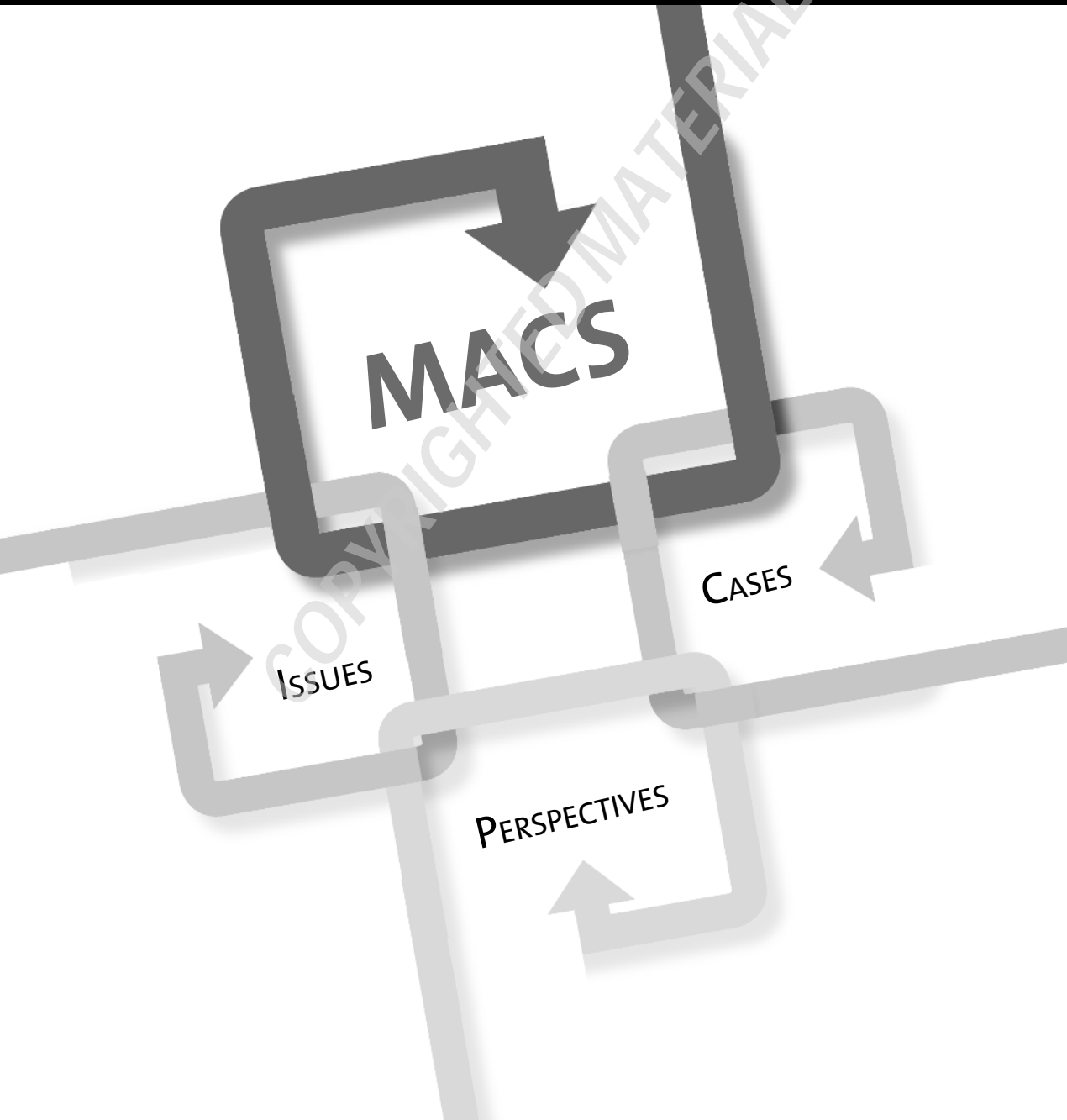


AN INTRODUCTION TO MACS: ISSUES, CASES, AND PERSPECTIVES



Issues: Why Management Accounting and Control Systems (MACS)?

In this chapter:

- 1.1 Why are MACS so Important?
- 1.2 What are MACS?
- 1.3 The Structure of the Book

1.1 Why are MACS so Important?

Control might be the most contentious word of our time. Half of the world thinks of control as coercion and oppression and protests that we should have less of it; the rest believes that society is pretty much out of control and that we need more of it. Either way, and regardless of one's political stance, control is a phenomenon that requires careful study if we are to make sense of our world. This book is about one very important and specific sort of control: *management accounting and control systems* (MACS).

It is not too great an exaggeration to say that MACS are so important and ubiquitous today that, if accountants and information people wrapped up their systems and took them home, the whole process of producing society's material goods and services, along with the governance of the social order, would grind to a standstill. Banks would close, factories would produce goods at random, supermarkets would be out of many products and overstocked on others, police would arrest and release the wrong people, and the military would

not have a clue which way to point their missiles. These controls are the central nervous system of the immense organism that we call “society,” although sometimes people believe that they are only an unimportant technical matter.

Even in the early part of the twentieth century, MACS were recognized as essential to the affairs of large corporations. Firms such as BP, Deutsche Bank, FIAT, and Shell in Europe and DuPont, General Motors, Sears, Standard Oil of New Jersey, and Bethlehem Steel in the US all developed early forms of management accounting and control. It should be no surprise that issues of control have always existed and date from much earlier than the rise of corporations as we know them nowadays. Think of the Kingdom of Egypt,¹ the Roman Empire, the administrative features of medieval and modern religious societies:² MACS have always been there, in various forms and degrees, functioning in different ways and following various aims but all geared towards ensuring some kind of order. They are an integral part of the systems attempting to govern organizations, corporations and whole societies³ and trying to guarantee their survival and endurance.

As Alfred Sloan, former chief executive officer (CEO) of General Motors, explained in his memoirs:

Financial method is so refined today that it may seem routine; yet this method—the financial model as some call it—by organizing and presenting the significant facts about what is going on in and around a business, is one of the chief bases for strategic business decisions. At all times, and particularly in times of crisis, or of contraction or expansion from whatever cause, it is of the essence in the running of a business. (Sloan, 1963, p. 118)

The globalization of these same corporations, along with newcomers and their counterparts in other capitalist countries, the spread of managerial thinking, and the role played by large transnational consulting firms have made financial controls even more vital today. When controlling a highly complex and multifaceted operation in over 150 countries around the globe, a common language is essential. That language, even more universal today than English, is accounting and finance.

Management accounting and control systems are the principal means by which a few meganational enterprises virtually rule our contemporary world. Journalist Janet Lowe, in her carefully researched and disturbing book, *The Secret Empire*, convincingly documents how 25 multinational corporations, which developed out of the reach of public control, have become the new center of power of the world. Similarly, Michael Hardt and Antonio Negri have illustrated that this empire has now spread across national boundaries at the expense of large numbers of citizens. Its combined financial resources—sales and assets—exceed that of all but half-a-dozen or so nation states. The men at the desks at the top of these meganationals (there are virtually no women at the top) run their vast empires with highly sophisticated financial control systems.⁴ These allow them to govern vast conglomerates of human and financial resources at leisure from their soft chairs, without having to move from their beautiful offices at their headquarters. Management accounting and control systems are an integral part of this staggering development.⁵ These goliaths could not exist without them.

1.2 What are MACS?

This book is about MACS. Sometimes they are referred to as *planning and control systems*, sometimes *management control systems*, and sometimes simply *control systems*. We call them *management accounting and control systems* to signal our primary concern with management accounting systems such as the annual operating budget for a division of a multinational conglomerate, or a standard costing system for a factory, or a case-mix costing system for a hospital. This is control in the tactical sense.

If understood in this narrow sense, management accounting may seem fairly easy to define. It is

the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information that assists executives in fulfilling organizational objectives . . . a formal mechanism for gathering and communicating data for the ends of *aiding* and *coordinating* collective decisions in light of the overall goals or objectives of an organization. (Hornigren and Sundem, 1990, p. 4)

However, management accounting is also about control in its broad sense. Strategic planning systems, standard operating rules and procedures and informal controls such as charismatic leadership and the fostering of a clanlike atmosphere are examples of how complicated it is to make someone do something. This is control in the large. So we use the term “control” to signal that the book also deals with other related administrative devices that organizations use to control their managers and employees. “Control” has an interesting etymology dating back to the Latin *contra*, “opposite,” and *rotulus*, “a script,” and draws upon an opposition between two poles: a “rôle” a (role-player) who acts to a script, and a “contre-rôle” (counter-role), which monitors the role player’s compliance. This etymology says a lot about the purpose of control: it is about making sure (or having the impression) that someone and/or something that plays a “role” (for instance an employee or a machine on the shopfloor) follows the script. Yet, there needs to be a wise balance between an excess of control, which would lead to resistance and organizational turmoil, and a lack of it, which would cause organizational chaos and disintegration. How and why such a balance exists is a matter of effective control. This book is about understanding it.

Our premise is that management accounting systems are only a part, albeit usually a very important part, of the entire spectrum of control mechanisms used to motivate, monitor, measure, and sanction the actions of managers and employees in organizations and to coordinate these with the other components that make organizations what they are: machines, information and communication technologies and the like. So, to understand the workings of management accounting systems fully it is necessary to see them in relation to the entire array of control mechanisms used by organizations. Our aim is for the reader to develop a strategic perspective of MACS in this larger context.

1.3 The Structure of the Book

The book has four parts as illustrated in Figure 1.1.

Part One introduces the issues that the book intends to address. It defines the contours of MACS. These are then exemplified in Chapter 2, which provides the empirical base of the book. In that chapter we will introduce four cases that contribute to a clear understanding of the features, problems and practical considerations involved when dealing with MACS. Part One also outlines various perspectives from which MACS can be considered. These have been arranged into two groups for simplicity.

The first main group of perspectives is characterized by a strong and positive belief in “reality” and is made of three further subgroups. The first subgroup posits individuals and individual agencies as the cornerstone of theorization on MACS. The second subgroup takes the organization as the pillar for theorization. In the third subgroup, certain contextual factors, such as the social environment in which individuals and organizations operate, shape the contours, purposes, uses and functioning of MACS.

The second main group of perspectives is characterized by a strong belief in the constructed nature of MACS—that is, they do not have given features and purposes but, rather, their features are defined in networks of relationships. Three further subgroups seek to explore this relationist view. The first focuses on the interaction between structures and

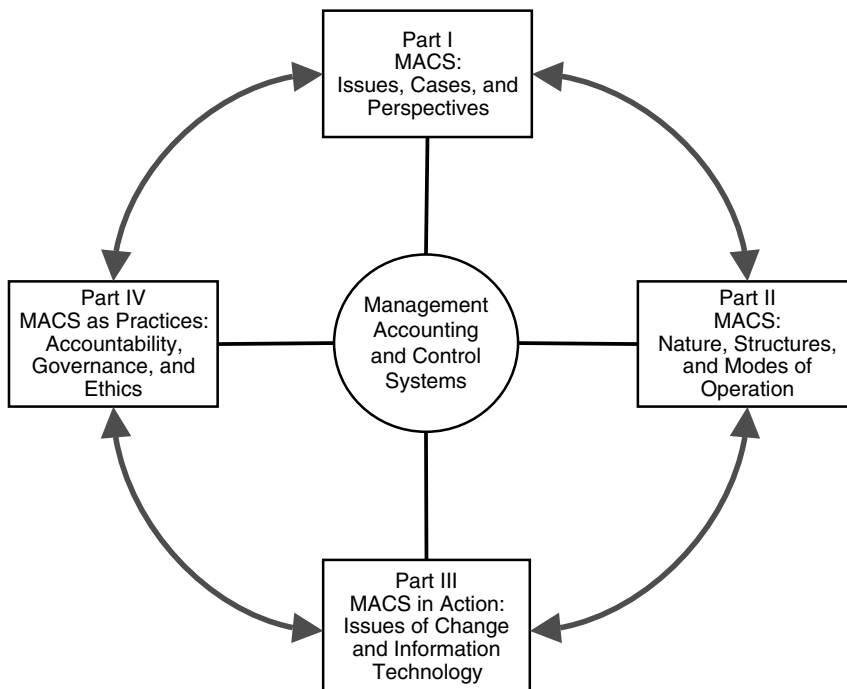


Figure 1.1 The structure of the book

agencies; the second takes the notion of practice as the key element to study MACS; and the third views actors as networks and thus espouses a view of MACS as key nodes in a nest of business and organizational relationships.

Part Two deals with the *nature, structures and modes of operation* of MACS. Chapter 4 views these systems as dealing with issues of information and power, and how this creates forms of organizational control. The focus on information and how it creates power within organizations helps us to link economic views of MACS with other more sociologically informed views. Chapter 10 will address this relationship between information, knowledge and power as part of one of the specific aspects of the way in which MACS work in practice. Chapters 5 and 6 deal with the structure of MACS—that is, the mechanisms that are put in place within organizations to make control operate at various levels. We will deal with the dilemma of markets versus hierarchies to address the problem of resource allocation and how, within hierarchies, various mechanisms of control (mechanical, organic, cybernetic and strategic) are operationalized to make sure that some kind of organizational order is achieved. This description is then integrated, in Chapter 7, with the various modes of operation that control systems can present in different organizational forms and environmental situations.

Part Three presents a shift from the analysis of these systems as abstract formulations, and as generalizations from practice, to a discussion of the ways in which these systems work in daily organizational action. Chapter 8 will describe various models of change to explain how MACS participate in, and are shaped by, processes of organizational change. Amongst the changes that have characterized the recent evolution of these systems is the now-ubiquitous presence of information technology (IT) as an integral part of organizational control, not only in the form of microtechnology but also at a level where it affects notions of control and its functioning. These issues are discussed in Chapter 9.

Part Four looks at MACS *in and as* practices. In particular, Chapter 10 views these systems as an integral part of the mechanism of social order directed to the exercise of power and the creation of specific kinds of citizens and people. This happens through particular mechanisms of control in various organizations, which make some behaviors more appropriate than others; through the combination of organizational and macroinstitutional pressure to make societies ordered and citizens governable; and, finally, through the existence of specific training regimes that inform and shape the ways in which MACS are enacted in practice, and lead to the creation and pursuit of specific visions and notions of rationality. Chapter 11 deals with these issues at an ethical and societal level and views issues of control, governance and accountability not simply as organizational problems but as specific forms of arranging and governing societies. Management accounting and control systems are seen as possessing the ability to cement or disrupt organizations and societies.

The book intends to cover some conventional themes of accounting and control but from a different perspective. In doing so, it seeks to provide a perspective rather than offering a complete view on these issues. We are aware that some themes are not treated in the book (for example the growing phenomenon of interorganizational relationships) but we hope we can provide the tools to equip the reader with a different approach to view them. And we may still deal with them in a future edition of the book!

Endnotes

1. See Ezzamel and Hoskin (2002).
2. Quattrone (2004, 2009).
3. See, for instance, Miller and O'Leary (1987).
4. For an inside look at how these meganationals are run with financial controls, see Sampson's exposé (1974) of the rise and fall of International Telephone and Telegraph Company (ITT).
5. See Latour (1987) and Quattrone and Hopper (2001, 2005). The ethics of this kind of concentration is addressed in some detail in Part Three of this book.

Further Readings

Those who are interested in knowing more about current issues in MACS can look at:

- Bhimani, A. (ed.) (2006) *Contemporary Issues in Management Accounting*, Oxford University Press, Oxford.
- Chapman, C., Hopwood, A. and Shields, M. (2007) *Handbook of Management Accounting Research* (2 vols), Elsevier, Oxford.
- Drever, M., Stanton, P., McGowan, S. (2007) *Contemporary Issues in Accounting*, John Wiley & Sons, Inc., New York.
- Hopper, T., Scapens, R., Northcott, D. (2007) *Issues in Management Accounting* (3rd edn), Prentice Hall, Financial Times, London.
- Macintosh, N., Hopper, T. (eds) (2005) *Accounting: The Social and the Political*, Elsevier, Oxford.