



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

# Management Accounting Change within a Shipyard

## - a case study

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## **Abstract**

The vast majority of the models being used within management accounting today are based on neo-classical theory. Scapens (1994) considered the neo-classical assumptions, rational behavior and market equilibrium, to be unrealistic. Thus, a gap between theory and practice was identified by Scapens (1994). Further, he stated that the human factor has a significant influence on the changes being made within management accounting, rather than rational behavior. Therefore, he introduced Institutional theory as a useful framework when performing research within management accounting. The purpose of our thesis is to identify and further describe the factors affecting change and the effects that they may involve. In our thesis, the institutional theory is a starting point, however, in order to provide the reader with a more comprehensive understanding, additional theories are presented within the theoretical framework. The chosen method is a case study since it provides a more thorough understanding of the problem being studied. Interviews were conducted with the chosen company for our case study. Further, interviews with two additional companies operating in the same industry were conducted, in order to provide a wider perspective on the problem being studied. Factors affecting change within management accounting are analysed and the conclusions are presented in the last chapter.

**Keywords:** Management accounting change, Institutional theory.



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## 1. Introduction

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*The first chapter is an introduction to the thesis starting with a presentation of the chosen subject, the area of research and its background. Thereafter follow the problem discussion, the purpose of the study, the research questions and the limitations. Furthermore, the section includes the disposition of the entire thesis, which describes the content of each chapter.*

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### 1.1 Background

In general, management accounting is considered a tool, used in order to provide managers with the information needed to plan and control the business (Burns and Scapens, 2000).

Conventional wisdom portrays 'Change' as variation, alteration or transformation; a passing from one state, phase, position or form to another; such as a change of countenance and a change of habits or principles.

Management accounting change is a concept, without an apparent definition. However, the subject is widely debated and it may be questioned whether management accounting has undergone a change or not. Nevertheless, it is indisputable that the social and economic environments, where companies operate, are in a state of continuous development and have become more complex and dynamic. This development is characterised by a more accessible world market, keener competition, more available information, altered organizational configurations and a rapid progress of technology. A greater focus on adapting management accounting is required, since the changes in the economic surroundings often induce companies to accomplish radical adjustments regarding their methods of operating through management accounting (Scapens and Burns 2000). Research has shown that accounting systems and other tools are being used in a more flexible way, and both financial and non-financial measurements have increased in significance (Miller and O'Leary, 1993).

It is generally acknowledged that a condition for companies to achieve profitability is having a management accounting system that fits the general business and strategy. The management accounting system has to be up-to-date in order to be as efficient as possible so that companies can manage to compete for the market shares. As organisations change, it is essential to establish a management accounting system within the organisation, which is compatible with both the external and the internal changes (Scapens, 1994).

In spite of the factors, which cause a more flexible management accounting, limited adjustments have been realized. This fact could be explained by the 'inertia', which characterises management accounting. The inertia of management accounting does not necessarily involve direct implications on business but will often entail major impacts on both a short and long term basis. If the management accounting system is obsolete, the risk for companies to lose their competitive advantages arises (Drury et al, 1993).



The way of performing research within management accounting change may differ and vary endlessly since there are several different perspectives and dimensions within the subject. In the early 90's the process of management accounting change received little attention by researchers. Innes and Mitchell (1990) stated that the world of management accounting experienced a lack of knowledge regarding the process of change. Their starting point was the contingency theory, meaning that management accounting change is affected by the organisational structure and context, which both may expedite and restrain the process of change (Williams and Seaman, 2002).

Most of the models used within management accounting are based on neo-classical theory and its core assumptions; rational behaviour and constant market equilibrium. To analyse management accounting change, the neo-classical assumptions are more or less abandoned, since they are considered unrealistic. Hence, to establish a framework for conceptualizing management accounting change, institutional theory is frequently used. Scapens (1994) was the first one to introduce this perspective within management accounting research in order to understand the systems used in practice and the changes it has undergone. With support from institutional theory, Scapens (1994) states that management accounting used in practice is equal to institutionalised routines. Further, he mentions that this view of management accounting practice makes it possible for organisations to *'reproduce and legitimate behaviour, and to achieve organisational cohesion'*. When performing research within management accounting it may be suitable to apply an institutional perspective on the economic processes in order to obtain a thorough understanding of institutional arrangements (Scapens, 1994). Ever since Scapens published his paper in 1994 that area of research has grown and has become a subject of many studies (see e.g. Burns and Scapens, 2000; Burns and Vaivio, 2001).

When studying the process of management accounting change it is crucial to acknowledge the important role of routines and institutions and their influence on the shaping process of management accounting (Burns and Scapens, 2000). Institutional theory explains why organisations do not function as rationally as they aim to, focusing on how organisations are affected by external factors, routines, habits and contemporary trends rather than by rationality (Eriksson-Zetterquist, 2009), and can therefore be considered as a fruitful starting point for future research within the area of management accounting research (Scapens, 1994).

## 1.2 Problem discussion

Due to the fact that the economic models often are based on neo-classical theory, the assumptions of which are considered unrealistic by institutional economists, a gap between the systems used in practice and those presented in theory, have been recognized (Scapens, 1994). According to Scapens (1984) the gap is caused by the fact that the conventional wisdom regarding management accounting systems was created and developed mainly during the 1960s when neo-classical theory was dominating. However, neo-classical theory was developed in order to describe the behaviour within the industry and to understand the





development of the market rather than explaining the behaviour of individuals operating within management. A widespread issue regarding the theories and tools within management accounting is that companies sometimes may rely excessively on them, and utilize them with an un-critical approach (Scapens, 1994).

To act completely rationally requires that individuals have access to all information necessary and, that personal feelings and opinions are excluded from the decision-making process. It is virtually impossible to exclude the fact that information is often insufficient and that decisions are based on factors, such as individual preferences. Thus, it is essential to be observant to the character of those who operate the management accounting. Individuals establish certain ways of acting and some have a conservative approach towards change, whereas others express openness to innovation and change (Scapens, 1994).

Individuals often do not question things that are a matter of course for them. The influence of the human factor on management accounting change is often forgotten. It is crucial to pay attention to the routines and institutions within a company in order to analyse whether it has undergone a management accounting change and, if so, why and how the changes have affected the organisation (Scapens, 1994). Furthermore, it is important to not only study management accounting as a static phenomenon, but also consider management accounting change as process that explains why certain systems are used and what has affected the development (Scapens and Arnold, 1986).

The gap between management accounting theory and practice, identified by researchers such as Scapens (1984) and Drury et al (1993) has been a reason for concern and debate among researchers. There is, however, no consensus regarding whether the gap involves a problem. In order to understand management accounting today it is crucial not to dismiss the methods used in practise as being incorrect, nor consider conventional wisdom as the desirable model (Scapens, 1994).

*“Researchers should not become unduly concerned about comparisons of management accounting practise against theoretical ideals. Rather, they should focus more closely on the study of management accounting practice per se.” (Scapens, 1994:302)*

The problem can be stated as lack of knowledge regarding factors affecting the change process within management accounting in practise, rather than the gap itself being the crucial problem (Scapens, 1994).

### 1.3 Purpose

The purpose of this study has emanated from the background and the problem discussion.

*The purpose of this thesis is to investigate the process of management accounting change within an organisational context. To gain a thorough understanding regarding the process of change, internal and external factors are studied and analysed through a case study. Furthermore, potential catalysts for change and resistance towards change within a certain organisation are identified and discussed.*



## 1.4 Research questions

In order to achieve the purpose of the thesis two research questions have been posed.

1. Which are the factors affecting the changing process within the case company?
2. What effects of these mentioned factors can be identified?

## 1.5 Delimitations

A limitation being made when writing this thesis is the choice of studying one company at a deeper level in order to get a thorough understanding of the chosen company.

A further limitation being made is the choice of conducting interviews with two other companies operating within the same industry as the case company. These companies were intended as a complement to the case company.

The main reason for the limitation being made is lack of time.

## 1.6 About the company

### 1.6.1 The company's history

In order to analyse and understand the company today, a deeper knowledge of its business and its development over the years is required.

The Swedish company, later referred to as *Alpha*, was founded more than 150 years ago. In the early years, its main focus was to “construct a variety of machines, tools and castings made of iron and other metals.” During the expansion around the turn of the century *Alpha* paved the way for the whole Swedish shipyard industry into the world market. Other companies followed the example set by *Alpha* and, during the interwar period, Sweden was one of the leading countries within the industry.

There were some important factors that contributed to the rise of Swedish shipyard industry such as more efficient work methods and wider interaction between parties, leading to a more effective construction processes and consequently, the major investments in new machinery and innovations. These innovations were adopted by *Alpha* and the company became therefore a leading actor within the industry.

From the starting point and for at least 125 years ahead, *Alpha* was characterised by the continuous confidence in the company's ability to perform as well as by its entrepreneurial spirit, constantly disregarding general conventions within the industry. The founder of *Alpha*



was considered a pioneer within Swedish industry. Despite times of adversity, he was open to new ideas and technical innovations. Further, he adopted new methods and innovations within the construction business rapidly and applied them to improve his shipyard industry.

Due to the fact that the workforce was composed of employees, whose families have worked at the company for generations, affected the development of the company culture and its specific characteristics.

At the end of the 60s the increased expenses regarding salaries and the demands of longer periods of credit from the shipping companies, combined with abandoning the Bretton Woods system, was the beginning of the major crisis within the Swedish shipyard industry 1974. Due to the crisis the Swedish government saved Alpha, among other shipyards from bankruptcy, which therefore became subsidiaries to the state-owned *Svenska Varv AB*. This involved the reconstructing or discontinuation of many shipyards. Alpha was one of few companies surviving the crisis, but faced a significant downsizing. Year 1990 only minor parts of the business remained and in 1993 the company was reconstructed. Since the year 2000 the company is owned by another company, situated in the Netherlands and operating all over the world (*Götaverken 125 år*).

### 1.6.2 The company today

The company's main activities are repair, rebuilding and maintenance of larger ships. If the quay is available they also hire out quay-berth in order to increase the profit. Furthermore, they have key customers, which the company is highly dependent upon and their most significant competitors are the shipyards operating within the same geographical area as *Alpha*. The company has about 30 employees working at the headquarters and 100 employees working in the workshops and the docks. In addition, the company cooperates with recruitments agencies from Eastern Europe, which provide staff. This implies a greater extent of flexibility and lower costs.

Ever since the 60s the company has experienced a downward trend with some occasional gleams of light. In the beginning of the 90s the previous owner came to a breaking point after many years of heavy losses. The state-owned company sold their share to the employees resulting in a reconstruction and the company experienced heavy downsizings. Due to hard-working and deeply committed employees the company managed to turn the negative trend around. Today the company is profitable and in 2009 the turnover was approximately 350 000 TSEK and the reported result was 3 700 TSEK.

## 1.7 Disposition

*Chapter 1:* The first chapter is an introduction to the thesis, starting with a presentation of the chosen subject and a background of the area of research. Further, included in the first



chapter are the problem discussion, the purpose of the thesis, the research questions and the delimitations. Thereafter follows information about the chosen case company in order to obtain a deeper understanding.

*Chapter 2:* The second chapter starts by presenting the chosen methodology, case study. Different research approaches are presented and the method used in this thesis is further described.

*Chapter 3:* The third chapter contains the theoretical framework of the thesis, providing different perspectives when studying management accounting change. Further, concepts that contribute to a more thorough understanding are presented.

*Chapter 4:* The fourth chapter presents the empirical data that has been collected for this thesis, through interviews.

*Chapter 5:* The fifth chapter contains the analysis, where the theories presented in the theoretical framework are compared with the empirical data.

*Chapter 6:* The sixth, and the last chapter, contains the conclusions of the thesis based on the research questions.



## 2. Methodology

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*In this chapter the methodology, which enables answering the research questions and achieving the purpose of the thesis, is specified. The qualitative approach and why it is suitable for this thesis is presented. A case study is applied as a tool, in order to analyse management accounting change. Further, the method of collecting data and the process of the conducted interviews are presented.*

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### 2.1 Research approach

There are two different kinds of research methods, qualitative and quantitative.

Qualitative research intends to, through collection of various kinds of data, create a thorough understanding regarding the chosen subject and the problems studied in the thesis (Holme and Solvang, 1997), by examining the collection of data more thoroughly (Wallén, 1996).

According to Trost (2005), a qualitative resource approach is suitable to outsource, describe and understand a specific research area. The purpose is mainly to understand the causes behind the phenomenon, rather than explaining it (Holme and Solvang, 1997). Furthermore, the main focus of this method is to understand various contexts and the related processes.

Quantitative research uses numbers instead of words to analyse a certain phenomenon and to come to a more general conclusion, by converting the numbers into quantitative units (Denscombe, 1998). This method is often used within science and is based on data such as statistics, mathematics and arithmetical formulas (Holme and Solvang, 1997). Denscombe (1998) describes quantitative research as a method with a high level of objectivity. Furthermore, he states that this method is based on a predetermined research design, as it is constructed in advance. However, using this method may entail a less flexible research process.

The purpose of this thesis is to understand the process regarding management accounting change, which is a complex subject since there are no definitive answers. Due to the complexity regarding the certain field of study, the chosen research approach for this thesis is qualitative. Further, the concepts *change* and *institution* are rather abstract, which may imply a high degree of interpretations when studying this specific subject. Thus, a quantitative method would be difficult to apply. The research questions, presented earlier, would have been difficult answering, using a quantitative method. The chosen method will through detailed interviews offer the best possibility to reach the purpose of the thesis. A quantitative method would have been difficult to use when trying to analyse change, since



the outcome is hard to predict. In order to use qualitative methods, closeness to the object of research is mandatory (Holme and Solvang, 1997).

Qualitative studies are often subject to bias of the researchers, as a result of the unavoidable personal interpretation of the collected data and its outcome. As researcher it is essential to have a critical approach towards the chosen data and methodology (Holme and Solvang, 1997).

## 2.2 The case study as method of investigation

A case study is considered producing the three main principals of qualitative research, describing, understanding and explaining. A case study is an empirical investigation, which intends to provide understanding and explanation of a particular and contemporary problem within an area of research. A distinctive feature with a case study is that its design is non-experimental and solely illustrates the reality of one subject, such as an organisation and event (Yin, 2006).

The benefits gained by using a case study as method are the detailed information received, regarding the unit, which can be valuable for further research. It may be difficult to apply the result directly on similar units with the same conditions. In general, the results from a case study can never be used to draw general conclusions within an area of research. However, repeated studies within the same area of research may lead to a more general theory regarding the field of study (Yin, 2006).

There are a number of purposes, which motivate a single case study. One of those is the critical approach towards theory, models, presumptions or praxis that a case study provides. The aim is to analyse the case in relation to the factors mentioned above and further investigate whether the overall knowledge, existing within the area of research, is useful or not. Furthermore, the case is unique and represents a combination of more or less known circumstances, where the number of previous research studies is limited. The case intends to illustrate an existing phenomenon that has not been a subject of previous research, due to restrictions or lack of attention from researchers (Yin, 2006).

A purpose of using a multiple case study is the ambition to produce a more generalizable knowledge, which is easier to accomplish with more than one research object (Yin, 2006).

When the purpose is to gain knowledge about the society, organisations and human behaviour in general, there are the two fundamental types of case studies to choose from, deductive and inductive. Further, abduction is an additional type, recently acknowledged, which is a mixture of the two previous mentioned. Deductive case study intends to draw conclusions concerning specific events based on general theory, existing within the area of research. Inductive case study is based on a specific event, the empirics, and thereafter applied to a principal or theory. This type of case study is frequently used in so called explorative studies (Yin, 2006).



### 2.2.1 Interviews

Using a case study as method often includes sources of information such as interviews (Yin, 2006). Interviews are a type of qualitative data that may be useful when the purpose is investigating and understanding causes and presumptions within a specific area of research. Further, it is a controllable method and the interviewer has the possibility to lead the conversation towards a desired direction, although a slight risk exists that the respondent will control the interviewer. A personal relation with the respondent may increase the possibility to obtain the required information and facilitate contact with other suitable respondents (Kvale, 1997).

There are three main ways of performing an interview, structured, unstructured and semi-structured. Structured interviews are preferred when the purpose is to find some sort of pattern, thus, all respondents are asked the same questions and the answers are divided into certain categories. Structured interviews also add the possibility of following up on the interviews (Kvale, 1997).

During an unstructured interview the respondent is asked questions, within the area of research and the order of the questions depends on the circumstances of the interview and the given answers. The questions asked are constructed so that the respondent's apprehensions differ (Kvale, 1997).

Semi-structured interviews contain formalized questions asked of all respondents, with the possibility of answering in a variety of ways, which gives people a chance to express their point of view (Kvale, 1997).

Kvale (1997:13) defines the qualitative research interview as:

*“An interview of which purpose is to obtain descriptions of the respondents' reality with the aim to interpret the mentioned phenomenon's signification.”*

Furthermore, he states the importance of researchers aiming at portraying reality as the respondent experiences it.

### 2.3 Criticism of case study

A frequent criticism regarding case studies are their inability to provide general conclusions, mainly due to the fact that they are normally based on studies of one or few units (Yin, 2006).

Since this thesis is based on a case study of one single unit we are not claiming our thesis and its findings to be universal truths within the research area, nor presenting them as phenomena. Consequently, the result cannot be used while attempting to draw general conclusions within the area of research. Our aim is rather to understand the underlying causes and factors regarding management accounting change through a case study of a



chosen organisation. However, by establishing the purpose of the study and a theoretical framework and then, applying this on a certain case Hamel et al. (1993) and Yin (2006) state that a single case can be considered adequate. Further, the results can accomplish variables that can be used and tested for future studies within the specific field.

Since a case study often includes interpretation made by the researchers, it must be recognized that an objective case study is a non-existing thing. The empirical data, unavoidably will be collected and analysed by individuals with specific knowledge and individual experiences, that inevitably will be reflected in the thesis. Therefore, establishing validity and objectivity is a matter of concern regarding case studies (Yin, 2006).

## 2.4 Collection of data

In order to produce this thesis, both primary and secondary data was collected and processed.

Briefly, primary data is the information collected regarding a certain subject for a specific research study and, it has not been collected before. Common examples of primary data are interviews and surveys. Secondary data, on the other hand, is information gained from other sources, such as literature and scientific articles. The information has been collected by others with another purpose than this certain thesis (Björklund & Paulsson, 2003).

### 2.4.1 Primary data

In this thesis the primary data consists of conducted interviews, which provide the base for the empirical findings.

The method used to conduct the interviews was unstructured, which, as mentioned above, provides the possibility to direct the interview depending on the specific circumstances, since the questions are flexible and not formalised. The purpose of doing the interview was first and foremost to obtain the desired information needed in order to respond to our research questions. The interviews were based on the grand-tour questions regarding the company's development and changes over the years. Furthermore, the purpose of the interviews was to initiate a conversation rather than a questionnaire.

It is of great importance to declare that the interviews were conducted without any given prerequisites. During the whole process the intention was maintaining neutral approach towards the respondent and the given answers. However, this may be difficult, since the certain subject, as mentioned earlier, may imply a certain degree of interpretations.

The interviews were recorded and transcribed and thereafter controlled several times to minimize the risk of misunderstandings and missing out on important information. The





interviews were supplemented by follow-up questions via e-mail in order to obtain the correct information.

#### 2.4.2 Secondary data

The secondary data in this thesis was primarily used in order to create a theoretical framework and contributed to developing a deeper understanding for the area of research. Literature and scientific articles were used.

### 2.5 Choices of Case Study Company

In order to write this thesis regarding management accounting change, the authors have chosen to study no more than one company, which increases the possibility to obtain a thorough understanding and to accomplish an adequate analyse. However, this restriction may imply that the ability to draw general conclusions becomes impaired.

According to the background and the gap mentioned within management accounting, which compose the basis of this thesis, the advisor suggested a case company to study and analyse. The advisor has been in continuous contact with the company, as he performs consulting assignments at company. He has observed that some factors within this certain company could be interested to analyse, in order to understand the changing process within management accounting and the potential catalysts for change and resistance towards change. Hence, this could imply that the company would be appropriate in order to analyse management accounting change.

### 2.6 Choice of respondents

The interviews were performed with respondents within the chosen company for our case study. Our intention was to conduct as many interviews as required, in order to establish an adequate thesis, without prescribing an actual number.

In total, five interviews were conducted, on different occasions, of which three were conducted in person. In one of these interviews two employees were questioned. It has to be taken into account that the environment and the circumstances, because they were interviewed jointly, can affect the respondents' answers.

Further, the ability to establish contact with personnel within the chosen company was bounded, primarily due to their lack of time. The CEO could not be reached for an interview, which is considered a limitation of our thesis, since his opinions would have been of significance.



Since the possibility to establish contact was restricted, when meeting with the CFO, additional people to be questioned were recommended. Additionally, the advisor of this thesis, recommended us to contact a project controller, who is temporarily hired from a recruitment agency. It is necessary to consider the risk of bias, when respondents are being recommended.

One of the interviews was conducted via telephone, due to the respondent's lack of time. An interview over the telephone decreases the possibilities to obtain a complete perception, since body language and other reactions are excluded.

In addition, with the intention to obtain a wider perspective and to execute a more adequate analysis, other companies within the same industry were contacted. However, only two companies were able to arrange contact. Thus, two shorter interviews were conducted, via telephone, with the companies.

The respondents are further presented in the empirics.

## 2.7 Literature search

After the subject for the thesis had been chosen the authors searched for suitable literature within the area of research. In order to find relevant and useful sources, the different databases connected to the Gothenburg University library were being used by the authors. The keywords used in the search were; "management accounting change", "management accounting", "institutional theory", "institutional change theory", "contingency theory", "isomorphism", "organisational fields" and "decoupling".

## 2.8 Reliability and validity

Cook and Campbell (1979) define validity as,

*"Best available approximation to the truth or falsity of a given inference, proposition or conclusion."*

In order to fulfil the criteria regarding validity of a study, a correlation between the theoretical definition and the operational indicator is required (Patel & Davidsson, 1994).

It indicates to what extent the instrument measures what it is intended to. Further validity can imply absence of systematic errors of the measurements, while reliability implies the absence of random errors.

A high level of reliability requires consistent measurements. Test or retests and internal consistency are two methods used when estimating the reliability of a thesis. Test or retest aim to examine the possibility of obtaining the same or similar result when repeating the method.



### 2.8.1 Validity and reliability of a case study

It is of great importance and often problematic, while performing a case study, to construct validity, foremost due to the risk of researchers' subjectivity. This subject has therefore been widely debated and often criticised. The risk can be minimized by three solutions proposed by Yin (2006: using several sources of data and composing these in series as well as letting key informants inspect a draft of the case study.

According to Yin (2006) there are four tests available to measure the validity and reliability of a case study, although, it is only possible to apply three of them on this thesis.

External validity concerns the generalizability of the results obtained in the study. Further, it has been questioned whether a single-case study can contribute to general conclusions, primarily based on the lack of statistical data and, not the analytical ability of researcher regarding a certain subject. Taking this into consideration, the intention with this thesis is not to claim our findings as general conclusions but rather a contribution, of analytical kind, to further research within this certain area (Esaïasson et al, 2007).

## 2.9 Criticism of the sources

When performing a research study there are three crucial aspects to consider: objectivity, credibility and actuality (Esaïasson et al, 2007). In order to write a reliable thesis, the credibility of the sources is important. Therefore, when performing this study by gathering information from earlier studies, as well as for the empirical data, the intention has been to be as impartial and objective as possible.

Regarding the conducted interviews it is important to acknowledge that the interviewer may influence the respondent. Qualitative studies are often subject to the bias of the researcher, as a result of the unavoidable personal interpretation of the collected data and its outcome. As researcher it is essential to maintain a critical approach towards the chosen data and methodology (Esaïasson et al, 2007). Accordingly, a critical approach has been retained to the greatest possible extent during the entire process and alternative methods and explanations have been taken into consideration.

Further, it is inevitable that the respondent will stay objective during the interview. It is crucial to acknowledge that it is conducted in a context where there exist dependencies between parties, which must be taken into consideration in the analysis. As a respondent it is hard to assume a neutral attitude towards the work position and there may exist underlying expectations regarding the answers, from external parties.

However, the intention has never been to present general conclusions, it has rather been to describe the reality within our chosen case company.



The secondary data derives from well-known researchers operating within well-known universities. Further, many of the articles have been published in highly respected periodicals such as *Management Accounting Research* and *Accounting, Organizations and Society*, which increase the credibility of the secondary sources.

## 2.10 A discussion regarding the subject

The main focus of our thesis was initially the change of management accounting systems, especially cost calculation and the economic change within organisations. However, economy appears to be of subordinated significance in the company's business and therefore the respondents do not possess sufficient knowledge in order to explain and give further details about the cost-calculating process. Further, due to the fact that the respondents cannot provide the information required regarding these certain subject, our focus was somewhat distorted.

Further, the management accounting system was difficult to study as an isolated unit, since it involves many factors within the organisational context. Hence, the field of study was widened in order to provide a broad basis, in order to make the analysing process possible. However, when such a comprehensive research of a company and, its possibilities to change, is performed, the risk of encountering difficulties in obtaining thorough and profound information may increase.

Limitations emerge when analysing a company's process of change from an institutional theory. It is difficult to put institutions in a concrete form, since they are defined as:

*"Settled habits of thought common to the generality of men."* (Veblen, 1919:239)

Consequently, it may imply a high level of interpretations.

Since institutions are abstract phenomena identifying them involves difficulties as well as determining whether they correspond with the potential changes.

Additionally, the change itself cannot be considered the purpose; it is rather the method being used in order to achieve the desired outcome.

Further, when studying the concept *change* it is important to acknowledge that the definitions and opinions regarding change are characterised by subjectivity. A change can be considered progressing on short-term or long-term basis, and the dimension of a change can be considered minor or major.

Management accounting change is a complex subject since there are no definitive answers.



### 3. Theoretical framework

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*This following section provides a theoretical framework outlined in order to present different perspectives regarding management accounting change and, consequently, to analyse the process of change. The first theory to be presented is 'Neo-Classical Theory', followed by 'Institutional Theory'. Thereafter, the 'Contingency Theory' and the concept 'Relevance Lost' are presented.*

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#### 3.1 Neo-classical theory

The vast majority of models used within management accounting are based on neo-classical theory and its core assumptions: rational behaviour, equilibrium achieved by market forces, and perfect competition. These statements have been considered to be a simplification of the reality and more realistic theories regarding economic behaviour have been required. Schmoller was one of the first to criticise neo-classical theory and stated that economic processes take place in a social context, shaped by culture and history. When studying the processes of change within management accounting, neo-classical theory and its core assumptions are considered to be inadequate due to its lack of realism (Scapens, 1994).

Neo-classical theory was questioned by Simon (1957) who called attention to the fact that all alternatives, required in order to make a rational decision, or the possible consequences, cannot be foreseen. Further, Simon and March (1958) presented information regarding decision-making in organisations, showing that the process was being influenced by cognitive, political, emotional and strategic aspects, making rational decision-making impossible. The aim is rather to find a solution that satisfies as many parties and needs as possible (Scapens, 1994).

*"People just do not maximize on a selfish basis every minute. In fact, the system would not work if they did. A consequence of that hypothesis would be the end of organized society as we know it." (Arrow, 1987)*

In a general context, human beings can be considered as rational. However, in a more precise way, a rational behaviour cannot be possible on every occasion, even within a context of known alternatives (Langlois, 1986a). Due to the fact that rationality can be considered bounded by available information that reduce the number of alternatives, focus is put on satisfying needs to the greatest extent possible, rather than equating rationality with optimal behaviour (Simon, 1957). Furthermore, certain actions may be seen as irrational by some, whereas if the context and the process are taken into consideration, they can be considered more rational and above all, understandable (Pettigrew, 1985).



## 3.2 Institutional theory

In order to describe the theoretical framework regarding the concept of management accounting change, a frequently used base is the institutional theory. This theory presents alternative explanations for management accounting practises (Scapens, 1994). The theory questions the neo-classical economic theory and its fundamental assumptions (Scapens and Burns, 2000). Institutional economists considered economics to be a social phenomenon, where institutions have a strong impact on both market activities and human behaviour (Scapens, 1994). Thus, their intention was to present a new perspective, in order to explain management behaviour and the relation with social institutions, rather than focusing on constant rationality and equilibrium (Gruchy, 1984). It has been shown that institutions and organisational customs have a direct impact on the development of management accounting change (Scapens and Burns, 2000). Individual behaviour within management and institutions' effect on the market and other institutions require a theoretical explanation, which neo-classical theory cannot provide. Hence, a deeper understanding about human behaviour within an organisational context is needed (Scapens, 1994). It is essential to acknowledge the existence of the complex connection between actions and institutions, thus adopting a critical attitude towards the assumption of total rationality. Institutional theory focuses on the influence of the human factor on organisations and the essential assumption that institutions are established when people construct their social existence (Eriksson-Zetterquist, 2009).

Institutional theory elucidates how routines and habits affect actions within organisations. Further, the theory illustrates how organisations follow rules, both formal and informal, rather than acting rationally. Additionally, it describes how, and to what extent organisations are influenced by their surroundings, consisting of other organisations. Based on these assumptions, the institutional theory focuses on organisational change and how the organisations adopt trends and gradually become solid units (DiMaggio and Powell, 1990).

Nelson and Winter (1982) argue that certain individual characteristics, skills and knowledge have a significant impact on the formation of institutions. Further, they state that in order to create and develop certain patterns and routines within an organisation, a factor required is the information available mainly in the memories of individuals, which belong to the organisation. This emphasises the significance of the human factor and of tacit knowledge within organisations.

### 3.2.1 Definitions

In order to study change from institutional theory, it is essential to understand the connection between habits, routines, rules and institution. Hence, in this section follow definitions of the concepts and brief descriptions are presented.

There are several different definitions of an institution and Veblen (1919:239) was one of the first to describe institutional economics, defining institutions as



*“Settled habits of thought common to the generality of men.”*

DiMaggio and Powel (1991) state that the meaning of the concept ‘institution’ is widely spread and it can be as elementary as a handshake, or marriage.

*“Institutions are those social patterns that, when chronically reproduced, owe their survival to relatively self-activating social processes.” (Jepperson, 1991: 145)*

*“Institutions are more-or-less taken-for-granted repetitive social behaviour that is underpinned by normative systems and cognitive understandings that give meaning to social exchange and thus enable self-reproducing social order.” (Greenwood et al., 2008:4, 5)*

*“Institutions are defined habits and normative patterns, developing certain expected ways of acting within a group and therefore, affecting behaviours.” (Scapens, 1994:306)*

*“Habitualisation can be described as executing actions given a certain pattern, which is often recurred, and can be used while explaining how institutions arise.” (Berger and Luckmann, 1996)*

*“The routines may include both informal and formal procedures.” (Scapens, 1994:311)*

### 3.2.2 The connection between habits, routines, rules and institutions

A distinction between habits, routines and institutions in this certain context has been recognized through definitions of the mentioned concepts.

*“Habits are a more a less self- actualizing dispositions or tendencies to engage in previously adopted or acquired forms of action. Whereas habits are personal, routines may involve groups and, as such, they are components of institutions. In other words routines are formalized or institutionalized habits.” (Hodgon, 1993b)*

Thus, when routines become taken-for-granted and developed into an indisputable part of management accounting they are considered institutionalised (Scapens and Burns, 2000). Scapens (1994) argues that the management accounting systems used in practice are based on institutionalised routines developed within the organisation.

Rules can be considered as ‘the way things are supposed to be done’, described as formalised procedures, whereas routines are the way things are actually done. Thus, rules and routines are established to organise individual behaviour, but are themselves, a result of previous behaviours and actions. Thus, a connection between past actions and existing rules are acknowledged, which often emerge from an evolutionary process rather than rational and logical decisions (Giddens, 1984). Additionally, a connection between rules and routines has been recognized, meaning that rules within an organisation can be developed from existing routines, whereas rules may be implemented due to the establishment of routines.



### 3.2.3 The development of the institutional theory

Within institutional theory, the most common perspective used when studying management accounting are '*Old institutional economics*' and '*New institutional economics*', presented below. Further, isomorphism, organisational field and decoupling are concepts within new institutional economics, presented below.

#### 3.2.3.1 *Old institutional economics*

The old institutional economics challenged the neo-classical theory, questioning its core assumptions and taking into consideration the institutional factors. According to old institutional economics, organisations operate in an environment consisting of other organisations, where personal and organisational loyalties affect the organisation (DiMaggio and Powel, 1991). Due to the fact that organisations constantly are adapting to external and internal factors, change is always a present matter. Institutionalising, by old institutional economics, is considered as a slowly on-going process within organisations, implying that each organisation develops in a unique way (Eriksson-Zetterquist, 2009).

Neo-classic economists presume perfect competition and market equilibrium. Institutionalists, on the contrary, emphasize the piercing market forces and the fact that even situations of competition were characterised by uncertainty, due to factors such as, imbalance regarding information, resources and capacity to negotiate on the market (Jacoby, 1990).

#### 3.2.3.2 *New institutional economics*

New institutional economics, also known as transaction cost economics, is a further development within the institutional theory. There are similarities to the neo-classical theory, regarding market equilibrium and it is therefore not as adequate as old institutional theory when analysing processes of change (Eriksson-Zetterquist, 2009).

Meyer and Rowan (1977) as well as DiMaggio and Powell (1983) are considered the founders of new institutional theory. Meyer and Rowan (1977) questioned the old institutional theory's previous focus on formal structure. They stated that the formal structure does not correspond to the organisation's internal demands and activities. Further, they argued that the formal structure contributed with legitimacy, rather than control and coordination, at the expense of efficiency.

DiMaggio and Powel (1991:2) focus on understanding why organisations operating within the same industry are characterised by homogeneity. This phenomenon is called isomorphism and is presented further below. It has been questioned why many organisations develop towards becoming more complex, since it has shown in several cases





not to be the most effective alternative. The formal structure is a description of how the organisation provides legitimacy, rather than a reflection of how the organisation operates (Eriksson-Zetterquist, 2009).

The fundamental distinction between the two perspectives within the institutional theory is that the new institutional economics focuses on the organisation's connection with external factors and how that connection affects the organisational development and change. The new perspective asserts the fact that the organisational identity evolves from actions, whereas the former institutional theory presents the reverse reciprocal connection, the actions of which evolve from organisational identity (Eriksson-Zetterquist, 2009).

### *3.2.3.3 Isomorphism*

The gradual expansion of institutionalised procedures within society incites formal organisations to become more common and developed, which results in widespread isomorphism within certain industries (Meyer and Rowan, 1977). DiMaggio and Powell (1983) question the fact that organisations within certain lines of business and industries present a high level of homogeneity, even though they differ in their organisational structures and way of operating.

Increased efficiency within an organisation may be explained by similarities to other within the same field. It does not imply that an organisation is superior to others, rather that it corresponds to others. Furthermore, it can enhance the possibilities for an organisation to survive, in the complex environment characterised by strong competition (DiMaggio and Powell, 1983, 1991). Isomorphism can be voluntary or forced and conscious or unconscious, depending on the organisation's situation and environment (DiMaggio and Powell, 1983, 1991).

### *3.2.3.4 Organisational fields*

Organisations within the same field tend to assume a similar form. Organisational field refers to organisations within a line of business, but it does not necessarily imply direct contact between organisations, through suppliers or customers. However, they have an influence on each other through cultural and normative processes. Thus, geographic position and closeness are not a necessary requirement in order to belong to the same organisational field. A field can include a product line, an industry or organisations arranged according to size (Zetterquist-Eriksson, 2009).

DiMaggio and Powell (1983, 1991) state that a field only exists to the extent that it is institutionally defined, through the process of structuration. It is difficult for organisations to act independently, due to the homogenising process; thus, the organisations are often a reflection of the characteristics within a certain field (DiMaggio and Powell, 1983, 1991). In



addition, if organisations within a field have opinions that differ regarding a specific change, such as a new innovation, it may provoke opposition (Tolbert and Zucker, 1983).

Interaction between organisations involves a greater interchange of information and exchange of resources. The members within the organisations assume similar apprehensions regarding the field, which can be dispersed through professionalization. The belonging to a field may imply legitimacy, which is required to obtain labour with adequate qualifications and other necessary recourses (DiMaggio, 1983).

### *3.2.3.5 Decoupling and loose coupling*

Institutions are most likely to indicate when the informal structure differs from the formal structures within organisations (Selznick, 1949). A too tight control involves a risk of conflict between existing institutions and strict rules, which direct the members' activities. In order to prevent this from occurring, without losing legitimacy, decoupling can be an alternative. Decoupling describes how the formal structure decouples and separates from the practice. Consequently, the organisation will consist of two separated organisational structures, a formal and an informal. In spite of the separation, a connection still exists between the two structures, resulting in loosely coupled activities, rather than decoupled.

### *3.2.3.6 Loose coupling within organisations*

Referring to Glassman (1973), Wieck (1976) argues that loose coupling can imply several advantages. Further, he states that loose coupling provides organisations with tools that facilitate managing changes in the environment. By using systems, which are loosely coupled, organisations can, due to increased flexibility, handle temporary changes and conditions and therefore become more effective. Even though loose coupling can be considered as a strength, there are several researchers and consultants working on obstructing this phenomenon within organisations. A loosely coupled organisation can give the impression of being divided and in lack of control.

In order to obtain a more tight system, Orton and Wieck (1990) present three solutions that according to them result in a less loosely coupled structure. The first solution encourages top management to inform and educate the staff regarding the connection between the company's vision and its relation to the technical core activities such as management accounting systems. Informing the staff about the consequences of their activities and their effects on the company's goals may increase the connection. The second solution implies an enhanced focus on the long-term strategies and the actually controllable aspects. Consequently, the organisation should have confidence in the employees and give them freedom of action in order to adjust their activities to the current circumstances. The third solution involves implementation of cultural control, such as shared values, in order to connect the different activities within the organisation. However, Orton and Wieck (1990)



state that this counteraction is not always necessary due to the previously mentioned advantages with loose coupling. According to Meyer and Rowan (1977) managers within successful organisations often encourage loosely coupled activities.

### 3.2.4 Institutional behaviour within an organisational context

There are differences regarding to what extent institutions are generally accepted by the members of an organisation and for how long a time they have been present. In general, institutions that are relatively new within an organisation, and that are less accepted by the members, face a risk of vulnerability when organisations undergo change. Further, these less established institutions might be more unlikely to affect actions. The more accepted and established institutions are within an organisation, the more probable it is that they will affect behaviour and have a critical approach towards changes (Burns and Scapens, 2000).

Burns and Vaivio (2001) argue that people in general aim to do what is best for their organisation. Although planning and strategic procedures within organisations play an important role, the process may appear to be unsystematic and irrational. Even though actions may not be rational they are often based on intentions; thus, people can usually give reason for their actions. However, they may result in unforeseen consequences. Further, Burns and Vaivio (2001) state that the work consisting of planning and impelling changes within organisations appear to be taking a turn towards becoming more unsystematic and affected by political factors. It has been shown that development of strategies and changes within a company is rather a part of the daily activities than being prepared in a systematic way before they are implemented (Mintzberg, 1987).

Institutional behaviour can be considered both desirable and undesirable as it reproduces and encourages certain actions and behaviours. Thus, sometimes it can pose a risk of constraint within a group or an organisation while at another occasion it can be considered facilitating the working processes (Heiner, 1983).

Besides upholding organisational coherence, through established routines, management accounting systems give the organisation external legitimacy, rather than implying rational behaviour (Scapens, 1994). Furthermore, the survival and success of a company can be connected to its ability to gain trust and legitimacy from external organisations and even more through the relations with auditors or management consultants (Meyer and Rowan, 1977)

### 3.2.5 Institutional theory and historicity

Important to acknowledge is the historical influence on present organisational routines and management accounting systems (Scapens and Roberts, 1993). Institutions include historicity and control, stating that a common history is required in order to create mutual patterns of actions and a deeper understanding of the historical process is crucial. Actions



are controlled through the existence of institutions, since they include given patterns, by which people are expected to act (Berger and Luckmann, 1996).

It is important to acknowledge that whereas routines and rules are influenced by historical circumstances, institutions are partly separated from the history and mainly stored in the present. Institutions exist only in the mind of individuals and reveal themselves in 'the way things are' (Scapens, 1994). Institutions are a more abstract phenomenon, compared to routines and rules (Burns and Scapens, 2000).

### 3.2.6 Institutional change

Routines may provide stability and standardisation within organisational activities, yet it does not imply that organisations are static. The routines can, on the other hand, consist of flexibility, which stimulates change (Scapens, 1994). Change and stability can co-exist and they are both involved in the same processes proceeding within the same organisation (Burns and Scapens, 2000).

Scapens (1994) states the importance of making a distinction between evolutionary and revolutionary change, when studying organisational change. The evolutionary process is characterised by adoption through reproduction, coherence and imitation, which enables routines to transform according to institutional change (Nelson and Winter, 1982). Thus, it is appropriate to study management accounting practices and change, with an evolutionary perspective (Burns and Scapens, 2000).

Revolutionary change may often occur when external factors are involved and the company's environment is going through significant changes (North, 1990). The change of rules can also be characterised as a revolutionary process. Routines on the other hand often tend to be in an evolutionary process of change (Burns and Scapens, 2000; Roberts and Scapens, 1985). However, even when the intention is to carry through a revolutionary change, the process tends to become evolutionary due to the fact that the current rules and routines will affect and shape the process of change, resembling to a step-by-step progress (Burns and Scapens, 2000).

Bhaskar (1989) states that the process of change will constantly be affected by institutions. The process of change will be influenced and formed by already existing rules and routines, as well as institutions (Burns and Scapens, 2000). Thus, it is of great importance to consider the existing rules and routines, since they influence the implementation of new ones. With implementation of new rules follows an interpretation within the current context and its present rules and routines, which result in the establishment of new routines (Burns and Scapens, 2000). Furthermore, organisations can undergo change unintentionally due to misinterpretation of rules that may not be compatible with the organisation and its institutions (Nelson and Winter, 1982).

In order to change management accounting systems it is necessary to question the unquestionable, such as the underlying values and institutions within an organisation. It can



be complicated for members within the organisation to take on such a critical approach. This may be an easier task for external individuals. However, it requires the possibility to obtain necessary information and a thorough understanding of the organisation and its internal circumstances (Burns and Scapens, 2000). It is essential to acknowledge the important role of the environment where organisations operate and to develop or adapt the routines, in order to manage the changes the environment undergoes (Powell and DiMaggio, 1991).

It may be difficult to foresee the results of changes, even though the intentions are clear and, the institutions that may influence the process and outcome are known. Therefore, it is crucial to be aware of the potential reversals that the organisation may experience, since there may exist differences between current rules and routines and the planned change (Burns and Scapens, 2000).

The human factor has a significant influence on the process of change within organisations. Some individuals tend to be curious and interested in new innovations and ideas and thereby encourage and carry through change (Veblen, 1898, 1919).

Strebel (1996) states that, in general, change is considered as an opportunity by top-management whereas the majority of the staff sees change as undesirable and unnecessary. It is crucial for top managers to view the change from the staff's perspective in order to provide them with a deeper understanding and make them realize the effects of the change and finally, persuade them to accept the change.

### 3.2.7 Resistance towards change

In organisations there may exist underlying resistance towards changes of rules and routines and this resistance can be revealed in different situations, especially if the expected outcome is considered to threaten or cause existing values and beliefs to deteriorate. Further, if individuals with significant recourses of power, such as tacit knowledge, take on a critical approach towards change, the resistance towards changes within a group will most likely increase. On the other hand, when the intended changes correspond with existing rules and routines they are most likely to proceed (Burns and Scapens, 2000). No matter how skilled the managers, who handle the process of implementation are, the project still faces a risk of failing due to factors such as existing institutions or other resistance (Malmi, 1997; Anderson and Young, 1999).

Resistance can evolve from insufficient capability and competence among the members of an organisation, in order to manage the change in an appropriate way. Further, barriers can be cultural obstacles and insufficient resources, which can affect the process of change within an organisation (Burns and Scapens, 2000).

Routines support the maintenance of organisational knowledge and facilitate the decision-making process and therefore contribute to stability. Although established routines and institutions can evolve in resistance towards change, changes do occur (Burns and Scapens, 2000).



In addition, resistance to change does not always imply a direct or deliberate, negative attitude towards the process of change; it can rather be expressed as indifference and lack of commitment (Kasurinen, 2002).

### 3.3 The contingency theory

Besides using institutional theory, contingency theory has been used as a starting point for several researchers within management accounting (Innes and Mitchell, 1990).

The contingency theory focuses on the features claiming that organisations adapt and establish an organisational structure based on external demands regarding technology and internal circumstances such as business activities. Although the theory states that there is no form of organisational structure that is superior to others, there are certain organizational forms that are more appropriate for a specific organisation due to the external factors. In order to establish the most adequate structure possible, a thorough understanding of the environment is required from the management and, based on that knowledge, operates and makes decisions in an appropriate and relevant way. It is recognized that organisations operating in a relatively stable environment, where working tasks are characterised by routines, are more likely to carry on a formal and bureaucratic organisational structure and thus, obtain a positive outcome (Hatch 1997:202).

The core features in the bureaucratic organisation are composed of a rational description of its structural parts (Eriksson-Zetterquist, 2009). An organisational scheme provides rational directions of the positions, how activities are connected and how goals are achieved in a rational way. Coordination and control of activities are considered as central dimensions, which are performed by routine; rules control and the activities are adjusted to what is being directed in the formal structure (Meyer and Rowan, 1983). However, this approach is considered limited, since it does not provide explanations for why organisations nor why the structural features appears to be decoupled, why decisions rarely are completed, why rules are offended against or why individuals on occasion depart from established practice and, ultimately, why evaluations are utilised to a modest extent, which results in a rather small contribution to the coordination (Eriksson-Zetterquist, 2009).

Veblen (1919) emphasizes that the technology is not the exclusive factor in determining the organisational structure and in addition to this he presented factors, such as the organisation's past activities and the characteristics behind those who established and eventually manage the organisation (Eriksson-Zetterquist, 2009).

#### 3.3.1 Leadership within contingency theory

Furthermore, the contingency theory illustrates that there are several different factors that influence leadership, such as the organisational context, co-workers, goals, organisational



performance, decisions and behaviours. According to this theory the leadership should be considered as non-static. Since the leaders guide the staff, by means of instructions, through processes and executions of activities it is of great importance to acknowledge their role. The outcome of the organisational process can be seen as the sum of the integration between the leader and co-workers within a certain context (Pierce and Newstrom, 2008).

### 3.3.2 Contingency theory within management accounting change

The theory provides a description for why management accounting methods vary between different companies. The selection of a certain management accounting system is based on several contingent factors such as the company's surroundings as well as the organisational context, structure and technology. However, using contingency theory, while executing research within the subject of management accounting may impose certain restraints. It has been questioned if the environment and technology have a direct effect on management accounting systems or if they influence through the organisational structure, and further if there exists a connection characterised by mutuality between management accounting and the internal factors. Thus, the contingency theory is considered limiting when studying management accounting, since it solely identifies factors that can involve change, rather than describing how the change is affected, and therefore offering a static analysis (Innes and Mitchell, 1990).

### 3.4 Relevance lost

In the study "Relevance lost – The rise and fall of management accounting", Johnson and Kaplan (1987) argue that management accounting has lost its relevance. The paper caused debate and has frequently been referred to by other researchers since the authors claim the lack of relevance as a future threat within this certain area of research.

Johnson and Kaplan (1987) describe the development of management accounting and point out its many deficiencies and its lack of relevance. The management accounting systems used in practice today appear to focus on irrelevant factors making planning and decision making difficult for management staff. Thus, the risk of making decisions based on misleading information arises. Further, Johnson and Kaplan (1987) state:

*"Management accounting information is produced too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions."*

Management accounting systems aim to facilitate and support a company's business and in order to fulfil its purpose it is crucial to adjust the systems to the company's strategy (Johnson and Kaplan, 1987).



### 3.4.1 Development of management accounting

In the past management accounting information was used to measure the efficiency of the core activities of the company rather than focusing on the revenues gained by the company as a whole. Knowing that these activities were efficient, the company was confident that the business was profitable in the long run and therefore there were no incitements to change the management accounting systems. Financial reports could be used as a complementary tool to satisfy the owners and other interested parties' needs for more detailed financial information. However, these financial reports were decoupled from the management accounting systems used to control the company (Johnson and Kaplan, 1987).

The management accounting systems were used to recognize the different costs for the company's processes, including expenditures for labour, material and overhead costs. These costs were aggregated and used by managers in order to compare and evaluate the efficiency of the processes. The main focus was addressing the processes and the efforts to improve these rather than identifying precise costs and streamlining the expenditures. The benefits gained by implementing a management accounting system that provides accurate numbers may not always compensate for the costs involved (Johnson and Kaplan, 1987).





## 4. Empirical findings

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*This following chapter presents the information gathered through qualitative interviews, conducted with current and former employees within the case company. Further, data from interviews conducted with two additional companies is presented in order to provide a wider perspective upon the industry.*

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### 4.1 Introduction to the respondents

The following section provides a brief presentation of the respondents from the company Alpha, in order to gain a more comprehensive understanding of their roles within the company, which may influence their ways of operating, their approaches towards change and views on the company as a whole.

The Chief Financial Officer, henceforth referred to as CFO, has worked within the company for one and a half years and is new within this line of business. His prior occupation was at an investment company and he has been working with venture capitalists for many years. A personal interview was conducted, 2<sup>nd</sup> may 2011.

The former Production Manager, who retired 6 months ago, was active within the company for 47 years; the last 25 years as Production Manager and for approximately 20 years, he was a part of the company's top-management. An interview via telephone was conducted, 10<sup>th</sup> may 2011.

The former employee worked at the cost calculation department for 15 years, and is henceforth referred to as CC. He started working in the company's workshops in 1955 and stayed until 1967. In 1972 he started working as a quality inspector, and since then, he has worked within several departments of the company. He has been active within the planning process and quality control. Even though he is retired, he performs consulting assignments within cost calculation. A personal interview was conducted, 17<sup>th</sup> may.

Project Controller 1, henceforth referred to as PC1, is hired as a consultant from a recruitment agency and is currently working together with PC2, collecting the information required in order to invoice the customers. A personal interview was conducted, together with PC2, 13<sup>th</sup> may 2011.

Project Controller 2, henceforth referred to as PC2, first started as a consultant and was employed by the company in 2007. Today, his assignment is collecting the information required to invoice the customers. He is also the Project Manager of a project whose purpose is to develop and implement a new MIS. . A personal interview was conducted, together with PC1, 13<sup>th</sup> may 2011.



## 4.2 The Industry

The company's CFO considers the industry to be heavy, old-fashioned and conservative and these opinions are shared among all the respondents. Further, the respondents describe the industry as flexible due to the decreasing demands from the customers. Further, he points out that the industry is mature and has not undergone any radical changes the past years that he is aware of.

PC2 describes the industry as narrow and unique, meaning that there exists a certain culture within the industry, characterised by its history.

According to the former Production Manager, it is difficult implementing high-tech equipment to a greater extent, due to the characteristics of the industry. In his opinion, computers and business intelligence systems may facilitate the administrative tasks performed at the headquarters but the company's core activities cannot be done any other way.

CC considers the industry to be pleasant, eventful and exciting and he especially appreciates the fact that there is a lot of capital involved. He refers to these factors as the main reasons for why he worked at the company for nearly 25 years. Further, he states that the industry has established certain working methods and there is little potential in improving them, which would be too expensive.

## 4.3 Organisation

Currently, the company is undergoing changes regarding the organisation, due to an existing uncertainty regarding the working roles and their responsibilities, with assistance from external consultants. According to PC1, PC2 and the CFO, the former Production Manager's retirement resulted in a greater burden of work for the CEO, increasing his focus on the daily activities. Therefore his fundamental tasks, regarding strategies and planning, was being put aside. With the new organisation, the company aims to decrease its vulnerability and to clarify the areas of responsibility.

The CFO considers the reorganisation to be necessary; however, it should have been realized by now. Moreover, he expresses a wish that the reorganisation will develop more changes than only modifications of titles and minor rearrangements. The reason for the delay is primarily the awaiting for retirements within top-management since the CEO has expressed a wish to get a fresh start. In addition, the constant lack of time within the company has implied further delays of the process, according to the CFO.

Project Controller 1 considers the division of working roles as unclear. There exists an uncertainty regarding responsibilities, authorities, obligations and assignments. A job description, in connection with an organisational scheme is preferable. Common responsibility of a task may result in a failed execution.



PC2, on the other hand, asserts that this occasionally may involve positive consequences, since people are more flexible and independent. Therefore they can perform assignments, which are not included in their job description, consequently, resulting in a well-functioning organization. As a response to this, PC1 states that this certain system depends solely on the real enthusiasts within the company, who makes it functioning well, while the remaining staff is not involved.

Although, CC is not exceptionally familiar with the current organisation he experiences that it is not structured as it used to be, even though, he could not explain the differences further.

According to the former Production Manager, the recent recruitments within top-management have not had a major effect on the company. Further, he states that the top-management functioned well during the time he was involved.

PC2 describes the organisation as both flat and hierarchic. Although, there is a close cooperation between the manager and the workers, there exists no doubt regarding who the manager is.

#### 4.4 Information and communication

Both PC1 and PC2 consider the communication within the company to be poor. According to them, the lack of information results in speculation and rumours being spread. Communication and information do exist, but the focus is being put on irrelevant things and frequently the information arrives too late, not serving its purpose.

According to CC, the staff working in the workshop experience an uncertainty due to lack of information. Although the communication can be experienced as poor, CC states that it is difficult to inform everyone about everything, mainly due to the fact that the circumstances often are insecure and the information may differ from one moment to another.

The CFO mentions that the communication between top-managers sometimes can be insufficient and the reason is primarily lack of time. There are often more urgent everyday tasks with higher priority, which need to be realized.

#### 4.5 Company culture

The CFO does not experience any company culture at the headquarters and he explains it through the fact that the last two years have been characterised by many new recruits within top management. Further, there have been retirements within key staff working for the company for many years, and they were therefore more deeply involved in the company and committed to its business. He implies that among top management the majority express a desire to put the history aside, in order to get a fresh start. However, he believes that



there is a much stronger culture among the staff working in the workshops. Several employees have worked at the company for decades and have therefore developed a common culture and jargon.

CC mentions that in the past the employees shared a *'company spirit'*, summarizing common values and beliefs. Nevertheless, he claims that today it is a non-existing phenomenon. In the past the staff was highly committed to the tasks and the company in general, compared to the current workforce.

The fact that a great part of the workforce is rented from employment agencies from Eastern Europe has contributed further to a reduced feeling of unity. Furthermore, he claims that those who are employed today will never get committed to the company to the same extent he and his colleagues did when they started working there 20 years ago. He claims that the commitment to the company is harder to establish within the workforce today, than 20 years ago. CCs commitment to the company is a contributing factor to why he still performs consultant assignments, even though he has retired. The fact that the company hire rented staff on a short-term basis has affected the workforce, making them feel insecure about their employment.

The former Production Manager states that loyalty and flexibility are two words that describe the company culture and, although these factors still are important to the staff, he claims that the culture has lost its signification.

According to PC2 and PC1, the company culture is strong and characterised by a feeling of solidarity, mainly since many employees have worked there for their whole professional life. However, they both believe that these feelings are disappearing due to retirements. PC1 also mentions that by caring excessively for the employees who have worked at the company for decades, whether they perform well or not, the risk of deteriorated profitability may increase.

Further, they state that the company is characterised by hierarchy and describe a gap between headquarter staff and the employees working in the workshops. They exemplify the hierarchy by mentioning the importance of which floor in the headquarters the offices are situated on, creating a feeling of *'them and us'*.

Moreover, PC1 points out the significance of the history that affects the present business. The working methods may differ occasionally between those who have worked for the company for a long time and those who have been employed recently, which can be explained by the history's influence on the business.

*"I often hear comments from other employees such as, 'This is the way we do things around here' or 'We have always done things this way'. These kinds of comments make it difficult to present new ideas and impel changes." (PC1)*

Furthermore, she claims that the company culture and its heritage obstruct changes and even if an idea would involve benefits for the company there still exists a resistance towards change.



## 4.6 Characteristics

The former Production Manager considers flexibility and loyalty to be the core values at *Alpha*. Further, he states that the professional skilled staff is one of the factors contributing to the company's success.

The most significant features, according to CC and the CFO, are that *Alpha* delivers on time and that the company, to a great extent, focuses on satisfying the customers. In addition, the CFO considers the high quality as a factor contributing to success. The company is considered to be reliable, flexible and has the ability to adapt to customers.

There is a common opinion among the respondents regarding the fact that *Alpha* does not differ significantly from other companies in the shipyard industry. They claim that companies within the same industry operate similarly.

## 4.7 Leadership

According to PC1, the leadership within the company can be described as '*the manager is in charge*' and decisions often require prompt actions. Since the former Production Manager worked at the company for many years and he had comprehensive knowledge, employees always got prompt replies and there was never any doubt regarding his decisions. However, ever since he retired there has been an explicit lack for his work role and his way of making decisions. Further, some employees are insecure about their own authority since they are not used to take initiatives.

CC experiences the present leadership within the organisation as poor, compared to when he was employed. He claims that today's top management does not possess the knowledge required to make the correct decisions.

According to the CFO, there exists no common leadership mentality, due to the fact that the majority of top managers are relatively new and that they do not have a tight cooperation. Due to the lack of time, the managers rarely spend time together to reflect over, or analyse the company and develop strategies. Consequently, the company do not have clear future prospects, which according to the CFO, may result in lack of motivation.

## 4.8 Owners

As mentioned above, the company now belongs to a corporate group, after a change of owners, through an acquisition performed by the family-owned Dutch corporation Beta in the year 2000.



#### 4.8.1 Motives behind the acquisition

The theories regarding the motives behind the acquisition differ. According to the CFO, the prior ownership, when the employees were co-owners, was not the best alternative, due to the lack of resources required to grow even stronger, and as a result, the acquisition was realized. Further, CC experienced an uncertainty within the business and the company at the time. The aspiration was to obtain a more solid position with an owner providing capital.

*“After the reconstruction, the circumstances were rough and we were working for our survival on a daily basis.”(CC)*

According to the former Production Manager, the motive behind the acquisition was the potential seen in *Alpha* by its parent company, rather than the other way around. The features attracting *Beta* were the well-organised and well-managed company, strategically located in Northern Europe. *‘They got their money’s worth.’* From *Alpha’s* perspective, the reason behind the acquisition was *Beta’s* interest in the shipyard industry. The parent company was considered as a strong company, capable of providing capital, resources, and significant knowledge within this certain industry.

#### 4.8.2 Beta’s influence on Alpha

Opinions differ regarding the influence from the parent company on *Alpha’s* business.

*Beta* has, according to the CFO, considerable influence and participation in the company’s business, and requires financial reports and recurrent updates regarding results and the progress of different projects and activities. Further, the parent company demands an enhanced efficiency from *Alpha’s* business. However, the CFO states, that actual and direct influence on the daily activities within *Alpha* is difficult achieve.

The CFO cannot declare whether or not the corporate group and the parent company had an immediate effect on *Alpha* after the acquisition, given that he was not active within the company at the time. However, his speculation is that the capital and resources were minor when the employees themselves were co-owners. Further, his presumption is that the staff prior to the acquisition was deeply involved and committed to the business to a greater extent than what the present top management is.

When CC resigned, he considered the organisation to be functioning well and today he apprehends the organisation as completely different: deteriorated and unstable. According to CC, the reason behind this is the influence from the parent company, resulting in an uncertainty regarding roles and tasks, which were more clear and concrete before. The parent company has ambitions to affect the day-to-day activities within *Alpha* to a greater extent than what they have been able to thus far. The prior CEO was less affected by the parent company’s demands in comparison to the present. At that time *Alpha* executed procedures individually and decision-making processes were relatively isolated from the



corporation, which made *Alpha* one unit. This feeling has more or less disappeared, according to CC.

*“We are completely influenced by the parent company.” (CC)*

Additionally, he states that the parent company most likely will raise the demands for future he change. Further, estimates that the new MIS is just the starting point of several radical changes. He is not convinced that the new system will function adequately.

The former Production Manager claims that, initially the influence was not widespread but as time went by it gained in significance. In addition, he suggests that *Alpha* should take advantage of the opportunities to obtain synergies, more than the company has until present.

#### 4.8.3 Advantages and disadvantages of belonging to a corporate group

The advantages of belonging to a corporate group are, according to the CFO, the access to competence and the possibility of cooperating with other companies within the group of companies. However, he states that the advantages are rarely exploited to the utmost. Further, he points out that a disadvantage with the acquisition is the time-consuming process of decision- making, since the information has to be examined and approved by the parent company. He exemplifies by mentioning the implementation of the MIS, which requires integration and adjustment to the system utilised within the parent group, before being implemented at *Alpha*. According to the CFO, the aim with the new MIS is to establish a common management accounting system, which functions well within all companies within the corporate group. This system would facilitate the process of further acquisition, of additional companies.

The company does cooperate with the largest shipyard, which conduct repairs, within the corporate group. However, in general, exchange of working methods and spread of competence does not take place.

CC cannot present any advantages of belonging to a corporate group. Still, he declares that this may be a result of his own approach towards the relatively new and unknown situation. However, he claims his presumption to be shared by the majority of the staff in the workshops. There exists a widespread uncertainty within the workforce, regarding roles and tasks as a consequence of the acquisition.

#### 4.9 Economy

The respondents are unanimous in their opinions, stating that the economy has an inferior role within the organisation compared with the core activities, such as production and repair. The CFO did not receive a proper introduction when he started since the company



had been operating without a CFO for a couple of years. During that period of time, administrative staff had been executing the basic tasks within management accounting. However, the development and analysis of procedures within management accounting were inactive during this period of time. Due to the poor introduction of the position, the present CFO does not have a perfect and complete knowledge of the procedures and activities existing within the company's management accounting prior to his employment.

CC states that delivering ships on time has a higher priority than being profitable while doing it. A potential profitability is often considered a bonus in addition to executing the mission.

*"A few years ago they hired a controller whose assignment was to establish structure and gain a better control over the expenditures. His attempt was unsuccessful, since he realised that the industry and the activities are too complex. The ship will always be in charge of the activities and direct the development of the project, and therefore it is not possible to control the entire process. The industry requires a high level of flexibility." (CC)*

The former Production Manager claims that he was not involved in the economy more than receiving reports regarding outcome of his division's performances. Instead of the economy, his main focus was rather making the production more efficient.

It is mainly the CEO, the CFO, the Project Managers and the Production Manager, who are involved in the company's economy, according to the CFO. Although they receive monthly reports, there is little time spent on evaluation in order to improve. The reports are not used as the strategic tool they are intended to. Neither the employees working in the workshops, nor the foremen are informed about the economy, hence, their only concern is doing their job and making sure that it is done on time.

Both PC1 and PC2 claim that the company should focus more on evaluation, in order to make more strategic decisions regarding the economy. Due to its inferior role, the economy tends to be put aside and therefore there is no time for improvements regarding the economy.

*"I believe that, due to the desire to always please the client and, since the expenditures of a ship occupying a dock are significant, the company focuses on the labour to a greater extent than on the economic evaluation of the project. These factors may have contributed to the poor economic evaluation. When accepting a project, the company more or less wishes that it will be profitable. Today there is a lack of planning and there are not enough recourses or knowledge regarding analysis of the economy, in order to be efficient." (PC1)*

#### 4.9.1 Financial targets

All the respondents mention the lack of official financial targets within the organisation. The CFO states that the primary target, given by the owners, is a 5 per cent margin of the total turnover. However, in general, evaluations and analysis regarding the outcome put into practice can be considered relatively modest. Since the majority of the activities within the company are different projects, project-level evaluations are frequently used, measuring the





net result, prime cost, contribution margin, and contribution profit. In general, evaluations based on the business as a whole are not used in reports other than those intended for the CEO and the owner. Occasionally, the foremen are informed about the outcomes regarding a certain project; however, it is rare.

CC and the former Production Manager both claim that long-term targets are impossible to set due to the constant changes in the company's environment.

*“Working towards a concrete financial target is impossible within this company. The main focuses are executing the tasks efficiently and finishing the services on time. The only financial target has been to increase the profit for the current project. From one day to another, the volume of orders can vary heavily, resulting in change of plans”. (The former Production Manager)*

Furthermore, the former Production Manager states that a financial tool used in the past was budgeting. Although the purpose was to stay within the given budget, delivering the ship on time was always the priority, regardless of the expenses.

PC1 and PC2 mention that meetings are being held approximately twice a year, including all the employees. The purpose of those meetings is to inform the staff about the current situation and the past months' results, and thereby, hopefully increase the motivation among the workers. However, PC1 states that the presentation tends to be too complicated and may involve a risk of not fulfilling its purpose.

#### 4.9.2 Cost calculation

According to the former Production Manager, the transformation from a construction to a shipyard conducting repairs had implied difficulties regarding cost calculation of a project. The ability to estimate the outcome of a project has deteriorated due to lack of information regarding the projects' extent. In the 80s the company was famous for its advanced cost calculation systems and had visitors from all over the world coming for inspiration and education. CC describes the system as extremely detailed.

*“Since the system was extremely detailed, it was very complex and impossible to use. For me it is simpler to estimate a lump sum based on feelings.” (CC)*

For a period of time CC was the only one that possessed the knowledge regarding cost calculation and therefore the company could not manage without him. When he performs consulting assignments within cost calculating for the company today, his general opinion is that his current colleagues execute procedures at an excessively detailed level in order to do an accurate estimation, whereas CC utilize his experience and knowledge about the industry. According to him, the cost calculation procedures have been executed in a similar way for decades and he claims that the methods are working well and fulfilling their purposes. Due to his previous position in the workshops, he states that he has the ability to look beyond the numbers and he understands the staff in the workshop.



*“The company has undergone many changes making the staff feel insecure about the tasks. All the new employees want to impel changes and put their own impression on the company. This results in a feeling of uncertainty among the staff and evoke comments as ‘This is not the way we are used to do things.’ and ‘Why are they changing procedures that are working just fine as they are?’” (CC)*

#### **4.9.2.1 Description of the cost calculating process**

Primarily, the company receives an inquiry, which includes information regarding the ship and the potential project. The parts of the projects that the company does not execute itself are hired from external firms to take care of. The cost calculation results in a quotation to the client giving them a final price and a specification of the project. A detailed specification can be helpful in the future when evaluating projects or investigating expenditures. In general, the company uses a 15 percentage mark-up on all the invoices that they receive from their suppliers. The mark-up on materials coming from the stock is higher than 15 per cent, although this percentage varies between different projects. The company also uses a mark-up on the labour cost included in the project. These percentages are intended to cover the project’s total overhead. While the project is running, current cost calculation is being performed, resulting in yet another estimate. The third and last cost calculation is carried out after finishing the project and is the data used in order to invoice the client. Consequently, the process is characterised by extra work and, further, PC1 and PC2 state that their work to a great extent involves registration of already existing figures.

#### **4.9.2.2 The respondents’ opinions regarding the cost calculation method**

Both PC1 and PC2 claim that this method results in a poor profit, mainly due to lack of control of the expenditures. A problem that often occurs regards clients requiring the invoice as soon as the ship leaves the dock even though *Alpha* has not received the invoice from their suppliers. Having a fixed price list on certain services would improve the current situation. The reason behind this working method is described by the fact that in the past, *Alpha* had more in-house competence in comparison with the present. In addition, today, the demand for more technical services has increased significantly, while in the past, the majority of the work performed included basic tasks such as steel work, welding and labour.

Furthermore, PC1, PC2 and the CFO express a desire to be more selective when accepting projects. Today, the company takes upon almost every inquiry without any further consideration, resulting in acceptance of projects with low profits. A more strategic selection process would be possible if the evaluations of the projects were more accurate and if the information was used in an adequate way.

*“The sales department should be interested in evaluating the outcome of their estimates in order to improve their methods. There exists a general desire within the company to establish*



*a clearer connection between the different steps of calculation. This would imply that those making the estimates will also be responsible for the outcome and for the potential difference between the estimate and the outcome.” (PC1)*

#### 4.9.3 Implementation of the new Management Information System (MIS)

According to the former Production Manager several different systems have been used within the company without any connection; the majority of the processes have separate system resulting in inefficiency. He expresses scepticism towards the new MIS, stating that several attempts to change the management accounting system have been made before, however, without any further success.

Ever since the CFO started working for the company, one and a half years ago, the economy has not undergone any major changes and has been controlled in the same way. He has high expectations that this new system will result in a more effective steering process and facilitate the possibility to obtain relevant and up-to-date information.

PC1, PC2 and the CFO state that the project has received positive feedback from those involved in the current economic systems, since they realize to a higher extent the benefits that are most likely to be gained by the implementation.

The CFO, PC1 and PC2 consider the current system to be inefficient, since it basically involves doing the same procedure three times for the calculation. The intention with the new MIS is that, initially structuring the project while doing an estimate. This information will thereafter be transferred to the person reporting while the project is running, and finally a third person, responsible for the invoice, will collect and modify the information while creating the invoice. Since this would imply that all the information regarding a project would be collected in the same system, it would facilitate the work of many people, working with the administration.

The CFO mentions that there have been several delays along the way, such as the unexpected involvement from *Beta*, mentioned earlier. Further, he states that for a company with limited resources such as *Alpha*, a change like the new MIS is gigantic. Although, he admits that it has increased the work burden for the employees, he still claims that it is better to run the project with internal staff in order to learn things during the implementation.

Due to the fact that *Beta* required a more complex system, allowing all of their shipyards to be integrated in the same system, they have also been carrying a significant part of the total costs.

PC1 expresses a wish that the new system will integrate the different departments' work. Today, they register the same information in several different systems and nothing is logically connected.



PC2 states that even though the new MIS is desired by those using the current system, far from everyone is willing to invest the time and energy required for an implementation. Further, he describes the new MIS as *'the future'*. He does not consider the system to be the salvation, rather a crucial *'fork in the road'* that could impel major changes, since it requires transformations of procedures. PC1 points out the fact that the implementation of the new system evokes questions regarding the present way of operating that have to be answered.

#### 4.10 History

All the respondents state that the company's history affects its present business in several ways.

CC claims that the history unites the employees and stimulates a feeling of comfort among them.

*"A ship has the same characteristics today as it had 50 years ago; you neither can, nor should change that" (CC)*

Further, he mentions that the calculations are constructed more or less in the same way as 20 years ago. According to him change is not necessary since the company is relatively small nowadays.

The former Production Manager states that the company and its employees had a more positive attitude towards changes in the past. Further, he claims that the company has, through history, undergone some major changes. He mentions the change of business, resulting in the transformation from a construction to a shipyard conducting repairs.

The CFO states that ever since the reconstruction in the beginning of the 90s, the company has tried to move forward and focuses on the present instead of the past. However, he experiences it to be *'easier said than done'*.

Since the reconstruction the focus has been on surviving and PC1 states that the company appears to be stuck in the former mentality. The last couple of years the company's main focus has been survival and today when its existence can be considered more solid, it is difficult establishing new targets and strategies for the future.

#### 4.11 Change

The CFO has been careful with questioning and encouraging change, due to the on-going implementation of a new MIS. His aim is to accomplish one major change within the management accounting system, rather than several small changes.

The former Production Manager does not consider that the company has undergone any changes during the last period of time. Further, he states that there were no possibilities to



change, since the docks restricted the potential to change. On the contrary, he considered the upgrade from one to two docks, which implied a growth of the business, as a radical change worth mentioning.

The CFO shares the opinion, stating that few changes have been realized to any appreciable extent. The most significant change worth mentioning is, according to the CFO, the current implementation of the new MIS.

The motive behind the new MIS is the current methods, which are characterized by a high level of inefficiency and duplication of work. Regarding difficulties within change, the CFO mentions the many different opinions, as a contributing factor. Further, there is a fear that the reorganisation would disregard the traditions and those, who have worked within the company for a considerable time. An additional problem is the lack of resources at top-management level. Further, as mentioned before, the daily activities often prevent change, even though there is a positive attitude and susceptibility to change among the employees. In general, the CFO considers that the top-management is characterized by a willingness to change, but that inertia still is a present factor.

Additionally, PC2 states that the general approach towards change is positive, although the willingness to devote considerable time in order to change is insignificant.

PC1 points out the importance to include the co-workers in the planning process, especially when undergoing major changes and preferably in a relatively early stage of the process.

#### 4.12 The company's future

The respondents are more or less unanimous in their opinions regarding the future, visions and strategies.

CC states that the absence of visions and future strategies can be explained by the fact that instead focus is being put on daily activities. He considers this to be a result from the downsizing, consequently reducing the future prospects and confidence within the workforce. Survival and maintaining the present business is the centre of attention, rather than expanding and planning for the future. Even though the demand for shipyards and repair of ships is affected by fluctuations, the industry will always exist. On the other hand, his presumption is that there are competitive shipyards within the same geographical area capable of taking over the company's business, in case of a shut-down. Fortunately, the access and geographical closeness to key customers is a contributing factor to the company's survival.

There exists an uncertainty regarding the geographical position of the shipyard in the harbour, which also may contribute to the vague future prospects and the lack of visions. A potential relocation would imply excessive costs, impossible for the company to carry, requiring major investments from the parent company.



The CFO claims that the future is rarely discussed within the top management and that the future prospects are more or less non-existing. The business is pursued month by month, and focus is put on survival, rather than strategic planning. This certain line of business is considered mature; however, in his opinion, the potential for niches still exists. These services will always be required on the market. Nevertheless, the competition on the market has hardened and the company's equipment is out of date, which requires adjustments, in order to compete and gain market shares.

Further, the CFO reveals that there have been discussions regarding potential acquisitions of other shipyards, but it has never gone further than loose plans, mainly since the daily work restrains the strategy planning process.

The former Production Manager claims that the top management has had difficulties in establishing targets on a long-term basis and to prophesy the future, due to the uncertainty regarding their geographical position in the harbour. The focus is rather put on superior quality and consignment of safety features. Further, an expansion would be difficult to realize, since the capacity is limited to the number of docks available.

There is no common vision within the company; however, the CFO expresses an individual desire to develop a more thorough planning process, in order to select the most profitable projects and focus on the core activities. Occasionally, it is necessary to decline projects in case of non-existing or low profit. Currently, the company accepts more or less every project without thorough consideration.

PC1 considers that there is an absence of visions and future prospects, since they are never mentioned. The former focus on survival has now increased, since the company has to survive the changes.

Further, PC2 states that it is in fact difficult to establish visions, due to the limitation that the docks imply and the uncertainty regarding the geographical position in the harbour, which he considers to be an external threat. Regarding strategies there is an absence and an uncertainty regarding motives behind changes.

PC1 suspects that the parent company has various strategies and demands that, due to poor communication, are not passed on to the employees. In her opinion, it is crucial to clarify the demands and where they are initially formulated.

#### 4.13 Challenges

The former Production Manager considers the managing of major projects, cost calculating and executing the projects professionally as challenges. There is no lack of employees. However, there exist difficulties within the top-management and the major challenge is to improve that department.



CC states the company's survival as the essential challenge. However, he is convinced that the company will survive, since there is a significant amount of ships passing through the harbour, requiring the company's services.

The CFO has observed difficulties in the learning from the past and the attempt to make the decision-making process more efficient. He considers it challenging to calculate the actual cost and identify the profitable projects. The main focus within the organisation is satisfying customers, which according to The CFO, is a positive feature. However, he claims that this focus sometimes can be excessive, which may result in a decreased efficiency.

## 4.14 Interview with the company *Gamma*

### 4.14.1 The respondent

The respondent is the Financial Manager at the company *Gamma*, operating within the same industry as *Alpha*. The interview was conducted via telephone the 24<sup>th</sup> of May.

### 4.14.2 The industry

According to the respondent, the industry can be considered as flexible, dynamic and conservative. In recent years, the ship-owners have expressed a desire to reduce time spent in the dock, which has resulted in increased pressure on the shipyards and keener competition. Due to lack of the specific knowledge of the industry, top managers operating within the industry today rely more on economic factors than their predecessors.

### 4.14.3 The company

The single most important character within the company is the fact that they deliver on time. Further, the respondent claims that quality, flexibility, customer focus and rapid agreements, are important factors contributing to the company's success.

During the past years, competition from Eastern Europe has increased and the respondent states that the company has to provide high quality and good service in order to compete with the companies offering lower prices.



#### 4.14.4 The economy

In general, the economy has an inferior role in comparison with the production within the company. Since the core activity is production it has to be the main priority, according to the respondent.

A Project Manager and a Project Controller are involved in every project, handling the economy. They are responsible for the cost calculation based on hours and a per cent mark-up, needed in order to cover the overhead. Evaluations are made, primarily, on project level, measuring the margins and final profits. Budgeting is also considered to be an important economic tool.

Due to the complexity within the business, the respondent states that, the cost calculation process is considered difficult and, it is nearly impossible to produce a precise cost calculation.

Although, the Project Manager expresses a desire to improve the cost calculation method, she claims that the complexity, rapid decision-making and the conservative industry complicate the process.

#### 4.14.5 Change

The Financial Manager points out the history as a significant factor within the processes of change.

*“Change is a slow process and the history still has an influence on changes being impelled today. When a change is presented there will always be individuals questioning the reasons and if the change in fact is necessary, claiming that ‘this is the way we have always done things’.”*

Furthermore, the respondent mentions that the company has undergone changes during the last years focusing on environment and organisation. The changes are primarily a result from the recent expansion and the increasing environmental restrictions.

The industry is characterised by a hierarchic structure. However, the respondent mentions that the reorganisations aim to evolve a more flat organisational structure.

In general, there is a positive attitude towards changes, the difficult part in the realization. Since the organisation is directed by the core activities such as production to a great extent, the process of change tends to come in second place, and can therefore be considered as slow.





#### 4.14.6 Future

The company has a positive attitude towards the future. Due to factors such as an increasing number of ships worldwide, and the fact that shipyards have closed the last couple of years, the possibility to gain market shares for shipyards still active has increased.

The company's primary target is expanding by investing in an additional dock, in order to increase the business activity. Its greatest challenge is considered to be handling the environmental restrictions being set on the company. Further, the respondent states that, as ships grow bigger, the size of the docks has to respond in order to be compatible. Managing this development is also considered a future challenge for the organisation.

### 4.15 Interview with the company *Delta*

#### 4.15.1 The respondent

*Delta*, which operates within this certain line of business, provides similar services as *Alpha* and *Delta*. The respondent is the company's Chief Finance Officer (CFO). The interview was conducted via telephone the 23<sup>rd</sup> of May.

#### 4.15.2 Industry

The CFO at *Delta* considers the industry to be conservative, since the business is similar to what it always has been. However, he states that, due to the uncertainty regarding projects and the time spent on the projects, flexibility can be considered a requirement. Further, he states that there is a keen competition, since the market is shrinking.

#### 4.15.3 Economy

The economy is, according to the CFO, important, but with an increasing business the ability to achieve profitability is reduced. The present focus is put on projects to a greater extent and targets are set on project level. The owner, a listed foreign company, sets yield requirements, on a long-term basis, which has to be achieved. Absorption costing with direct costs is used within cost calculation, which varies by product.



#### 4.15.4 Process of change

Regarding the company's history he mentions the established infrastructure within the company that affects the present business. Changes that the company has undergone in recent years have been relatively modest, according to the CFO. The changing process has been considered slow, since it is an old industry with a significant history. In addition, he mentions a local inertia even within the company, which can involve resistance to change.

#### 4.15.5 Future

An annual strategy is composed, and targets are set and to establish a common vision within the company, profit targets and market targets are decomposed to department level.

The CFO mentions a challenge, in the increasing risk that low-wage countries gain market shares within the steel industry, which could require an adjustment of the business activities.



## 5. Analysis

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*In this following section the theoretical framework, presented in the third chapter, and the empirical findings, presented in the fourth chapter, are compared and analysed. The intention of this analysis is to describe, and further explore the factors affecting the process of change. The empirical findings used in this analysis are primarily based on the data collected from the case company Alpha. When referring to the other three companies, the companies' fictitious names; Beta, Gamma and Delta, will be presented.*

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### 5.1 The Economy

There are several factors indicating that the economy has an insignificance role within *Alpha*, such as the fact that for a period of time, there was a vacancy for the position CFO; thus, only the most fundamental tasks were executed. Further, the number of employees involved in the company's economy is relatively low, due to the poor exchange of management accounting information.

Even though the company has undergone major changes, such as significant downsizing, reconstruction and acquisition, which are most likely to incite changes within the management accounting system, this has not occurred within *Alpha*. Thus, the methods used today are more or less the same as they were fifty years ago. The cost calculation process is one of the above-mentioned systems that, since the 60s, have undergone only minor changes.

As described by Kaplan and Johnson (1987), in the past, management accounting was considered a complementary tool; the focus was rather put on evaluating the efficiency within the production. The general opinion was that if the core activities were efficient, so was the company; thus, it would be profitable.

The significant focus being put on *Alpha's* core activities, rather than developing the economic processes, indicates that the company until now has maintained this way of operating. Consequently, the economy is not considered a priority within the company, possibly implying that changes regarding the economy, even involving improvements, will not be prioritised. An additional factor supporting this apprehension is the delay of both the implementation of the new MIS and the reorganisation, due to the daily activities occupying the time of top management. Scapens and Burns (2000) argue that insufficient resources can affect the process of change within an organisation, which can be considered resources of time in *Alpha's* case.

The empirical findings present information stating that, within *Alpha*, the single most important factor, when accepting a project, is to finish the project on time. If the project results in a profit, it is considered a bonus.



As mentioned, the economy has throughout history and up until today been considered inferior with regards to the core activities. Hence, the focus on production becomes a taken-for-granted assumption, which may imply the existence of a generally accepted institution. According to Bhaskar (1989), the existing institutions will influence the process of change, such as the implementation of the MIS within *Alpha*. Further, the outcome of the change will be shaped by current institutions, rules and routines (Scapens and Burns, 2000), such as the established institutions within *Alpha*, which are characterised by the insignificance role of economy.

The Financial Manager at the company *Gamma* states that the economy has an inferior role within their organisation. This information contributes to an additional perspective, implying that there exist similarities regarding the way of operating within the industry.

According to DiMaggio and Powell (1983, 1991), isomorphism and organisational fields may explain the homogeneity, which organisations, operating within the same field, tend to develop. Consequently, similarities and common institutions may be established. In this industry isomorphism can be revealed through the absence of attention towards economy and the slow process of change, which connects the organisations. Thus, the incentives to change can be considered modest, since the companies adapt to the organisational field. According to DiMaggio (1983), the belonging to an organisational field may imply legitimacy. However, it may result in a decreased internal efficiency (Meyer and Rowan, 1977), which in *Alpha's* and *Gamma's* case can be illustrated by the inferior role of economy.

### 5.1.1 Cost calculation

*Alpha*, *Gamma* and *Delta* are all using similar methods when performing cost calculation. The reasons behind the methods are the complexity and high demand for flexibility within the industry, and therefore the cost calculations may not be as accurate as some of the respondents desire them to be.

According to the empirical findings, *Alpha's* cost calculation method does neither provide enough, nor accurate information, resulting in restricted fields of application. As mentioned earlier, some of the respondents express a desire to work more strategically when accepting a project. The insufficient and inaccurate information obtained may imply that the methods being used are irrelevant. According to Johnson and Kaplan (1987), management accounting has lost its relevance.

*"Management accounting information is produced too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions." (Johnson and Kaplan, 1987)*

This quotation can be considered describing the characteristics of the outcome of the cost calculation methods used by *Alpha*.

Further, what can be considered as relevant may vary between individuals. The respondents' opinions differ regarding the possibility of providing more precise cost calculations and some



question whether it is, in fact, necessary. Some of the respondents claim that it is neither possible, nor required, to perform a more precise cost calculation. However, others claim that the new MIS, evolving radical changes can provide more accurate information, which is desirable. This implies that what can be considered as irrational by some, can on the other hand be considered as rational and, moreover understandable by others. Pettigrew (1985) argues that in a certain context, irrationality can be motivated. In *Alpha's* case, the current cost calculation method may be considered relevant to some, due to the complexity of the industry. According to Simon (1957), rationality is bounded by lack of available information and therefore, members of an organisation tend to satisfy as many needs as possible, rather than to strive for the rational and thereby, optimal behaviour. The fact that some individuals consider the cost calculations within *Alpha* to be satisfying, due to the conditions, may imply that what is considered optimal and satisfying behaviour differs.

Ultimately, the lack of changes through the years within cost calculation, which further points to the inferior role of the economy, is an additional factor indicating the existence of an institution, which may imply a resistance to change.

## 5.2 History

Berger and Luckman (1996) point out the importance of a common history in the process of creating mutual patterns of actions. In addition, they assert that a thorough understanding of an organisation's history is crucial. At *Alpha*, the recent recruitment of a new top-management may interfere with the already existing institutions, and the lack of a common history may obstruct the process of creating new generally accepted institutions.

The majority of the institutions existing within *Alpha* can be considered generally accepted by the employees, mainly due to the history of the company, and they influence the way of operating. Institutions that are relatively new or not deeply rooted can encounter obstacles towards change (Burns and Scapens, 2000).

To act rationally requires that alternatives are taken into regard (Simon, 1957). Within *Alpha* several routines can be considered taken-for-granted, hence, institutionalised. '*This is the way we always have done, so why change?*' can be considered a relatively strong underlying opinion among the employees. Since the questioning of already existing institutions and routines rarely is done, alternative solutions are overlooked and therefore the rational behaviour is, according to Burns and Scapens (2000) hard to motivate.

In addition to this, Scapens (1994) explains that institutions are stored in the minds of individuals and are considered as 'the way things are', which further can explain the fact that alternatives rarely are considered, consequently obstructing change.



### 5.3 The organisation

The empirical findings state that there exists an uncertainty regarding the company's organisation and the work roles. Currently, the company is realizing a reorganisation with assistance from external management consultants. According to Meyer and Rowan (1977), through the usage of external consultants, the company may obtain an increased legitimacy. According to Scapens (1994), the establishment of routines and formal structure may result in increased legitimacy on the behalf of efficiency. Through the reorganisation of *Alpha*, a formal organisational scheme is presented, which can involve an increased legitimacy. As the demands from *Beta* enhance, the organisational scheme may result in a higher degree of legitimacy.

Institutions can be desirable, since they may facilitate the work process, through the establishment of routines and given patterns, hence, contribute to increased efficiency (Heiner, 1983). The respondents express an uncertainty regarding the purpose and the underlying reasons behind the reorganisation. A reorganisation is most likely to challenge the existing institutions and routines and may imply a resistance to change (Scapens, 1994), which in *Alpha's* case may be revealed as an uncertainty among the employees regarding their new roles.

When institutions are being questioned it may also involve a resistance and scepticism towards the upcoming change (Scapens, 1994). There is unanimous opinion among the respondents stating that the communication regarding the reorganisation is poor. In addition, the lack of information and the existing uncertainty within the company, contribute to speculations and rumours being spread. Consequently, the degree of uncertainty may increase even further. If the employees are neither aware of the purpose, nor the consequences of the reorganisation, it may result in a resistance towards change. Strebel (1996) points to the importance of informing the employees of the outcome of the changes in order to convince them, and further, to realise the change.

Institutions are most likely to indicate when the informal structure is separated from the formal. Further, when it involves a too tight control, which may challenge the existing institutions, a conflict may arise (Selznick, 1949). Although the outcome of the reorganisation within *Alpha* is still unknown, the new rules and routines are most likely to challenge the present institutions, resulting in opposition. However, a solution to this potential opposition may be a loosely coupled organisation. When decoupling the formal structure from the practice, it may result in maintained legitimacy without decreasing the efficiency (Zetterquist-Eriksson, 2009). Thus, within *Alpha*, the formal structure, such as the new organisational scheme may be decoupled from the way of executing daily tasks. Important to acknowledge is the influence existing institutions have while implementing new rules or routines, in order to manage the change in a successful way (Scapens, 1994).



## 5.4 Industry

The conventional opinion is that routines provide stability and standardisation of activities. However, routines can, according to Scapens (1994), consist of flexibility, which impel change. The widely spread opinion among the respondents within the case company is that flexibility is a significant feature, which also is considered a characteristic of the otherwise modest organisational culture. The business demands the ability to be flexible, since there are difficulties in estimating the time and dimensions of the projects. This perception is, in addition, shared by the companies *Gamma* and *Delta*. The fact that the industry can be considered characterised by flexibility may imply, according to Scapens' (1994) statement regarding flexibility, that changes would easier be stimulated. However, *Alpha*, *Gamma* and *Delta* are unanimous regarding the fact that the industry has not undergone any significant changes recently.

## 5.5 Contingent factors

Two of the respondents at *Alpha* have been active within the company for more than 20 years and therefore possess a significant amount of knowledge regarding the company and the industry. They explain, to a higher extent, the lack of changes and development as a result of certain characteristics within the industry, such as a high degree of complexity. Further, they claim that the current methods are satisfying. The relatively newly employed CFO at *Alpha*, lacks experience from this certain industry and expresses a desire to improve the systems being used today. According to the contingency theory, organisations are most likely to establish a structure, and select management accounting systems, based on several contingent factors such as the company's surroundings, the organisational context, structure and technology. According to the theory, there is no organisational structure that is superior to others. However, certain organisational forms can be considered to be more adequate than others within a certain industry. In order to establish the most suitable structure, a thorough understanding of the environment is required from the management (Hatch, 1997).

As mentioned, in the empirics, the CFO claims that a future change is necessary. Further, he points to the lack of development of management accounting systems within *Alpha* and, compares it to other companies and industries, where the management accounting systems being used, can be considered more sophisticated. The possession of tacit knowledge regarding contingent factors, affecting the industry and the company may imply that a certain method is the most adequate even if others, who lack this type of knowledge, may consider the method as irrelevant. According to Burns and Scapens (2000), individuals with resources of power, such as tacit knowledge, may have a stronger influence on change than others.



However, it can be important to question the underlying assumptions and taken-for-granted institutions within an organisation, in order to develop and increase the efficiency (Burns and Scapens, 2000).

## 5.6 Resistance towards change

Burns and Scapens (2000) describe a potential underlying resistance towards change within organisations. When the outcome of a change is unknown, or considered involving a risk of challenging existing institutions or impairing routines, the propensity to accept change decreases.

The acquisition resulted in an additional party, *Beta*, influencing the business of *Alpha*. According to Burns and Scapens (2000), if the influence is considered a threat among the employees, it may pose a risk of increased resistance towards change. The parent company raises the demand for further development and adjustment of the new MIS, which consequently, requires major changes in the procedures and methods of executing tasks. These changes are most likely to go against the already existing institutions, which may provoke resistance towards change. Although, according to Burns and Scapens (2000), when change is realized, the new rules and routines will, to some extent, be interpreted and shaped by the existing institutions.

Burns and Scapens (2000) state that even when the objective is to impel a revolutionary change, the process is most likely to become evolutionary, since the existing rules and routines will influence and shape the process change. This may explain the fact that the implementation of the new MIS, which is considered among the majority of the employees as a revolutionary change, has been characterised by a more evolutionary process, involving delays.

In addition, Burns and Scapens (2000) assert that resistance can evolve from the approach of 'powerful' individuals within an organisation. On the contrary, those certain individuals can impel change, when the outcome is considered positive. *Alpha's* CEO possesses power as his position provides considerable authority and furthermore, he has close contact with the parent company, which evidently affects his power even more.

Further, key employees who possess significant resources of power, such as considerable knowledge, may affect the process of change (Burns and Scapens, 2000). The key employees within *Alpha* may be considered the members of staffs that have been active within the company for a long period of time, since they have thorough knowledge of the industry and are familiar with the underlying institutions. CC's attitude towards the controller and the recruitment of new employees within calculation can be characterised by restricted enthusiasm. He takes on an expectant approach, while he gladly encourages new employees to try to improve the calculating method. However, he claims that until now, no one has succeeded. This may point to a somewhat ambiguous approach towards change, which can retard the process of change.





In addition, a common approach towards the implementation of the new MIS is noticed, which is similar to the general approach towards change, experienced by the respondents: positive but characterised by a potential restraint when it comes to realizing the changes. As Kasurinen (2002) describes, resistance is not necessarily expressed as an actual opposition, through hampering actions. It can rather be expressed by a lack of support, as in the case of the implementation of the new MIS.

The progress of impelling change is more likely to occur, if institutions and changes are generally accepted and if the outcomes of the changes are known (Burns and Scapens, 2000). Hence, an increased and efficient communication may connect the employees and enhance the awareness of possible outcome, which may result in a greater openness towards change.

## 5.7 Future

Scapens (1994) presents the importance of having a management accounting system that corresponds to the general business and strategy, in order to achieve profit. Burns and Vaivio (2001) state, that planning and strategic procedures are important within an organisation, even though they may appear unsystematic and irrational. The respondents within *Alpha* point to the lack of strategies and visions, which may be a contributing factor to the absence of future prospects, generally experienced within the company. Furthermore, communication and the poor exchange of information, both formal and informal, are factors most likely to affect the establishment of common future prospects. The communication within the company can be considered insufficient. PC1 states that it is crucial to include the co-workers in the planning process, particularly when undergoing major changes and preferably in a relatively early stage of the process. As mentioned above, Burns and Scapens (2000) point out the risk of resistance towards change, if institutions are less accepted within an organisation. Thus, including the employees in the process may imply a reduced risk.

The business is characterised by uncertainty to some extent. This uncertainty can be explained by the turbulent history of the company characterised by downsizing, reconstruction and the major transformation of the business, from the construction of new ships towards implementing repairs. Further, the uncertainty regarding the geographical location in the harbour and the keener competition are considered factors, threatening the survival of *Alpha*. The respondent at *Gamma* confirms the fact that the industry is characterised by uncertainty, mainly due to the problem regarding geographical location.

The significant focus put on production and the daily activities, at the expense of strategic planning, may imply that the future is not of high priority, and the company may be considered, to a certain extent, to be stuck in the present, according to PC1. A common vision can potentially involve an enhanced spirit of community within the company, according to PC1, and consequently, it may imply the establishment of generally accepted institutions (Scapens and Burns, 2000). Thus, an uncertainty can be recognised in the company's past, present and future.



The respondent at *Gamma* states that, although, the industry is characterised by challenges in estimating projects and other external factors, as enhanced environmental restrictions and potential problems regarding the geographical position of the shipyards, the employees within *Gamma* look to the future with confidence. Thus, establishing future prospects within this certain industry is possible.



## 6. Conclusions

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*In this final chapter conclusions based on the research questions are presented. Finally, the factors affecting the process of change and the effects of these factors are identified and presented.*

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In this thesis, several factors affecting the process of change have been identified.

Individuals, such as newly employed staff within *Alpha's* top management, questioning the existing institutions and taken-for-granted assumptions, may have an impact on the process of change, particularly, if the individual possesses certain resources of power. If key personnel consider certain methods to be irrelevant and not fulfilling its purpose, it may increase the incentives to realize changes. However, key individuals possessing recourses of power, such as tacit knowledge or authority, may restrict the process of change if they consider the outcome of the change as undesirable. Furthermore, when opinions differ within an organisation and the feeling of unity is absent, change may be difficult to carry through.

Increased demands from owners and an ambition to obtain a higher degree of legitimacy, are additional factors that may impel change within *Alpha*. The catalysts for change may imply that changes are being carried through and realized within the organisation. This may involve changes towards becoming more compatible with the company's certain conditions, by adjusting to both internal and external factors. However, this development has been close to absent within *Alpha*.

Further, both internal and external contingent factors can be considered impelling change. Internal factors, such as the reorganisation, and external factors within the industry or the environment, such as, keener competition, may all influence the process of change within the shipyard industry.

The thesis has proposed that resistance towards change do not necessarily involve an active resistance. The lack of support can also be considered a barrier in *Alpha's* case. Improvement of the cost calculation methods is neither prevented nor encouraged.

*Alpha's* history may be considered a resistance towards change due to the fact that given patterns, institutions and routines have been established through time and therefore are deeply rooted. The existing institutions, rules, habits and routines can compose a potential resistance towards change, particularly when they are challenged by new rules and routines and further when the outcome is unknown. Further, resistance towards change can contribute to potential delay of the process of change. This can be a consequence of the fact that the new rules and routines will be interpreted and shaped by current institutions undergoing a change, intended as revolutionary, resulting in an evolutionary process of change. This can be the case when implementing the new MIS within the company.



An additional factor that may involve a resistance towards change is the lack of resources, such as the limited amount of time available within *Alpha's* top management.

The homogeneity existing within the shipyard industry, such as the inferior role of economy, can also imply a potential resistance towards change. If other organisations, operating within the same field do not proceed with changes, the incentives for change decrease. However, certain effects of change can entail increased homogeneity, involving an increased efficiency and a higher degree of legitimacy.

Additionally, resistance towards change may evolve from the lack of visions and strategies for the future within *Alpha*. A lack of common targets may increase the uncertainty and the motivations to change. Insufficient information and communication regarding visions and future strategies may lead to uncertainty and involve a resistance towards change.

Even though, factors, which usually imply change, have been identified, the process of change can be considered slow or even absent within *Alpha*. This could be explained by the fact that the company may be institutionalised to a great extent. This thesis can therefore contribute to Scapens initial idea that institutions have a great influence on change. It is a question of vital importance that the potential institutions and their influence on change are taken into consideration.

Resistance towards change may lead to absence of change such as in the case of *Alpha*. Consequently, maintaining systems and methods may imply the existence of relevance lost within management accounting within a company and result in decreased efficiency.



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