considered an important guiding factor in relation to the assessment of overall firm performance. However, this is not an integrated part of current internal reports. The Clipboard newsletter is a tool used to interact, communicate with and generate response from the broader external market place and business environment. In this sense it seems to be a tool that is fastforward change focused.

In general, the formal management accounting focus at HF is limited. While various reports and measures are used for this purpose, predominantly in relation to board level information, these are considered inadequate. Management accounting and control at the management level is largely informal. In this respect fastforward change is accomplished informally. There is no real structure or formal measurement relating to this dimension.

Chapter Seven

Analysis and Discussion

Chapters Five and Six detailed and described the case findings. The purpose of this chapter is to analyse the findings and discuss them in relation to the proposed strategic navigation approach. The chapter is organised as follows: Sections 7.1 and 7.2 provide an analysis of the findings in relation to strategy formulation and strategy implementation. Section 7.3 discusses the findings in terms of the concepts of strategic navigation. Conclusions are contained in Section 7.4 and a summary in Section 7.5.

7.1 Strategy Formulation

Strategy formulation at HF is highly fluid and closely intertwined with strategy implementation. Both of these aspects are grounded in the strategic planning process, which is becoming more formal and structured. The board oversees the strategic planning process, with a particular emphasis the setting of endpoint goals. A key role of the board is to apply discipline and control to the processes associated with strategy formulation and implementation, by formally monitoring the accomplishment of endpoint goals. This is largely accomplished using existing management accounting reports. The transformation of the strategic plan and the endpoint goals into the formulation and implementation of strategies is considered a pathway at HF. The management team, which includes the accountant, is focused specifically on this pathway (i.e., strategy formulation and implementation). This indicates how accounting is directly involved in the formulation of strategy, in terms of both the accountant's role and management accounting information. Superficially, the emphasis within the pathway appears to be strategy implementation rather than formulation. In reality, though, in terms of the continuing business, the distinction between strategy formulation and strategy implementation is blurred.

7.1.1 Organic Approach

The approach to strategy formulation at HF is organic rather than mechanistic. This means that strategy formulation is an uncertain and emergent process (Mintzberg et al., 1976; Mintzberg, 1988; 1994; Farjoun, 2002). While long-term goals and plans are formally developed, there is no real attempt, in a mechanistic sense, to match explicitly environmental circumstances and strategy. The organic approach reinforces the flexible pathway concept. The management accounting and control literature, however, generally focuses on strategy as being mechanistic or deterministic (Langfield-Smith, 1997). This implies that it would likely be difficult to implement more conventional management accounting approaches, such as the balanced scorecard, at HF. The literature indicates that the use of formal controls may limit innovation and long-term performance when strategy formulation is organic or emergent (Mintzberg, 1987; Lorange & Murphy, 1984; Goold & Quinn, 1990; Mintzberg, 1994). A management accounting tool such as the balanced scorecard requires that organisations have relatively well defined strategies, which are then linked to a detailed measurement framework (Kaplan & Norton, 1996). At HF strategies are constantly changing and evolving, and may be difficult to formalise in a manner suitable to apply within a framework such as the balanced scorecard. Arguably, a strongly formalised control approach could stifle the existing fluid nature of strategy formulation at HF.

7.1.2 Interaction with External Parties

In terms of formulating strategies, extensive reliance is placed on feedback information sourced from the external marketplace and broader business environment. However, the type of information collected is neither structured, systematic nor formal. This contrasts with the management accounting and control literature which suggests that organisations should increasingly concentrate on structured and systematic collection and measurement of external data (e.g., Preble, 1992; Kaplan & Norton, 1996; Simons, 2000). The control

information used at HF is collected via the interaction of senior staff with external parties, and not through formal data collection or measurement systems. This process of interaction is a continuous and regular task undertaken by senior management and reveals a key dimension of the interface between management accounting and organisational strategy at HF. In other words, management accounting has a strong informal and integrative role in relation to supporting strategic outcomes. Strategy formulation at HF is embedded and blended with operations, including management accounting, and is not seen as a discrete and segregated strategic or management activity. In relation to management accounting system design, this reflects the ideas of Otley et al. (1995) who suggest that the notion of control in organisations is evolving beyond a narrow focus on conventional management accounting. They see management accounting involvement as an integrated part of an overall organisational control framework. In general, though, the management accounting and control literature does not adequately address the operational blending of accounting and strategy. Similarly, within the strategic navigation approach developed in Chapter Four, strategy formulation is treated as a discrete strategic process, with no explicit linkage to operations.

7.1.3 Trust

A key attribute underpinning strategy formulation at HF is the organisational culture, which is perhaps best illustrated in terms of staff relationships that revolve around the concept of trust. Managers are guided in their strategic decision-making by interaction and communication with senior management, who in turn are guided by the endpoint goals in the strategic plan. In particular, a high degree of trust is placed in the ability of managers to make decisions that are positive for the future of HF. Trust as a construct has received only limited attention in the management accounting and control literature (e.g., Jonsson & Macintosh, 1997; Johansson & Baldvinsdottir, 2001; Tomkins, 2001; Chenhall & Langfield-Smith, 2003; Langfield-Smith & Smith, 2003). Research indicates that (personal) trust is potentially a useful element of organisational control within

organisations operating in a turbulent environment (Chenhall & Langfield-Smith, 2003). At HF trust is reflected in the lack of formal rules, prescriptive procedures or even job descriptions, governing how managers carry out their jobs. These aspects are, in turn, important dimensions of the control approaches at HF. In other words, managers at HF have a high level of freedom and discretion, which is an integral feature of the control system. In this regard, trust is a 'glue' that helps bind together staff interactions and cultivate focused working relationships among senior and lower level managers and other supervisory staff. The high level of trust explains why managers are willing to take calculated risks in pursuit of the organisation's strategic goals. A dominant attitude among management is one of moderate or calculated risk taking, rather than being risk averse or risk neutral. Such an attitude toward risk and mistakes was supported by the culture of trust. Following Pant (2001), the encouragement of employee initiative or resourcefulness, or trust in the context of HF, can be used as a core knowledge source by organisations operating in uncertain and turbulent environments. This provides an extension of traditional management accounting system design ideas, which tend to be largely systematic and formal in their scope.

7.1.4 Spontaneity

Spontaneity is another key attribute underpinning the strategy formulation process. This is aided the lack of emphasis on formal meetings, systems, rules or procedures to guide daily operations. Such an emphasis was not evident in the management accounting and control literature examined in Chapter Three. Spontaneity was further reinforced by a lack of emphasis on job titles or positions, such as 'management accountant'. Consequently, managers viewed their roles as focusing on the entire business, rather than solely on certain key areas, which encouraged frequent discussion about various organisational issues, including those that were management accounting-related. This also reflects how 'ownership' of management accounting knowledge in organisations is becoming more diverse, rather than being concentrated solely within the realm of accounting (Caglio, 2003). This was a key feature at HF and reflected a focus

on management accounting *information*, rather than the accounting *function*. This pervasive nature of management accounting information within HF helped to create spontaneity. In this context the accountant acted largely in an advisory and coordinating role, rather than in a more traditional and narrow control and technical role. This reflects the findings of Scapens & Jazayeri (2003) concerning the evolving function of management accountants in contemporary organisations.

Perhaps the only truly formal meeting at HF is the six weekly board meeting. Rather than meetings, HF relies on active and frequent staff contact, in particular involving senior managers and middle managers, to help formulate and develop ideas. This frequent contact acts as a driver of spontaneity. Bruns and McKinnon (1993) investigated how managers used accounting information and found that: "Informal conversations with staff may actually be the primary channel for much information. Much of the detail necessary to run a company has characteristics that make informal oral transmission more efficient than entering it into a formal system" (p.104). The frequent and informal conversational interaction at HF appeared to have developed as a response to the turbulent external situation it faces. Relying on frequent and spontaneous, and what is often in effect instantaneous, staff interaction enables business decisions and changes to be made and acted on rapidly. This avoids delays that could be associated with more formal and structured management accounting approaches.

7.1.5 Collective Focus

Associated with trust and spontaneity was a strong collective decision-making ethos among the management team, who emphasised the need to form a collective view, or gain consensus, regarding the formulation of strategy. As a consequence, managers did not necessarily perceive the HF management structure as conventional, relative to other organisations. In this respect there was no 'silo' mentality concerning job responsibilities. Individual managers viewed their roles in a team-based context and as collective. This also involved management accounting-related issues, which were considered and addressed

by all managers, rather than solely the accountant. An informal ban on the use of internal memos for staff communication also supported this informal dimension of the control system. Individual managers conversed extensively with other managers and staff as a core business decision-making process. In this sense, it can be seen how strategic decision-making and the operation of the management accounting system rely heavily on face-to-face contact and extensive conversation, which reflects Bruns and McKinnon's (1993) findings concerning how managers use accounting information. This frequently encompassed decisions that appeared, on the surface at least, as routine or mundane.

The collective control thrust at HF is powerful in terms of facilitating creative and rapid strategy formulation. This reflects the ideas of tacit knowledge and a "collective mind" (Anand et al., 2002; Berman et al., 2002; Boiral, 2002). However, this collective characteristic is perhaps under threat. There is uncertainty at HF about how to manage the loose and informal control approach in relation to the board's desire for more formal systems and better measurement of progress toward endpoint goals. However, the board and senior management also acknowledged the critical role of creativity and flair within existing organisational control systems. These attributes of the company culture at HF are powerful influences on the management accounting system, and ultimately the strategies that are devised. This is reflective of Stacey's (1996) idea of harnessing the shadow organisation and using the process of extraordinary management to manage organisational performance. In general, though, HF seems to be struggling to resolve the tension that is arising due to the growing desire for more formal organisational control, which threatens to limit the effectiveness and role of the existing informal and loose approach. Potentially, the influence of greater formal organisational control could limit spontaneity and creativity in relation to strategy formulation (Mintzberg, 1994).

7.2 Strategy Implementation

In contrast to strategy formulation, strategy implementation at HF appears more formal in nature. In particular, this is due to its reliance on the NPD and KFC meetings to operationalise and communicate strategies. However, the underlying thrust of strategy implementation remains relatively loose and informal, with strong emphasis placed on frequent verbal conversations, rather than on documentation or structured meetings. This foundation in an informal control approach enables HF to steer strategy implementation as a flexible pathway. In general, though, it should be noted that strategy formulation and implementation at HF are a continuous and integrated process, rather than consisting of clearly distinctive stages.

7.2.1 Integrated with Operations

HF does not rely on specific announcements to signify the implementation of new, revised or amended strategies. This is because strategy implementation is a natural and integrated component of continuing operations, rather than being seen as a separate management activity. The nature of strategy implementation at HF effectively gives primacy to strategic activities within the context of ongoing and daily operations, which is supported by the informal control system. This indicates how the operational focus at HF is implicitly, but directly, guided by a strategic focus. In other words, operations and strategy are strongly interlinked and integrated. While this integration is generally blurred and fluid, it nevertheless provides a powerful means of enabling strategic issues to guide the daily business directly but also unobtrusively. This reflects arguments put forward by Otley et al. (1995) relating to the design of innovative control systems: "The split between strategic planning, management control and operational control, which was always tendentious, has now become untenable, and a much closer integration between those functions has developed" (p.S40). This also contrasts with the strategic navigation approach proposed in Chapter Four, which tends

implicitly to characterise strategy implementation as distinct and separate from operational activities.

Strategy implementation at HF is embedded within, and seen as, a natural part of the continuing business. The core factor enabling this is the high reliance on control systems that have a strong basis in verbal management interaction, mainly in terms of face-to-face conversations, in order to progress strategy implementation across all levels of the organisation. However, this is not done in a manner that is explicitly 'strategic' in thrust. Rather, it is unobtrusive and the majority of staff seldom view the various issues discussed as strategy-related. This also reflects the idea of distinguishing the management accounting *function* from management accounting *information*, and the key role of the latter. At HF the focus is relevant management accounting information, both informal and formal, rather than the idea of a distinct management accounting function. Such information is viewed as an integrated facet of the overall HF operation. The management accounting focus at HF helps enable strategy to permeate the daily workings of the business and to form part of the regular conversation between staff. This in turn reinforces and further supports a strong and overarching emphasis on strategy implementation within HF. From a broader organisational control perspective, the aspect of how operational staff perceive strategic issues in organisations is not adequately addressed in the control or strategy literature (Farjoun, 2002).

7.2.2 Coordinating Role of Core Meetings – NPD and KFC

An important control process that ensures the success of what is effectively an instinctive focus on strategy implementation is the NPD meeting. This meeting serves as a means of translating endpoint goals into strategies and then providing for these to be translated into operational outcomes. The accountant has an active coordinating role within the NPD meeting. The NPD meeting represents a core process or point of strategy implementation at HF. However, it is difficult to classify the main thrust of the NPD meeting as either strategic (long-

term) or operational (short-term). Both aspects are blended together and therefore have equal emphasis, but always within the context of a suitable strategic pathway to help ensure the realisation of endpoint goals. As a result, neither a short-term nor a long-term focus dominates. Superficially, perhaps, the emphasis is more towards the short-term, but this is only because a primary role of the NPD meeting is translation of strategies into operational outcomes. This also reflects how the management accounting system at HF is integrated within the overall business. This illustrates the broadening scope of management accounting in practice, which historically often had a stronger or more restrictive operational or technical role (Caglio, 2003).

Key attributes of the NPD meetings include an emphasis on conversation and interaction, group decision-making and consensus. All participants view the focus of the regular meetings as collective and no particular interest group or perspective, including accounting, is privileged or dominates. In this sense, NPD meetings are reflective of Quinn's (1996) concept of "extensive discussion", which he proposed as a useful component of strategic control. However, this is an aspect generally overlooked in the management accounting and control literature. Extensive discussion extends beyond Simons's (2000) notion of interactive control, which is more functional-orientated in terms of discussion relating to particular formal control measures, and is therefore not as extensive as Quinn's (1996) idea. The NPD meeting highlights a key role for a semi-formal meeting as part of an overall management accounting approach, with an agenda focused specifically on strategy and its implementation, incorporating a core group of management staff. While the overall strategy implementation approach at HF is strongly informal, the weekly NPD meeting, as a core control process, provides an anchor or reference point for this approach. The NPD meeting is semi-formal in nature because it has a degree of structure and is routine. However, it also supports and reinforces the informal management accounting approach at HF, rather than acting as a hindrance to this innovative control focus. In general, the regular NPD meeting is a core coordinating point for strategy

implementation and acts to support the informality and fluid nature of the strategy formulation and implementation processes across the business.

The other key meeting used to coordinate and manage the implementation of strategy is the KFC meeting. This is aimed at staff at all levels, whereas participants in the NPD meeting comprised only a small group of key management staff. The core purpose of the KFC meeting is to communicate with staff generally about issues relating to the ongoing business in the context of strategy implementation. The thrust of the meeting is largely operational and short-term, in relation to the impact of strategies on near term operations. As a result, its function does not appear explicitly strategic. Instead, strategic issues are implicitly discussed in the context of daily business issues, without any reference to the term 'strategy', which have become a regular but unstated part of the continuing HF operation. In this regard, staff are not necessarily aware of any specific focus within KFC meetings on strategy and its implementation. Instead, they see the KFC meeting as a method of discovering where the business is heading. This enables the KFC meeting to act as a powerful control process used to help shape and direct the company culture towards strategic issues. The result is a focus on strategy implementation, which unobtrusively permeates the entire organisation. Staff see the primary purpose of KFC meetings as operational, and a regular part of the business, rather than strategic.

The KFC meeting functions at the oral level only: there are no accompanying documents or formal presentations or announcements. The meeting operates as a management information-sharing forum for the benefit of staff generally, rather than as an interactive session, as is the case with the NPD meeting. This reflects the variation in the control purpose of each meeting. The NPD meeting aims to develop the actual form of strategy implementation. Whereas the KFC meeting communicates strategy implementation issues to staff, so that they are aware more broadly of company direction and plans. The KFC meeting also operates in a highly casual manner. This is assisted by the meeting being centred on a

collective lunch, provided by the company, for small groups of staff. In general the meetings comprise groups of no more than ten staff.

Arguably, the use of small and informal staff groupings enhances the role of the KFC meeting in relation to strategic decision-making. This is because staff attending perceive that senior management consider the roles of individual staff as important in contributing to the continuing success of HF. In turn, this engenders commitment from staff. If the KFC meeting was run, for example, as a single company-wide meeting and held only when important strategic announcements were to be made, this could moderate the existing unobtrusive cohesion and linkage between strategy, operational aspects and the control system, and perhaps result in staff being less certain about the purpose of such meetings, which they would no longer consider routine.

7.2.3 Organisation Structure

A further enabling factor in relation to strategy implementation is the flat, non-hierarchical organisation structure at HF. This aspect is of particular relevance in relation to literature that has advocated examining the role of management accounting and control within contemporary organisation structures (e.g., Otley, 1994; Cooper, 1996; Langfield-Smith, 1997; Shields, 1997; Chapman, 1998). At HF a flat organisation structure is associated with a strongly informal control system. This reinforces the idea of strategy implementation occurring as a regular and natural activity within the organisation, rather than, for example, being a discrete responsibility of a select management group. In this regard there are no job titles or positions that include 'strategy' or suggest such a relationship. Hence implementation of strategy implicitly becomes part of everyone's business, including the accountant's. However, staff generally did not consciously perceive any particular or explicit emphasis in this regard. Rather, the focus on strategy was naturally blended into their regular job roles and tasks. In a similar sense, the integrative nature of management accounting at HF enables the control system to operate in a relatively unobtrusive manner. While senior management guided and

managed the overall strategy formulation and implementation process, the lack of a hierarchical structure helped them to drive consideration and acceptance of management accounting and strategic issues into daily operations, but in a manner that was not obtrusive or obvious in terms of staff perceiving any particular distinction between operational versus strategic and management accounting issues.

7.2.4 Fastforward Implementation: Chaos

Strategy implementation occurs rapidly at HF. While a logical focus of strategy is the long-term, a constant reference point at HF is its immediate near term impact and the successful management of this. The core focus of management in this regard is rapid implementation, and minimising the role of administrative or bureaucratic procedures that could potentially hinder this. In this context control systems can be highly bureaucratic in terms of their structure and form (Chapman, 1998). Strategy implementation at HF is supported by the underlying company culture and how this influences the informal and interactive management accounting system. The lack of formal and structured organisational control systems at HF has been a deliberate tactic on the part of senior management. There is minimal emphasis on the use of administrative structures such as, for example, formal management accounting reports or committees to progress the implementation of strategy. Achieving successful strategy implementation is the core stimulus that drives near-term operational decision making. Following this view, operational constraints are seldom seen as an obstacle to strategic accomplishment. Often a strategic commitment is made before there is certainty or even clear knowledge in terms of operational considerations and capability. This is at variance with the conventional idea of management accounting (e.g., Kaplan & Norton, 1996; Simons 2000), which assumes a more linear or deterministic relationship in terms of the linkages between strategic issues and operational constraints. Further, the issue of the relationship between operations and strategy is not adequately addressed in the strategy literature generally (Farjoun, 2002).

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

7.2.5 Formulation versus Implementation

The major strategic emphasis at HF appears to be implementation rather than formulation. This is because implementation is more directly focused on operations and is therefore more obvious in terms of control systems and the continuing business. This appearance, though, is superficial. Practical segregation of the two areas is neither clear nor obvious. Because implementation is more directly operationally focused, potential hindrances to the accomplishment of formulated strategies only become evident once implementation starts occurring. Hence, to enable implementation to continue, 'instant' strategy re-formulation and re-implementation will take place concurrently. In this sense, the distinction between the two strategy elements is artificial or only conceptual (Mintzberg, Quinn & Voyer, 1995). The more novel and obvious distinction at HF is in terms of endpoints and pathways. The pathway, which is fluid and continually flexible, represents strategy formulation and strategy implementation and is guided by an informal control system. The endpoints, which are relatively fixed, represent various long-term strategic goals, which are overseen by the board using a more formal control approach, which primarily encompasses the use of various management accounting reports. The

endpoints are core guidelines relating to the company's ultimate strategic direction, and controlling their accomplishment is a key concern of the board. However, the formulation and implementation of strategies to achieve the endpoint strategic goals is a core focus of management, in terms of the informal control system and its integration within daily operations. To focus on strategy formulation and strategy implementation as distinct organisational activities at HF, would likely stifle current responsiveness and creativity in relation to the realisation of its strategic goals.

7.3 Feedback Control and Fastforward Change

Feedback control at the board level is largely focused on aggregate accounting measures, mainly encompassing a profit and loss report and various breakdowns of this, described as KPI's, which are lagging in relation to actual operations. However, the reasons why various measures are included in the control framework are not clear. The creation and development of the framework has not been systematic. Rather, the historic primary emphasis on the profit and loss report has been incrementally enlarged over time as various senior managers and directors have suggested measures and information that they would like to review on a regular basis. However, the growing measurement set is not logically categorised and the various measures are not clearly interlinked. Overall the measures do not seem to have a clear relationship back to strategic goals. Senior management and directors expressed conflicting views concerning the role and purpose of the formal management accounting reports. While some senior managers and directors considered the reports as adequate, others expressed strong views on the need for extension and improvement. The lack of consensus suggested that the reports were inadequate and indicated that a feedback control loop, in relation to the idea of strategic navigation, was not fully effective.

The historic looseness and informality at HF of the management-focused (as opposed to the board-focused) control approach appears to have played a

significant role in the growth of the business by allowing managers a high degree of strategic and operational flexibility. However, the creation of a formal board and continuing growth of HF seems to be creating a need for a greater level of formal and structured control information, in particular from the perspective of the board.

7.3.1 Board Level Information

There is conflict between the board's desire for more formal management accounting information, in order to measure progress against endpoint goals, and the informal control approach used by managers to comprehend and respond to external circumstances rapidly (the flexible pathway), and to strategically position the business. The board believes that greater formal control and accountability is needed within the business, whereas management operates using an unstructured and informal approach, which arguably incorporates a significant fastforward change element. The management accounting reports used by the board are of limited relevance to senior managers in their management (rather than board) role, lower level managers and operating staff. Their emphasis is continually future-orientated and often elusive, in terms of attempting to identify predictively various external threats and issues of relevance to HF. Hence the extensive reliance on informal and highly flexible organisational controls. The board level management accounting reports do not assist in this regard. While the two approaches are not necessarily mutually exclusive, the conflict does highlight how the control information needs of the board and management differ, which is arguably hindering the operation of an effective strategic navigation approach. Such potential conflict or its resolution was not an issue addressed in the strategic navigation approach developed in Chapter Four.

The low emphasis on formal management accounting reports and information is causing frustration among a number of board members. Furthermore, there is confusion about the validity and scope of the control information reported to the board. For example, while detailed management accounting information about

product line profitability is considered necessary, this is not included within the existing reporting framework. The lack of information is hindering the board in assessing the progress of HF against long-term goals. Because HF will often change direction rapidly, this intensifies the board's desire for better control information. A more comprehensive management accounting reporting framework could improve the operation of the feedback control loop and enable an improved focus by the board on the accomplishment of endpoint goals. In this respect, the role of company boards in relation to organisational control is an issue that does not seem to be addressed in the literature.

7.3.1.1 Social responsibility issues

A key part of the external branding of HF relates to a social responsibility image and adoption of triple bottom line reporting. If positive profit results or positive KPI measures are achieved at the expense of, for example, a particular triple bottom line dimension, this would be considered an unsatisfactory outcome. While, however, social responsibility and triple bottom line aspects are considered and discussed by the board in a general sense, they are not explicitly measured on a regular basis or linked to the management accounting reports. Hence, social responsibility and the triple bottom line act largely as background factors that influence how business performance is interpreted. A reason for this influencing role is because much of the information used to measure social responsibility and triple bottom line aspects is ad-hoc or anecdotal. This was a difficulty highlighted by the HF accountant. The assessment of social responsibility and triple bottom line dimensions seems to be undertaken largely informally, and at various times information relating to these aspects is presented to the board. This contrasts with conventional control systems, which generally integrate important business measurement dimensions within the reporting framework (Anthony & Govindarajan, 1998). In this regard, the focus on triple bottom line and social responsibility aspects appears isolated from the overall formal control approach. However, given that the triple bottom line is an important part of the HF brand

and image, it is surprising that this is not more formally integrated into the board's reporting framework.

7.3.2 Management Level Information

The highly informal management level control approach, contrasts with the desire of the board for greater and more systematic levels of hard data and measurement. Greater formality at the management level, however, driven by the board's desire for greater depth and structure of formal information, could likely result in more rigid reporting structures and hinder the operation of management's fluid and informal control approach, which enables managers to rapidly adjust and position HF (i.e., the flexible pathway) based on how they comprehend the external environment. A more formalised or traditional control system, in terms of a greater emphasis on reports and structure, could result in a less flexible and stronger operational focus in the overall business and consequently a lesser focus on strategy formulation and implementation. In contrast to the highly informal management level approach at HF, the literature often suggests a need for greater formality to enable effective control of strategy implementation (e.g., Preble, 1992; Kaplan & Norton, 1996; Simons, 2000). Resolution of the board and management's differing information perspectives could arguably be achieved by substantially upgrading the formal control system by, for example, installing some form of enterprise resource planning (ERP) system (Scapens & Jazayeri, 2003), but at the same time maintaining the integrative and informal management level control approach, and the fastforward thrust within this, which managers use to navigate the business strategically forward.

Some managers suggested that a greater level of formal control information was needed to assist them in their jobs. A key issue of concern related to supplementing the informal framework with greater structure. Requests by some managers for greater levels of structured and formal information related to a need for various types of base data, such as inventory levels, rather than fundamental

concern with the overall informal control approach. In this regard the need for more structured information was seen as a means of enhancing the existing informal approach.

The informal management level control approach supports the idea of fastforward change because it enables fast identification of, and rapid response to, threats and issues as they arise. In a sense this is perhaps a progression of Preble's (1992) idea of strategic surveillance. The HF approach seems particularly relevant in relation to the turbulent environment which the organisation faces. The approach does, though, have a semi-formal foundation in terms of the NPD meeting and to a lesser extent the KFC meeting. Hence, while the control or, what are in effect, strategic navigation processes may appear highly informal and unstructured, the weekly NPD meeting in particular provides an anchor for the various conversation-based management interactions. In contrast, the board fulfils a more formal control role in relation to the achievement of endpoint goals. While their control focus is the future, this largely relates to the initial development and subsequent accomplishment of endpoint goals and therefore has a more traditional management accounting orientation.

7.3.2.1 External information and Clipboard

There is only limited formal control information available to managers on external factors that may potentially impact the business (e.g., Neilson market share statistics). Collation of such information is generally an important thrust of conventional management accounting systems (Anthony & Govindarajan, 1998). Information collected by HF about external factors was mainly informal and not sourced via a formal management accounting system. The core means used to collect, assimilate, and distribute the information at HF were frequent casual discussions and interactions by senior managers with firstly, parties outside HF, and then other managers within HF. It was specifically senior managers who obtained this external data and information. The external information was often collated by individual managers using their own informal control systems. These

could be tangible or quasi-formal in nature (e.g., spreadsheet-based) or intangible and non-specific (e.g., ideas gleaned from various sources). The knowledge base for this management accounting information was collective, in that it was collected, assimilated and distributed by various managers using interactive and conversational processes. In this sense, the information did not reside within a formal accounting database. This illustrates a broadening of the scope of management accounting, with a more pervasive focus on the *use* of management accounting information, and a lesser focus on the technical role of accountants and the management accounting function (Pierce & O'Dea, 2003). This indicates how HF is heavily reliant on informal people-based systems, rather than formal control systems, in order to manage organisational performance. This provides insight concerning the idea of a strategic navigation approach, in that it seems to demonstrate the usefulness of a strong reliance on what are in effect fastforward change processes.

Clipboard is a prime source of external information and is used to understand the broader market place and manage environmental turbulence. Information sourced via Clipboard permeates the organisation using conversational and interactive processes. Because Clipboard represents a continuous process, as opposed to a more discrete or periodic formal control activity, it helps facilitate predictive responsiveness in relation to understanding what is happening in the external marketplace and business environment. In this sense the Clipboard newsletter seems to reflect the operation of a fastforward change element.

A key focal point of Clipboard is the CEO. This is a deliberate tactic designed to personalise the role of Clipboard and to engender responses from customers and stakeholders. The CEO personally responds to all communications received. In this sense, HF is perceived in terms of 'Dick Hubbard', a real person, rather than as a corporate entity. The personalised approach enables relationships to be developed and cultivated with a broad range of customer and external stakeholder groups. These relationships or linkages are seen as intimate and

real. Such a thrust does not readily fit within the framework of conventional control systems (e.g., Anthony & Govindarajan, 1998; Simons, 2000). Clipboard is also used to help cultivate the social responsibility image associated with HF and is designed so that customers view HF as a 'responsive and caring' organisation. Clipboard effectively acts as a 'shop front' to the HF organisation. It encourages customers and stakeholders to communicate with HF about what they see happening in the 'shop', whether this is product-related or a broader dimension of the company operation.

A new Clipboard is produced approximately every eight weeks, which means that the communication between customers and HF is ongoing and becomes a continuing dialogue. The emphasis is fluid and process-based, rather than relying on a systematic control framework or quantitative data. In this regard, the control literature does not appear to address the idea of continuing and constant or 'on-line' linkages with the external environment. Some of the information received by HF in relation to Clipboard is also feedback control-orientated, as opposed to the idea of fastforward change, in that it relates more closely to existing products and/or business operations. However, the distinction between feedback and fastforward in this sense can be blurred, with some of the information obtained impacting current operations, but also having relevance to future company direction. This idea of a blurred distinction was not identified within the strategic navigation approach.

The responses received from customers are fed back into the HF business and used in the strategy formulation and implementation processes. The processing of this information is accomplished collectively, in a relatively messy and unsystematic fashion, by passing the data received to various managers for action and/or discussion. In this sense the processes adopted are reflective of 'extraordinary management' (Stacey, 1996) and highlight the usefulness of approaches that move beyond conventional ideas of organisational control (Otley et al., 1995; Norreklit, 2000; Otley, 2003). While some responses may have no

apparent or immediate relevance, they are stored for possible future reference. However, storage is not in the form of hard or electronic copy. There is no systematic, electronic or hard copy storage, classification or coding of this information. Classifying and coding relies on human intellectual reasoning after the information received has been passed to the appropriate people to read and comprehend. This relates to the ideas that have been communicated and which reside in the 'collective' minds of HF management. In this sense 'storage' is highly informal and nebulous. Following this notion, the function of Clipboard arguably reflects ideas concerning the role of intellectual capital in organisations (e.g., Lowe, 2001; Gherardi, 2000), and how these might be incorporated within the operation of control systems.

Clipboard is a powerful means of effectively capturing, comprehending and storing information that is potentially predictive in relation to understanding what is happening in the turbulent external environment. This seems to illustrate the idea of a process-based fastforward change tool, which does not fit with traditional notions concerning management accounting or control. It arguably better reflects the concept of strategic navigation, rather than control. The literature suggests that when the external environment is unpredictable and continually changing, the use of formal organisational controls is likely to be problematic and that external data capture may not be amenable to traditional approaches (Ouchi, 1979; Flamholtz et al., 1985; Fiegner, 1997; Chapman, 1998). This is evident at HF, where the use of Clipboard provides a means of effective data capture and 'organisational control' in a turbulent environment.

7.3.2.2 People-based processes

Managers obtained information necessary to undertake their jobs via flexible processes of interacting with other HF managers. It has been suggested in the literature that flexible, informal organisational controls may be appropriate when the external environment is highly turbulent (Otley et al., 1995; Fiegner, 1997; Chapman, 1998). The people-based process of interaction at HF was the core

control and information channel that managers used to carry out their respective functions. Interaction by senior managers in particular, who have extensive continuing contact with various parties external to HF, enabled externally sourced information to permeate through the business.

The people-based approach at HF allows managers a high degree of flexibility in relation to how they undertake their jobs by enabling them to react essentially instantaneously to external change and turbulence. This is because there are no processing or comprehension delays resulting from the need to capture data formally and convert it into structured reports. The impact of such delays is not adequately addressed in the control literature. The HF approach enables strategic change and adjustment of the business to take place rapidly. This reflects the idea of performance management, rather than organisational control (Otley, 2001; 2003), and illustrates a key aspect of the interface between management accounting and organisational strategy at HF. Conventional and formal management accounting approaches firstly convert externally sourced data into some kind of systematic form, which is then conveyed to managers for comprehension and interpretation. If a strongly formalised management accounting approach is adopted (e.g. the balanced scorecard), this implies that in essence all relevant external information can be captured and conveyed using structured measurement and information systems. Simons (2000), for example, suggests that this is possible. However, key external factors such as technology and globalisation are not clearly measurable or controllable (Lissack & Roos, 2001). Even if this were possible, it still overlooks the problems and delays associated with capturing and converting external data into structured formats (Stacey, 1996; Fiegenger, 1997; Chapman, 1998; Norreklit, 2000). For example, by the time such information is available to managers external circumstances may have changed, rendering the information redundant (Lissack & Roos, 2001). The informal approach used by HF avoids problems that can be associated with strongly formal control systems. On the other hand, the disadvantage of this approach is that miscommunication and knowledge gaps may occur because

obtaining the informal information is not a controlled or systematic process (Simons, 2000). Accordingly, information conveyed may be unclear, the intended recipient may misunderstand, or critical information may not have been obtained. However, formal management accounting models may also be subject to problems of interpretation and reliability (Norreklit, 2003; Otley, 2003).

The informal people-based control approach anchors and supports strategy formulation and implementation, which form an integrative part of the continuing business. But this focus on formulation and implementation is not explicit or necessarily recognised by management and other staff. Rather, it is a consequence of the people-based control approach, which enables close integration of operations and strategy. The people-based processes are reflective of ideas relating to a 'collective mind' and tacit knowledge (Anand et al., 2002; Berman et al., 2002; Boiral, 2002) and indicate how these could be incorporated within the realm of management accounting. The strong people-based approach provides a basis for issues relating to operations, management accounting and strategy to be merged implicitly and fully. This facilitates both operational and strategic responsiveness to changing external circumstances by enabling rapid assimilation and comprehension of these. Simons (2000) suggested that interactive or informal-type organisational controls are only suitable in very large and mature organisations. However, the situation at HF, in terms of the people-based approach, demonstrates highly pervasive use of informal controls in a relatively small organisation.

7.3.2.3 Social responsibility

There was only limited perception of triple bottom line and social responsibility aspects by management. These were generally not explicitly discussed at KFC and NPD meetings. The triple bottom line and social responsibility were facets that influenced the culture of the company, and how managers perceived their roles, rather than being a direct part of the control system. In this sense, social responsibility provides a guiding foundation for strategy implementation and

therefore acts as an informal background or contextual control factor. As a result, if a proposed shift or change in strategic direction was not in keeping with a particular underlying social responsibility dimension (e.g., it may have severe or adverse staffing consequences), then it likely would not be pursued.

7.3.3 Operations Level Information

While management generally has low direct use of and reliance on formal control information, there is still some utilisation of formal feedback relating to operating level activities. In this regard a significant amount of data from the factory and warehouse areas is recorded and collated using spreadsheets and paper-based systems. This then forms the basis of management discussions with supervisory staff about factory and warehouse performance and is used to generate various types of formal management accounting reports for the board.

Operating data are sourced manually from the factory and warehouse areas. Collecting and collating this data is slow and there is only limited scope to vary the configuration of the base data in order to provide different or new types of information. There is uncertainty about the reliability and validity of operations-sourced data. In particular, this relates to the predominantly manual nature of data collection. Data capture at the operating level requires the outcomes of specific activities to be manually recorded on paper by factory and warehouse staff, such as finished product yields from a process or the time taken to complete a task. Hence data capture is intrusive and time-consuming for operating staff. This creates risk in terms of the accuracy of data capture.

While this control approach is arguably satisfactory at the operating level, in terms of the basic needs of factory and warehouse supervisory staff and their discussions with management, it is not suitable in respect of the board's information needs. As a result some relationships between the board, management and operating level staff appear tense. For example, the board has expressed concern about cost levels in the factory and warehouse areas.

However, current reporting systems do not allow for detailed profiling of cost and profitability information to be supplied. The board, based on the information currently available, is then requesting that factory and warehouse supervisors cut costs and manage their areas more efficiently. The supervisors, however, lack systems that enable understanding of why various costs are being incurred, or are changing. This perhaps indicates that some form of ERP system is needed to enable better capture and collation of data at the factory and warehouse level. Furthermore, the factory operations are frequently disrupted due to ongoing product trials and testing. As a result factory management are caught between the need to allow flexibility in relation to strategy implementation, and the resulting negative impact this may have on plant costs and staffing needs, and the rescheduling and disruption of production. Factory and warehouse staff are then further pressured by the board to control operating costs better.

7.4 Conclusions

The findings discussed in this chapter reinforce the position argued by Otley et al. (1995) concerning a need for organisational 'control' systems that more suitably match the characteristics of contemporary organisations:

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

HF is an example of a contemporary organisation displaying an innovative mode of operation in a turbulent environment. In this respect the control practices at HF have been observed and codified, with a particular emphasis on the interface between management accounting and organisational strategy. Two main elements are evident. The first encompasses an informal control or process element. This has minimal focus on formal measurement and is used primarily by management in relation to the flexible pathway idea. This element has a strong orientation towards external information, which is mainly captured and comprehended using conversational and interactive processes. Accounting has an integrative and relatively unobtrusive role within this process element, with the focus predominantly on management accounting *information* (e.g., competitor information, sales breakdowns, cost information, customer information). The second element is a formal control approach that appears relatively weak in terms of the information value of the measures used, and its design. For example, reliable information profiling product and customer profitability is not available. Also, accurate information about various cost areas in the factory and warehouse is lacking. Formal control information is primarily used by the board to monitor and manage progress against end point goals in the strategic plan. However, the shortcomings mentioned above are hindering the board's monitoring role. The formal control element is also unsatisfactory as a source of information for management level decision making.

The organisational control elements at HF were coordinated or managed via the use of three key meetings: the six-weekly board meeting; the NPD meeting and KFC meetings. The board acts as an underlying anchor to organisational control by concentrating on a relatively small set of formal feedback measures, which relate to the overall accomplishment of endpoint goals in the strategic plan. However, this limited formal control thrust at HF means that operating managers are very reliant on informal interactive processes for both strategic and operational decision making. In this regard decision making at the management level was largely based on 'instinct' or 'feel', which reflects the idea of a

fastforward change process focus, rather than formal control. This enabled rapid assimilation and comprehension of information about external threats and issues. A key focal point for fastforward change was the NPD meeting. This acts as an integrating mechanism by linking strategy formulation, strategy implementation and the idea of fastforward change. While such an approach may appear less organised and systematic than more formal control approaches (e.g., the balanced scorecard), it is arguably highly effective in the turbulent environment faced by HF. The role of the KFC meeting was broader than that of the other two meetings. While this meeting has an important strategy implementation purpose, this relates to its control function in shaping and influencing company culture in terms of an unobtrusive blending of strategic and operational issues.

Both strategy formulation and implementation at HF were strongly operational-focused. This was undertaken in a manner that was unobtrusive, in that strategic issues within the business were viewed as no different to any other facet of operations. Various factors help to explain how close integration with operations was achieved. In particular, and in the context of both strategic and operating decisions, there is an intense focus within the overall control system on frequent conversational management interactions and a low emphasis on formal communications, such as reports and documents. In this respect, there are also few formal management meetings. The only scheduled regular meeting was the NPD meeting. Facilitating frequent informal management interactions were various intangible factors which reflected the overall company culture. These include a high degree of trust among staff, a management approach that was spontaneous and a strong team or collective focus in relation to management decision making.

The limited focus on formal control illustrates a key facet of the relationship between management accounting and organisational strategy at HF, in that strategic progress and outcomes are managed via a process focus, which relies on frequent staff interaction to comprehend and interpret the external

environment. While there is an emphasis on management accounting information, this is largely informal and not necessarily sourced via a traditional accounting function. The accountant at HF acts as an interpreter of information in order to help coordinate operating and strategic decisions across various organisational areas, such as marketing and production, and to communicate the financial implications of such decisions. In this context the accountant operates as an integral and active part of the management team.

The situation at HF can be contrasted with the suggestions from Chapter Four, concerning the nature and role of management accounting in strategic navigation. Here it was argued that management accounting should adopt a new 'measurement' approach, incorporating feedback control and fastforward change measures and a clear process focus, encompassing organisational design and structure. At HF, however, fastforward change processes are the dominant feature. These enable a high degree of responsiveness within HF to various external environmental circumstances. Formal measurement, in terms of both feedback and fastforward change is limited and appears weak. Consequently, it could be argued that management accounting at HF needs a stronger conventional measurement approach, in order to be more effective in terms of strategic navigation. On the other hand, this point is tempered by the apparent effectiveness in relation to performance management of the strong fastforward change process focus used by HF management. In this context the strategic navigation approach at HF lacks the more balanced measurement and process thrust recommended in Chapter Four. While arguably a weakness, this also seems to highlight the powerful role of a fastforward change process focus within an overall strategic navigation approach, and its potential role in relation to management accounting.

The case study findings provide insights concerning the type and source of process-based management accounting information required under a strategic navigation approach. Specifically, these insights illustrate the operation of

fastforward change processes and how they relate to organisational structure and design. This contributes to the ideas discussed in Chapter Four, in terms of developing a process focus and the role of management accounting in strategic navigation. Here it was suggested that a fastforward change process focus could be developed via broadening the design scope of management accounting systems. At HF the focus on fastforward change processes is achieved to some extent by designing organisational systems that attempt to incorporate aspects such as:

- Extensive staff conversation and interaction;
- Low emphasis on formal communications, such as memos, documents, reports and meetings;
- Trust, via the encouragement of moderate risk taking and a low emphasis on formal organisational rules/regulations;
- Team/collective decision making;
- Strong focus on information from outside the organisation via frequent staff contact with external parties and stakeholders;
- Diverse organisational 'ownership' of accounting knowledge/information;
- The use of specific strategy translation meetings (i.e., NPD meetings);
- Inspirational organisational leadership.

These aspects reflect how strategic navigation should act to blend process-related information within an overall control or performance management approach. Building on the ideas discussed in Chapter Four, including the role of management accounting in strategic navigation, this would enable the development of an *integrative* information set. Such a set would be both formal and process based, anticipatory in focus and facilitate rapid organisational responsiveness. At HF, however, an integrative information set is not clearly developed. Accordingly, strategic navigation at HF could be strengthened by placing greater emphasis on formal measurement. In this regard the case study findings highlight a need for formal management accounting information relating

to both feedback control and fastforward change. The lack of a satisfactory feedback control loop will compromise the objective of strategic navigation. This is underlined by the board's frustration with the existing management accounting reports. In addition, there is an apparent need for a greater level of formal measurement, both financial and non-financial, in relation to management level feedback control and fastforward change information. Formal fastforward change measures would reflect the strategic control idea of feedforward control, for example premise control and strategic surveillance (Preble, 1992). These could include measures covering economic variables such as inflation rates, disposable income trends and employment levels (Preble, 1992).

Strategic navigation appears balanced, in terms of its emphasis on both feedback control and fastforward change. It is unclear, though, how balance between the two areas should be accomplished. In this regard the HF findings suggest that this may be difficult to achieve because a more clearly developed focus on formal control may moderate or limit the operation of fastforward change. This is because higher levels of formality and structure may moderate the ability to operate process-based systems. The pressure and tension building at HF provides some evidence of this. This is creating stress in the management and operating areas and hindering the change that the board desires, which in turn creates further frustration at board level in relation to existing management accounting reports. A potential danger appears to be that a greater level of formal organisational control may limit the flexibility and responsiveness of a process approach. Increased formality could dilute a fastforward change process focus and lead to a greater emphasis on control at the expense of navigation. Hence, an issue or conflict to resolve in relation to strategic navigation and the interface between management accounting and organisational strategy is how to manage the relative functions of formal measurement versus a process focus.

The strategic navigation approach proposed in Chapter Four classifies strategy formulation and strategy implementation as distinct components, and separate

from daily business operations. The study findings however, indicate that the distinction between formulation and implementation is blurred and that the two areas are also closely blended with operations. A key finding is that the effectiveness of an overall strategic navigation approach is likely enhanced by its integration and blending with operations. This indicates that the idea of strategic navigation should not necessarily operate in a stand-alone or detached manner.

7.5 Summary

Strategic navigation is presented in Chapter Four as relatively systematic and orderly. However, the situation at HF, as discussed in this chapter, illustrates a control approach that is generally unstructured and which involves a significant degree of 'messy' people interaction with a low emphasis on formal control. This reflects the nature of the interface between management accounting and organisational strategy at HF. The situation at HF seems to be a response to the turbulent environment which it faces. The literature suggests highly formalised and structured control approaches (e.g., the balanced scorecard), are likely to be less useful within organisations operating in turbulent environments.

The aim of strategic navigation is to help organisations make strategic adjustments in response to environmental turbulence. The approach suggests a dual fastforward change focus is needed, in terms of both process and measurement. Feedback control requires a measurement focus in terms of a more traditional management accounting approach. However, at HF these measurement aspects are particularly weak, with reliance placed mainly on fastforward change processes. Only a limited number of more traditional management accounting measures are used and fastforward change measurement (i.e., feedforward control) seems non-existent. The resulting impression of 'organised chaos' at HF perhaps highlights a core feature of strategic navigation, in terms of much lesser emphasis on formal control and structure than is the case with traditional control frameworks. However, the actual

situation at HF appeared even more informal and unstructured than is suggested by the strategic navigation approach proposed in Chapter Four.

The strong process thrust at HF gave the appearance at times that various parts of the business were in a state of disarray. This, however, was a reflection of the approach used, which facilitated rapid but effective response to external environmental turbulence. It also represents a method that is at variance with the traditional notion of organisational control. Conventional control frameworks, such as the balanced scorecard, are relatively structured and systematic. But if the external environment is very uncertain and capricious, such as is the case with HF, then a strategic navigation approach, rather than an emphasis on the traditional concept of control, may be more appropriate. However, the findings also suggest a continuing need for formal measurement as part of the overall strategic navigation approach.

In summary, the interface between management accounting and organisational strategy at HF illustrates the use of a management accounting approach that is highly informal, and which extends beyond traditional notions of data capture, measurement and control. The approach is innovative, highly flexible and matched to the particular organisational and environmental circumstances of HF. In this regard the findings provide insights concerning the potential role and scope of strategic navigation, and its relationship with management accounting, as a means of performance management in a contemporary organisational setting.

Chapter Eight

Conclusion

This thesis illustrates the form and nature of a possible change to management accounting which is strategically focused. In particular, it extends the management accounting and organisational control literature, and encompasses the idea of performance management, rather than control, by proposing a strategic navigation approach. In this sense it illustrates an approach that is designed to enable rapid comprehension of a potentially turbulent external environment when identification of the variables to measure may not be clear, or the time lags involved with formal measurement may be an impediment in relation to an organisation's need to respond rapidly to external turbulence. In terms of the research aim, this explains how the scope of management accounting systems could be expanded in order to deal more effectively with environmental turbulence. In particular, strategic navigation is focused on helping organisations make rapid and/or continual strategic adjustments in response to environmental turbulence. An implication of the findings of this thesis is that management accounting systems could be designed to recognise explicitly the needs of strategic navigation, which encompasses a dual focus on process and measurement that has a specific fastforward change role, rather than being preoccupied with better and/or increasing numbers of formal measures.

The remainder of the chapter is organised as follows. The following section discusses how this thesis extends the strategic management accounting and organisational control system design literature. Section 8.2 highlights the problems with strategic control, while Section 8.3 discusses the implications of the case study findings in relation to strategic navigation. In Section 8.4, the relationship between strategic navigation and management accounting is discussed. Section 8.5 considers the generalisability of the thesis findings. In

Section 8.6 the contribution to knowledge of the thesis is considered. Limitations and suggestions for further research are discussed in Section 8.7 and concluding remarks are contained in Section 8.8.

8.1 Strategic Management Accounting and Organisational Control

System Design

This thesis extends the literature examining the interface between management accounting and organisational strategy. This relates to a progression of two key themes identified in the literature: strategic management accounting and organisational control system design.

A recurring theme evident in the strategic management accounting literature is the need for a greater contribution from management accounting to the accomplishment of an organisation's strategic goals. The strategic management accounting literature argues that this can be achieved by the use of tools and techniques that are strategically-orientated. However, as a potential limitation of this approach a suitable control framework or context that could form the basis of strategically-orientated management accounting systems is not apparent in the literature associated with this area. Further, the application of strategic management accounting in practice would appear to be limited. This thesis recognises that the underlying strategic context is an integral factor that should be considered in the design of strategically-orientated management accounting systems, and argues that this should enhance the relevance of management accounting in practice.

The concept of organisational control is changing. Historically, the focus was generally based on short-term operational and accounting controls. There is now, however, increasing recognition that the thrust of organisational control systems should be more explicitly strategic. Some researchers argue that this is a primary role of organisational control systems (e.g., Langfield-Smith, 1997). Research

has indicated that innovative control approaches could be adopted to enable the strategic relevance of management accounting to be enhanced and made more relevant within contemporary organisations (e.g., Roberts, 1990; Chapman, 1998; Vaivio, 1999).

This thesis specifically extends the scope of the literature relating to organisational control system design. In the literature the term management control is often adopted, however this thesis follows Otley's (1999) approach and views control as an overall package. The thesis proceeded to identify strategic control as a particular part of the package that could be integrated with management accounting to provide a stronger strategic focus.

8.2 Problems with Strategic Control

The strategic control models examined in this thesis are relatively structured and strongly measurement-based. In particular, the process model of strategy has a dominant measurement thrust. Similarly, the three-step model is largely concerned with identifying and measuring relevant feedback and feedforward variables. However, the aspect of strategic surveillance within this model is arguably a tentative type of strategic navigation. This is because it represents an attempt to identify relevant surprise events that may arise in an uncertain environment. Hence it could be seen as a linkage point between strategic control and the idea of strategic navigation. In the business strategy and management control model, Simons' (1995; 2000) concept of interactive control appears somewhat similar to fastforward change and the idea of a process focus. This is because it involves extensive face-to-face discussion and people interaction. However, interactive control is anchored in formal control, such as particular diagnostic controls, and therefore has formal measurement as its foundation, and does not recognise the role of an explicit process dimension. In contrast, fastforward change incorporates a distinct process dimension because it does not assume that all relevant variables can necessarily be identified using structured

and formal measurement. This also provides a means of overcoming information processing delays which are likely to be inherent in a measurement-based interactive control approach.

The basis of the strategic control models examined is largely a mechanistic view of strategy. In other words, the formulation and implementation of strategy is viewed as relatively formal and structured. However, this overlooks the alternative view that strategy formulation and implementation may be emergent or organic. In this sense the strategic navigation approach extends strategic control because it explicitly recognises that strategy may be organic or emergent in nature. This aspect was also evident in the case findings, where the organisation examined followed an organic approach and placed heavy reliance on strategy as a flexible pathway.

In general, conventional strategic control approaches may confine managers to pre-specified plans and goals, which in turn may limit their ability to identify new opportunities and react appropriately to threats (Ittner & Larcker, 1997). Arguably, this is because strategic control is measurement-based, which will result in managers attempting to comprehend and examine the external environment largely in the context of the measures selected. In this sense, strategic control does not fully allow or recognise the role of management skill and judgement, in particular when the environment is turbulent. The strategic navigation approach does, however, specifically address this issue by allowing management flexibility and enhancing, rather than replacing, management judgement. Fastforward change, a key element of strategic navigation, has a basis in both process and measurement, which provides a means of dealing with environmental turbulence.

8.3 Case Study Implications

The findings of the case study suggest how the concept of strategic navigation might be applied in an organisation. The case study explored the dimensions of

strategic navigation within an organisation operating in a turbulent environment. A number of implications can be drawn from this. These are considered below.

8.3.1 Strategy Formulation and Strategy Implementation

The distinction between implementation and formulation is blurred. Any focus on formulation is concurrently examined in the context of its implementation and operational aspects. In a similar context, any focus on implementation also involves concurrent consideration or questioning of its underlying rationale and basis in terms of strategies and end-point goals. Therefore, while separating the two areas is conceptually possible, in reality it is difficult to observe them operating separately. In this respect the independence of the two dimensions at HF was not evident to the extent indicated in the strategic navigation approach or the literature generally.

Strategy formulation at HF is strongly organic. Particular aspects supporting this include trust, which relates to the decision making freedom and discretion granted to staff. Spontaneity, in relation to the generation of new ideas, is another aspect which is encouraged by frequent staff interaction and contact. This is welcomed by senior management as a substitute for formal and/or regular meetings. The basis of strategy formulation is also highly collective, in relation to developing a consensus view among managers. The collective thrust is reinforced by the lack of an organisation chart at HF and the low emphasis placed on job titles and associated indicators of position. Strategy implementation is rapid, which is facilitated by a lack of administrative systems and formal structures. In this sense the continuing implementation of strategy and its translation into the daily business often appears to be a process of chaos or disorder, but arguably this is 'organised chaos'. The core approach at HF is rapid, informal, process-based and 'messy', with only a limited emphasis on structure.

The underlying anchor of strategy implementation is the semi-formal NPD meeting, which is closely integrated with operations and appears to drive or have

a powerful influence over the operational side of the business in terms of ensuring that strategies flow through to the daily business. This demonstrates how a single core meeting can be used as a key driver of strategy implementation. The NPD meeting could be viewed as a coordination and conversion meeting, meaning that it provides the initial stimulus and basis for converting strategies into operational outcomes.

8.3.2 Feedback Control

Implicit in the strategic navigation approach is that feedback control information should be monitored by management. However, at HF this is the responsibility of the board of directors. In this context, the role of the board in monitoring feedback control was not suggested by the strategic navigation approach. However, because HF is a privately owned company, the board's role is perhaps more management-orientated than governance-orientated as it would be in a larger or publicly owned company. With respect to the feedback provided to the board, there is concern about the validity and scope of the measures used, which tend to be generic and not well focused on the specific needs of HF. This conflicts with the management accounting literature which suggests that feedback measures should be matched to particular organisations and, more specifically, their needs in relation to how they operate and function. While the feedback measures are of limited interest in terms of the daily management of HF, senior management are part of the board and in this role review and monitor the feedback measures. But the context of how the information is perceived differs. In terms of their board role, managers review the feedback measures in relation to overall business performance and accomplishment of endpoint goals. However, in their senior management roles, the feedback measures have no real bearing in relation to the active management and translation of strategies into the daily business.

8.3.3 Fastforward Change

The strategic navigation approach in respect of fastforward change suggests a focus on both process and measurement. However, at HF management is predominantly reliant on process-orientated systems. As a result, there is strong emphasis on the collective knowledge of management. This encompasses information about the external environment for which there is only limited structured and formal data available. The fastforward change process focus at HF, using interaction and frequent conversation, enables relevant information to be collected and assimilated into the organisation.

Interactive and people-based processes are a core part of the fastforward change and overall strategic navigation approach at HF. These work in a way to enable instant response and/or reaction to environmental turbulence and are complementary to the formulation and implementation of strategy. This complementary nature in part relates to the small number of core meetings, which act to consolidate or anchor the overall strategic navigation approach with respect to strategy formulation, strategy implementation, feedback control and fastforward change. In this respect the board meeting acts as a focal point for the determination of endpoint goals and feedback control. The NPD meeting has a fastforward change focus and acts as a linkage and coordination point for strategy formulation, strategy implementation and fastforward change, which relates to the overall strategic navigation approach. The KFC meeting is a core communication point and links strongly with strategy implementation. In this respect it provides a strong operational blending role in relation to conveying information to staff about the near-term operational impacts of strategy.

Strategic navigation at HF could be described as strongly process-based. It involves a degree of measurement but also incorporates, in terms of fastforward change, highly fluid and interactive processes that, while giving a superficial appearance of chaos or disorder, enable rapid comprehension and response to external environmental factors. The Clipboard newsletter, for example, is a

continuous process, rather than being discrete or measurement-orientated. It is fluid in nature and enables a continuing dialogue with parties in the external environment to HF. It involves collective information processing because a broad range of staff are involved in utilising and comprehending the information. Because Clipboard is process-based, this seems to enable rapid responsiveness in relation to external markets and the organisational environment. The Clipboard also blurs the nature and concept of feedback and fastforward change, because the information being received can fit within both categories. Fastforward change at HF allows close integration of strategy and operations to occur in relation to the daily business. However, the situation at HF is even less structured than suggested by the strategic navigation approach. In particular, this results from the limited emphasis on formal measurement, in terms of weak feedback controls and non-existent fastforward change measures. In contrast, the traditional idea of strategic control has a core measurement focus, which results in a relatively systematic and structured approach to controlling strategy implementation. This is also reflective of various management accounting tools, such as the balanced scorecard, which have an underlying framework that is structured and formal.

The findings from HF suggest potential conflict between feedback control and fastforward change. The strategic navigation approach recognises the importance of both process and measurement. At HF, however, feedback control measurement is weak and fastforward change measurement appears non-existent. Fastforward change at HF is reliant on 'messy' people interaction processes. This in part seems to be facilitated by the low level of formal control and measurement. The evidence from HF suggests, however, that greater levels of measurement and formality may act to slow and/or obstruct the rapidity and spontaneity of people interaction and its ability to facilitate fastforward change and drive the strategic navigation approach. A potential danger, though, of the HF approach, is that miscommunication and knowledge gaps may occur due to the dominant information processes being relatively loose, uncontrolled and unsystematic. In contrast, the suggested strategic navigation approach is more

structured in relation to recognising a continuing role for formal measurement and feedback control. While the approach at HF is relatively unstructured and perhaps appears chaotic, this seems to be a response to the unpredictability and turbulence of the external environment it faces.

8.4 Strategic Navigation and Management Accounting

This thesis addresses issues raised in the literature relating to the design of management accounting systems. This has to do with matching management accounting systems with organisational design and function, with less emphasis in particular being placed on traditional organisational structures. This encompasses the impact of an external environment which is increasingly deregulated, globalised and as a result generally turbulent. This thesis illustrates how the idea of strategic navigation could be used as a means to deal with environmental turbulence, which could be linked with management accounting. In relation to a turbulent and dynamic external environment the literature argues that management accounting should be more closely integrated with the broader organisation rather than operating as a detached or independent function. The strategic navigation approach contributes to knowledge in this area by specifically addressing the impact of environmental turbulence and highlighting the role of a dual process and measurement focus. Further, this thesis demonstrates the application of innovation in management accounting. It extends the literature by illustrating an innovative approach that is focused on long-term business direction and overall business viability. This is reflective of management accounting in a contemporary organisational environment, in terms of flatter, boundaryless or networked organisational structures and greater worker empowerment.

In relation to the measurement role of management accounting, Kaplan (1984, p.415) argued that: "...there is probably a need for ***more ambiguous, less precise*** performance evaluation systems" [emphasis added]. Strategic navigation represents an attempt to design an approach which is deliberately less precise by

the explicit inclusion of fastforward change and the recognition of a process dimension. The usefulness of a process dimension is also reflected in the case findings, where a high degree of reliance was placed on fastforward change processes. In terms of the literature, a key issue that the strategic management accounting and organisational control system design approaches attempted to address was the integration of management accounting and organisational strategy. This thesis illustrates how this issue can be addressed, in terms of the close linkages between operations and strategy via the role of a dual process and measurement fastforward change focus.

The strategic navigation approach reflects Kaplan's (1984) call for management accounting systems to serve the strategic objectives of organisations, which is also reflective of the definition of management accounting outlined in Chapter One. Further, it can be compared against the management accounting qualities identified in Chapter One, i.e., flexibility, structural alignment and fit, and an integrative decision focus.

8.4.1 Flexibility

In relation to flexibility the strategic navigation approach should highlight to managers the need for organisational change and enable rapid response and reaction to environmental turbulence. This reflects arguments put forward by, for example, Elliot (1991), Otley et al. (1995), Atkinson, et al. (1997) and Shields (1997) who suggest that management accounting and control systems should highlight the need for change and permit managers to take timely actions in response to external factors. Additionally, an aspect noted in the literature was the need for a stabiliser to balance or maintain the integrity of management accounting system flexibility. In terms of strategic navigation, stability is provided by the feedback control component. However, this element was observed to be weak in the case study organisation. Also linked with flexibility is the idea of better predicting or anticipating the future (Shields, 1997). It is debatable, though, whether strategic navigation will help organisations make better predictions about

the future. While strategic navigation should help organisations to understand, prepare for and react rapidly to future events, the literature examined in Chapter Four suggests that prediction in itself is likely to be a very difficult if not futile task.

8.4.2 Structural Alignment and Fit

The issue of whether strategic navigation represents an approach that is structurally aligned is open to debate. Strategic navigation as developed in this thesis is a generic approach. While it is intended that it should be able to be aligned with differing organisational types, this aspect would need to be considered further across a range of organisations. But the case findings in relation to the type of organisation examined suggest that the idea of strategic navigation could operate satisfactorily within a contemporary organisation structure that is relatively flat and informal. In particular, the use of a fastforward change process focus acts as a key driver in this regard. A weakness evident in the case organisation, however, relates to a limited emphasis on measurement, in terms of both feedback control and fastforward change. In this regard there was no real evidence of a measurement focus within the fastforward change element. In general, though, the case findings illustrate how it is possible to integrate accounting and non-accounting information as a basis for developing greater structural alignment and fit of management accounting systems.

8.4.3 Integrative Decision Focus

In terms of an integrative decision focus, strategic navigation is specifically designed to enable a stronger performance management and organisational strategy interface. In this regard, strategic navigation is focused heavily on events external to the organisation. The case findings highlight two key aspects in respect of an integrative decision focus. First, the usefulness of a blended approach which encompasses both operating and strategic decisions: in this context, a strong strategic thrust was evident in relation to the underpinning of operational management and decision making, which is achieved primarily via

the use of a process focus. Second, and interlinked with the idea of a fastforward change process focus, the methods used to gather much of the external information are largely informal, but highly effective, and do not involve structured measurement. Consequently, it is suggested that organisations should move away from generic and structured decision-focused management accounting systems, to more flexible and organisation-specific systems.

8.5 Generalisation

A common perception is that it is not possible to generalise from case study research. Some theorists, however, argue that it is in fact feasible to generalise, based on a single or limited number of cases (Scapens, 1990; Gummesson, 1991; Silverman, 1993; Lukka & Kasanen, 1995). In case study research, generalisation is not considered in a statistical or positivist sense. Rather, processes described as 'theoretical generalisation', 'analytic generalisation' or 'analytic induction' are adopted (Denzin, 1970; Scapens, 1990; Chua, 1996). This means that the case analysis and findings are linked with, and used to develop or refine, various theoretical constructs that in turn should have application, in an analytical or logical sense, beyond the specific case being researched. The underlying thrust is to "...generalise theories [resulting from the case study data] so that they explain the observations which have been made" (Scapens, 1990, p.270). The case study of HF reflects such an analytical orientation. It is contended that the research findings in relation to the relationships between strategic control, strategic navigation and management accounting can be theoretically and logically extended beyond the specific HF case examined. In this regard the research identifies broad constructs that relate to the proposed strategic navigation approach, and which could have potential relevance in a variety of organisational contexts.

8.6 Contribution to Knowledge

This thesis addresses a fundamental issue relating to a turbulent external organisational environment which may be changing so rapidly that feedback and feedforward controls within a strategic control approach are rendered redundant. A key point is that formal and structured management accounting tools are likely to be less useful in a turbulent environment. The idea of strategic navigation is anticipatory and forward-looking. It is also intended to signify the idea of performance management, in that navigation, which the *Collins Concise English Dictionary* (1992) defines as: “the skill or process of plotting the route and directing a ship, aircraft etc, along it”, could be considered analogous to the idea of *managing* (i.e., directing a ship) rather than merely *controlling* performance (i.e., plotting the route). Strategic navigation should allow managers to exercise a high degree of flexibility in their roles, provide scope for informed judgement and organisational learning, and help them to concentrate on the creation of new knowledge that is aligned with an organisation’s strategic direction. In this sense strategic navigation differs from the notion of control, which implies restriction of organisational activities and is relatively static or backward-looking in nature. Traditionally, management accounting has adopted such a thrust, with an emphasis on short-run measurement of past events. Even contemporary management accounting approaches, such as the balanced scorecard, are relatively restrictive due to an emphasis on formal measurement and arguably only allow limited scope for flexibility of management judgement (Fiegener, 1997; Norreklit, 2000).

The strategic navigation approach does not concern itself solely with measurement, but specifically acknowledges the need for a high degree of management judgement and discretion and that an exclusive measurement focus may severely restrict this. It encompasses the idea of performance management and recognises the impact of turbulence and the potential limitations of formal measurement in relation to this. A core component of strategic navigation

remains feedback control, which is a fundamental part of the overall approach. Strategic control is extended or subsumed by the development of fastforward change, a process focus and the concept of navigation, which enables performance management to be encompassed, and extends beyond the idea of control. Strategic navigation should permit rapid strategic adjustments to be made in response to environmental turbulence. In this sense the thesis attempts to address the capricious impact of environmental turbulence and how this relates to the underlying strategic context of management accounting. The implicit basis of management accounting tools, such as the balanced scorecard, is a relatively predictable, rational and measurable environment, which does not specifically highlight the impact of turbulence. Such an approach implicitly considers informal or process-based control as inferior, a position which is rejected in this thesis.

The case study findings highlight how strategic navigation could operate within an organisation operating in a turbulent environment. The findings demonstrate a strong process-based approach that is relatively unstructured and appears 'messy', but which enables rapid strategy implementation. This also acts as a powerful means of integrating operational and strategic issues. The idea of fastforward change and a process focus is highlighted in the case findings. This relates to the role of interactive and conversational people-based processes, and how they aid strategy formulation and implementation. Furthermore, the findings illustrate the role of the board of directors in relation to linkages between strategic and operational management, in particular relating to feedback control. This is an area that could be investigated further.

Within the realm of management accounting, strategic navigation and the idea of fastforward change provide an integrative means of comprehending the external environment, which is focused on both process and measurement. This is an alternative to the idea of continually attempting to identify and develop more and better predictive measurement tools, in particular non-financial measures, which

are likely to be less relevant in a turbulent environment. The case findings suggest how management accounting can play a useful role within strategic navigation. In this context, for example, they illustrate how management accounting could operate within non-traditional organisational structures and become a more integrated or ubiquitous part of the overall organisation. This should enable closer integration of management accounting and organisational strategy.

Strategic navigation reflects the call in the management accounting literature to move beyond notions of control and place greater emphasis on performance management (Otley, 1999; 2001; 2003). In this sense strategic navigation is reflective of the evolving role and function of management accounting in contemporary organisations. For example, it has been argued that management accounting systems should be transformed into broader organisational accounting and information systems that are able to deal with environmental complexity and that include a dual operational and strategic focus (Shields, 1997). This implies that the thesis findings arguably should have some degree of relevance in a variety of organisational contexts. Building on this idea, the research provides an avenue for theory generation in relation to refining and expanding the concept of strategic navigation.

8.7 Limitations and Further Research

A number of limitations can be identified with respect to this research. These also provide pointers as to the possible direction of future research.

Strategic navigation has been developed as a generic approach. While no particular reference is made to its cultural context, implicitly the setting relates to organisations operating in a particular western societal milieu. The empirical component of the research reinforces this point, with HF, the case organisation, based in Auckland, NZ. Hence the validity and relevance of strategic navigation

outside a NZ or western milieu is not clear and could be the subject of further research. In this sense strategic navigation could be examined in relation to literature encompassing the interface between management accounting and culture.

The strategic navigation approach has little to say concerning organisation size. While it is implicitly assumed that strategic navigation should be relevant within organisations of varying sizes, this aspect is not directly addressed. This is because the focus in this study was on developing the broad concept rather than detailed and specific application. However, the case organisation examined is relatively small and privately owned, and the findings provide some indication that strategic navigation is applicable in this context. The literature has highlighted the importance of examining management accounting systems suitable for small and medium sized organisations (Chenhall, 2003). Conversely, the size of HF could to some degree be influencing the findings concerning the management accounting systems used. This could, then, be an area of further research, where the idea of strategic navigation is examined in relation to corporations, both private and public, of varying size. Associated with size is the concept of organisational type, in terms of, for example, manufacturing, service, public and private organisations.

The case study undertaken investigated HF over a relatively short three month time period. Ideally, it would be insightful to examine strategic navigation from a longitudinal perspective and spend a number of months or even years observing an organisation. In this sense it would also be interesting to study HF further to discover what developments have occurred in relation to strategic navigation and management accounting. Furthermore, case analysis of a similar nature could be undertaken adopting different methodological perspectives.

The case study findings indicate that the board of directors are an integral part of the management accounting and organisational control, or performance

management, framework at HF. In part this seemed to be influenced by the relatively small size and private (rather than public) company structure of HF. In this respect, the role of company boards in relation to organisational control and management accounting is an issue that does not seem to be addressed in the literature. Accordingly, this could be an area of further research.

At the current point in time the strategic navigation approach is tentative. The concept has been proposed and the applicability of various components of this has been observed within an organisation operating in a turbulent environment. However, in order to develop greater understanding, significant further analysis, observation and testing of the idea should be undertaken. This would relate to both the concept of strategic navigation and its various elements. For example, an element of particular interest would likely be fastforward change and the idea of a process focus. This would also involve the development of precise or workable constructs relating to the various elements of strategic navigation in order to enable theory-testing research.

8.8 Concluding Remarks

The concept of strategic navigation adds to and extends the literature in the areas of management accounting, organisational control and strategic control. It goes beyond the idea of strategic control, which is part of the organisational control package, by explicitly recognising the impact of environmental turbulence and proposing a fastforward change element with a dual focus on measurement and process. It also makes explicit the role of a process-based performance management dimension. The impact of environmental turbulence with its capricious and uncontrollable nature is a core premise underlying strategic navigation. Rather than attempting to control turbulence, the focus is on rapid and flexible management response and avoidance of limitations on management actions that could be imposed by highly structured control and measurement frameworks. This also recognises that identifying relevant variables to measure

may be difficult and that the actual nature of measurement itself too slow in relation to turbulent and changing environmental conditions. The case study findings suggest that rapid response needs a focus on both operations and strategy. They illustrate how strategic issues and the idea of strategic navigation can potentially drive, and be closely integrated with, the operational side of an organisation. The case findings also highlight the need for a continuing measurement focus, relating to both feedback control and fastforward change, within a strategic navigation approach. In this sense existing strategic control measures, both feedback and feedforward, should remain of relevance in the design of a strategic navigation approach.

Strategic navigation suggests a combined process and measurement approach, as a means of integrating management accounting and strategy, in order to manage firm performance. Contemporary management accounting systems have overlooked the ideas of fastforward change and process, and concentrated largely on structural and measurement issues in relation to the development of more and better feedback controls and feedforward controls (e.g., the balanced scorecard). The concept of strategic navigation introduced in this thesis extends the role of management accounting beyond the notion of control and reflects Otley's (2001; 2003) suggestion for a greater focus on performance management.

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Appendix One: Research Information Sheet

MANAGEMENT ACCOUNTING AND STRATEGIC CONTROL

Introduction

My name is Chris Durden and I'm a Lecturer in Management Accounting at Massey University. The research I wish to undertake in your organisation forms a significant part of my Doctoral studies.

The Research

The purpose of the research is to look at how your organisation measures business unit performance and how long-term strategic goals and plans are actioned and monitored. I am interested in discussing these issues with various people in the organisation. I anticipate that this would involve an interview of approximately one hour's duration at a time convenient to the interviewee. I would like your permission to tape the interviews and also to take notes during this time. The tapes will be transcribed and the write-ups returned to interviewees for checking and confirmation that they represent the interview which took place. In the event of the audiotapes being transcribed by a person other than myself, the transcriber will be required to sign a Confidentiality Agreement. The name of the person being interviewed will be kept confidential and will not be disclosed in written accounts and publications arising from the research. However, given a particular interviewee's position and profile in the organisation there is a possibility that information they provide could be linked to them. Any information collected which is commercially sensitive will be treated in an appropriate manner in consultation with the Managing Director. The interview would be governed by protocols laid down by Massey University's Human Ethics Committee. This means that prospective participants in the research would have the right:

1. *to decline to participate;*
2. *to withdraw from the study at any time;*
3. *to refuse to answer any particular questions;*
4. *to ask any questions about the study at any time during participation;*
5. *to be given access to a summary of the findings of the study when it is concluded.*

If you have any questions or queries about the study I would be happy to answer them. I can be contacted as follows:

Phone: (06) 350-5799 ext 2196
Email: C.H.Durden@massey.ac.nz

In the event that you wish to contact my PhD supervisor, his contact details are:

Professor Hector Perera
School of Accountancy
Massey University
(06) 350-5799 ext 2167
Email M.H.Perera@massey.ac.nz

This project has been reviewed and approved by the Massey University Human Ethics Committee, PN Protocol 01/18

Appendix Two: Consent Form

CONSENT FORM

MANAGEMENT ACCOUNTING AND STRATEGIC CONTROL

I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I understand I have the right to withdraw from the study at any time and to decline to answer any particular questions.

I agree to provide information to the researcher on the understanding that my name will not be used in publications which arise from the research.

I agree/do not agree to the interview being audiotaped. *(please circle preferred option)*

I understand that I have the right to ask for the audiotape to be turned off at any time during the interview.

I understand that I will receive a transcription of the interview so that I can check that its content is correct and valid.

At the end of the research I would like the tape of the interview to be:

- retained by the researcher
- returned to me
- destroyed

(Please circle the preferred option)

I agree to participate in this study under the conditions set out in the Information Sheet.

Signed:

Name:

Date:

This project has been reviewed and approved by the Massey University Human Ethics Committee, PN Protocol 01/18

Appendix Three: Semi-Structured Interview Guide

Personal Details

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

Developing Long Term Goals and Plans

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

Monitoring Long Term Goals and Plans

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

Management/Internal Reports and Controls

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

Managing Business Performance

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

General

38. Is there anything else you wish to add?

Appendix Four: Interview Transcript Covering Letter

Dear XXXX,

Re: Hubbard Foods Interview

Firstly, may I extend my thanks for the opportunity to meet with you back in June.

Our taped discussion has been transcribed and a copy is enclosed. The research methodology that I am using for my study requires me to give each participant the opportunity to review the transcript as to the accuracy of statements made. The opportunity is also made for you to delete, correct and/or add additional comments to the questions and issues covered in our discussion. Keep in mind that interviewee names are confidential and will not be disclosed in written accounts and publications arising from the research.

I would appreciate a timely return of the transcript. For your convenience I enclose a self-addressed envelope (FreePost). If you have any questions arising from our discussion please do not hesitate to contact me at the address on the letterhead above or:

Telephone: (09) 4439700 Ext 2154
E-mail: C.H.Durden@massey.ac.nz

Yours sincerely

Chris Durden

Appendix Five: Hubbard Foods – Background Information

HF is a privately owned NZ-based breakfast cereal manufacturing company. The owners are Dick Hubbard, who is also the CEO, and his wife Diana. HF has a high profile in NZ and has won a number of national business awards for its innovative products and packaging. Also, at the 1996 biennial International Food Fair in Paris, the HF breakfast cereal *Berry Berry Nice* was recognised as one of the best products of its kind in the world.

The company commenced operations in 1988 and at that stage was known as Winner Foods. Initially staff numbers were about five. Three products were launched in the early stages of the company's life: *Corn Bubbles*, *Cornlets* and *Frubran*. However, the products were not successful. Sales were disastrous and as a result staffing levels were cut back to one – Dick Hubbard. In 1989 Winner Foods started to supply a major supermarket chain with house brand cereals, which provided the impetus for sales and profit growth and its eventual transformation into HF. Turnover improved significantly after the move into house brand cereals.

In 1990 Hubbard-branded cereals were launched and the company changed its name to 'Hubbard Foods'. The re-launch included the customer communication tool, Clipboard, which is a four page mini-newsletter/magazine placed in each packet of cereal. Dick Hubbard has a strong desire to communicate with his customers and the aim was to develop a personalised approach in conjunction with the Hubbard brand. The idea was to explore various issues with customers via Clipboard and seek their feedback. The launch of the new company name was also associated with a move to build an active profile in community and social affairs.

HF is NZ's largest locally owned breakfast cereal manufacturer and the second largest cereal operation in the country after Sanitarium, who along with Kelloggs and, to a lesser extent, Uncle Tobys are its major competitors. However, in an

absolute sense HF is significantly smaller than its overseas owned and/or based competitors. The company operates from a large complex at Mangere, South Auckland. All cereals are manufactured at this site. The overall operation has a staff of about 130, with the majority working in the factory and warehouse areas. Company policy is that all staff are on first name basis. Staff turnover is very low, with many staff employed in the early years of HF still remaining. There have been no staff redundancies during the life of the company. The management structure comprises four senior managers, including the CEO, and approximately five middle managers. There are also various supervisory staff in the factory and warehouse areas. HF has a formal board of directors, appointed by Dick and Diana Hubbard. This comprises three senior managers, two outside directors and Dick and Diana Hubbard. Board meetings are held approximately every six weeks.

Since the establishment of HF in 1988, its sales have increased by approximately two million dollars each year. In 1988 sales were a little over \$300,000, while in 2001 they had increased to approximately \$24 million. However, the trend in profits has not been as healthy. Initially, profits were increasing at a relatively slow but steady rate, though in recent years the profit trend has been relatively flat. For example, over the eight year period 1993-2001 sales increased from approximately \$7 million to \$24 million, but the level of profits per year remained flat at about \$1 million.

HF has an overall share of the NZ breakfast cereal market of approximately 18%-20%. Of this, approximately 10% is represented by the Hubbard brand and 10% by supermarket house brands. The majority of supermarket house brand cereals in NZ are manufactured by HF. The manufacture of house brands also extends internationally, supplying supermarkets in Australia and Singapore, for example. The company manufactures over twenty different Hubbard brand cereal varieties and a similar number of house brands for various supermarkets chains, both in NZ and overseas.

The HF breakfast cereal range is wide, covering wheat flakes, various mueslis, rice products, speciality flakes, puffed wheat and cornflakes. The company has always focused on making innovative and different cereals such as, for example, unique mueslis with high fruit content and unusual flavours, such as feijoa. They have also purposely adopted distinctive and unique Hubbard brand product names, including: *Berry Berry Nice*, *Outward Bound*, *Fruitful Breakfast*, *Good As Gold*, *Forever Feijoa*, *Berry Berry Bubbles*, *Home Sweet Home* and *Bugs In Mud*. HF use a wide range of ingredients, including liberal use of raisins and sultanas, various tropical fruits from the Pacific region, freeze-dried fruits, berries, fruit juice, various nuts, coconut and yoghurt-coated raisins. Innovative packaging is also a distinctive feature of the Hubbard approach. Some packages, for example, have small cut-out 'windows' in the front of the carton so that the customer can actually see the product through a cellophane bag. All packaging is very bright and colourful, and distinctly different in style from other cereal brands. In addition, included in each packet of cereal is the Clipboard newsletter.

In the early years of HF, Dick Hubbard attempted to position the company with a very personal image and made a feature of its smallness. The goal was to create a values-based company focused on the virtues of honesty, integrity and goodness. As a result, HF is now closely associated with the public profile and values of its owner, Dick Hubbard, who considers that the company has a 'soul' and is 'caring and sharing' in relation to its approach to business. The foci in this regard are particular collective values and beliefs that relate to the operation of the company. For example, Dick Hubbard believes that businesses should measure their performance in environmental and social terms as well as economic. He subscribes to a stakeholder approach and considers that ownership of the business also creates a stewardship and moral obligation, whereby he needs to give something back to society as 'payment' for the ability to use its resources, own a company and have limited liability. This approach includes a focus on the local community and the donation of money and goods to what are considered worthy causes. Examples of community organisations financially supported by HF include Outward Bound, an

outdoor educational school focusing on social and emotional learning and World Vision, through its Kids for Kids concerts. The company has a policy of hiring mainly from the local community with a particular policy of targeting young people and long-term unemployed. Dick Hubbard's basic philosophy is to operate the company for the public good and his vision is to distribute 20% of profits to public projects (currently about 10%). To reinforce its societal commitment, in 2001 the company published a triple bottom line annual report on its web site, setting out social and environmental achievements (and negatives), along with financial results (see www.hubbards.co.nz). Dick Hubbard is the founding chairman of The Sustainable Business Network (previously known as NZ Businesses for Social Responsibility), which encourages the use of ethical and sustainable business practices to achieve peak performance.

Dick Hubbard prefers to focus on the quality of profit rather than the quantity of profit. While he considers profitability an important business goal, he does not necessarily consider it as the only goal. Employment levels and job provision/creation are seen as at least equally important. For example, staffing levels at HF are about three or four times higher per \$1m of turnover than those of bigger, more sophisticated companies. Kellogg's in Sydney has about 200 workers and a turnover of \$400m. HF has approximately 120 staff and a turnover of about \$24 million. This emphasis on employment creates risk, because cereal manufacture is increasingly linked to capital-intensive cooking technology (e.g., large band ovens). The company has a staff profit share scheme, where 10% of pre-tax profit is distributed six monthly, based solely on length of service. Factors such as seniority or salary level have no influence on the profit share received. Hence a factory worker with 10 years service would receive a share of profits ten times higher than an accountant who had only been employed at HF for one year.

HF has achieved success (i.e., sales growth and profitability) without any form of commercial advertising. In this respect the company has a firm policy of not using advertising, and is particularly opposed to advertising that includes negative

comments on competitors' products. Advertising is considered unethical and akin to spending the customer's money, which could be better applied to keeping retail prices low and affordable.

Overall, HF strives to be an innovative organisation. This is particularly evident in terms of its treatment of and attitude towards staff, and interaction with the broader community. The company focuses on manufacturing a product range that is unique and in conjunction with this the Hubbard brand is actively developed. This provides a point of clear product differentiation and a means of surviving in a market place that is dominated by large internationally-based breakfast cereal manufacturers.

Appendix Six: Letter to Dick Hubbard

20 March 2001

Mr Dick Hubbard
Hubbard Foods
P.O.Box 24-395
Royal Oak
AUCKLAND

Dear Mr Hubbard,

Let me introduce myself. For the past 11 years I have been a Lecturer in the School of Accountancy at Massey University (Palmerston North). During this time I have developed a teaching interest within the field of management accounting and have also conducted research and published papers in that area. Prior to this I was employed in industry in management accounting and operational positions (Glaxo NZ Ltd & Mobil Oil NZ Ltd).

I am currently enrolled in a PhD programme at Massey University which is focused on the integration of management accounting systems and strategic control (see attached Research Plan). My PhD is now at the point where I need to undertake research within an organisational setting. In particular, the planned project utilises a case study methodology whereby the research subject is examined as a 'contextual phenomenon'.

This letter, therefore, is to request your willingness to allow Hubbard Foods to participate in my research project. Hubbard Foods has been chosen as a potential research site because it is a growing business, recognised as innovative and progressive, and with a developing international market orientation. The research is not designed to judge or evaluate the operations of Hubbard Foods. My interest is not in detailed accounting records or financial results, but rather reporting frameworks and methods used to both measure and manage business performance.

The actual research process would involve interviews with various company personnel and observation of business operations. It is not my intention for visits and interviews to be onerous or disruptive to Hubbard Foods ongoing operations and hence they would be scheduled at mutually convenient times (my goal is to conclude site visits by Aug-Sept 2001).

I believe participating in this research project could also benefit Hubbard Foods. In particular, your business would have access to my knowledge about the areas being investigated. In this context, because the research process would be based on a detailed examination of your operations, the findings should be useful in signifying how your existing performance management and reporting practices could be enhanced. A copy of the research findings would also be made available to you.

I will follow up this written request with a telephone call in approximately one week's time

Yours sincerely

Chris Durden

E-mail: C.H.Durden@massey.ac.nz
Telephone: (06) 350 5799 Ext 2154



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SUPERVISOR'S DECLARATION

This is to certify that the research carried out for the Doctoral thesis entitled "The interface between management accounting and organisational strategy: From strategic control to strategic navigation" was done by Chris Durden in the School of Accountancy, Massey University, Palmerston North Campus, New Zealand. The thesis material has not been used in part or in whole for any other qualification, and I confirm that the candidate has pursued the course of study in accordance with the requirements of the Massey University regulations.

Supervisor's Name

Professor M. H. B. Perera

Signature

Date

18/1/04



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CANDIDATE'S DECLARATION

This is to certify that the research carried out for the Doctoral thesis entitled
“The interface between management accounting and organisational strategy:
From strategic control to strategic navigation” in the School of Accountancy,
Massey University, Palmerston North Campus, New Zealand is my own work
and that the thesis material has not been used in part or in whole for any other
qualification.

Candidate's Name

Mr Chris Durden

Signature

Date

27/1/04



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CERTIFICATE OF REGULATORY COMPLIANCE

This is to certify that the research carried out in the Doctoral Thesis entitled
"The interface between management accounting and organisational strategy:
From strategic control to strategic navigation" in the School of Accountancy at
Massey University, New Zealand:

- (a) is the original work of the candidate, except as indicated by appropriate attribution in the text and/or in the acknowledgements;
- (b) that the text, excluding appendices/annexes, does not exceed 100,000 words;
- (c) all the ethical requirements applicable to this study have been complied with as required by Massey University, and relevant legislation.

Please insert Ethical Authorisation code(s) here: (if applicable): *PN Protocol 01/08*

Candidate's Name: *Mr Chris Duden*

Signature: *[Handwritten Signature]*

Date: *27/1/04*

Supervisor's Name: *Prof. M.H.B. Pereira*

Signature: *[Handwritten Signature]*

Date: *18/1/04*