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Accounting institutions as truce: The emergence of accounting in the governance of transnational mail flows

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A R T I C L E I N F O

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A B S T R A C T

The Universal Postal Union (UPU) is the United Nations special agency that coordinates the international mail system. At its inception in 1875 the UPU eliminated the use of accounting for mail flows between member countries as a means of reducing mundane transaction costs (Richardson & Kilfoyle, 2009). This situation continued until 1969 when transfer pricing (terminal dues) for the delivery of mail exchanged and services provided between countries was introduced. This article explains the use of accounting by the UPU to coordinate the international postal system drawing on a neglected aspect of evolutionary economics ("routines-as-truce"). Specifically, we show that the original accounting rules had distributional consequences within the organization, that knowledge to reform the rules was available but not fully incorporated into revised rules, and that the evolution of the rule provided a "quasi-resolution" of the conflict that motivated the rule change. The case explores the institutional work used to maintain the original "no accounting" rule and to bring about institutional change to allow the use of accounting in the management of international postal flows.

We explore the introduction of accounting rules by the Universal Postal Union (UPU) to manage the flow of international mail 95 years after adopting rules that eliminated the need for accounting between nations (Richardson & Kilfoyle, 2009). This setting allows us to answer the call to better understand the role of management accounting and control systems in network governance systems (Berry, Coad, Harris, Otley, & Stringer, 2009, pp. 7–11) and the process of management accounting system change over long time horizons (Quinn, 2014). Our empirical work illustrates a neglected dimension of institutional theory: "routines-as-truce" (Nelson & Winter, 1982). This approach provides an alternative to the "new" institutional theory view of power and conflict leading to isomorphism (capture) or loose coupling (symbolic compliance) and to "old" institutional theory work in accounting that focuses on management accounting change as the institutionalization of organizational learning. Our long period of observation allows us to contribute to an evolutionary view of management accounting change that shows the connection between management accounting systems and successive worldwide institutional logics of international order.

We position our study within an evolutionary perspective on change in accounting rules and routines (Burns & Scapens, 2000; Coad and Cullen, 2006; Johansson & Siverbo, 2009). For the most part, however, examination of management accounting change in the extant literature focuses on relatively short periods of time, typically 2–5 years (Quinn, 2014), such that most factors beyond the immediate institutional field that may influence change in the management accounting system are constant. Abbott (1988: 135), for example, speaking of the evolution of the system of professional jurisdictions (i.e. the rules that determine whether specific tasks should be done by lawyers versus accountants versus engineers) suggests, based on his review of the history of many professional bodies, that "jurisdictions are renegotiated in workplaces over two- to three-year periods, in public over ten- to twenty-year periods, in law over twenty- to fifty-year periods". Similarly, to truly appreciate the evolution of management accounting rule systems, it may be necessary to observe the relationship between management accounting systems and their environment over a period of decades rather than months or years.

In this article we report a longitudinal case study of a transnational network, the Universal Postal Union, that for over 130 years has been responsible for coordinating and regulating international mail flows. The UPU was created in 1875 as a treaty organization to set the terms under which mail would be exchanged

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among 22 “civilized nations”. Richardson and Kilfoyle (2009) demonstrate that the creation of the UPU can be seen as an institutional solution to the high mundane transaction costs of international mail flows. The UPU was based on a multilateral treaty that allowed the international flow of mail between signatories to the treaty as if they were a single postal territory. This meant that a single postal rate was used to deliver mail any where in the UPU territory (cross-subsidization was allowed between users with different costs to serve) and the service provided by one country to deliver mail originating in another country was not compensated (services were bartered between countries). The latter policy effectively eliminated the need for accounting records to be maintained to reconcile the reciprocal flow of mail between countries except for accounting for the transit of mail across third-party territories which was tracked and compensated. These changes had the effect of reducing the cost of postal communications and encouraged a dramatic increase in international mail volumes and economies of scale in postal services. The case is instructive as it shows that accounting information need not be used to replace prices as a coordination mechanism as transactions migrate from markets into hierarchical and network governance structures contrary to most interpretations of transaction cost economics in the accounting literature.

This policy, i.e. the absence of accounting for mail flows between countries, remained in place in the UPU for 95 years until it was decided to institute a “terminal dues” system that measured international mail flows and compensated countries for the delivery of mail originating in other countries. The terminal dues system is a transfer pricing system to recognize and compensate for “reciprocal interdependence” (Thompson, 1967) within the international mail system. Since the emergence of accounting in the management of the international postal system in 1969, the design of the terminal dues system has been a major agenda item in every UPU Congress[1] as the transfer pricing system is refined to reflect member's experience with the system and the changing conditions under which it operates. The purpose of this article is to explore the conditions that motivated the change in the UPU policy on compensation for the domestic delivery of international mail and the specific implementation of accounting rules that emerged once the decision to change the policy was made.

Our approach combines three literatures. First, we draw on Nelson and Winter (1982) and accept the premise that organizational rules and routines are the units on which economic evolution operates. This approach has been developed within the accounting literature by Burns and Scapens (2000) as an “old institutional economics” perspective on management accounting change. Nelson and Winter (1982) recognized two essential roles of routines within organizations: routines play a cognitive role allowing knowledge to be captured, selected and transmitted over time; routines also play a social role allowing ongoing conflicts within an organization to be set aside and work to get done (routines-as-truce). The latter role of routines has not been developed in the literature on management accounting change (cf. Coad & Cullen, 2006: 365; Scapens, 1994) but we will highlight the important role of accounting rules and routines as a means of implementing a truce among members of the UPU network. Second, we draw on the literature on multiple institutional logics to understand the context in which the UPU operated and the complex relationship between the institutional realm and the evolution of management accounting rules and routines. Following Seo and Creed (2002), we explore how the shifting relationship between institutional logics affecting international relations provided the impetus and opportunity, or “affordance” (Gibson, 1977), for the emergence of accounting in the UPU. Finally, we examine the process of management accounting evolution from a Lamarkian perspective, i.e. contrary to a strict Darwinian version of evolution we allow for agency in the process of maintaining and changing rules. We draw particularly on Lawrence and Suddaby's (2006) concept of “institutional work” to bring agency back into the production of institutional stability and change (cf. Richardson, 1986).

The article is structured as follows. We begin by discussing our theoretical framing and clarify the complex relationship between rules and routines within institutional theory, the relationship between institutions at societal, field and organizational levels of analysis, and the role of agency in institutional theory. We then provide a brief overview of our empirical setting (terminal dues in the UPU) and our research methods. This is followed by an overview of the worldwide logics of international relations that informed the changing governance structures of the UPU as a treaty organization and which are ultimately reflected in accounting practices. The next section details the evolution of transfer pricing rules (terminal dues) over the period 1875–1969 focusing on the institutional work associated with rule stability and rule change. The discussion section highlights the use of management accounting institutions to establish a truce between developed and developing nations within the UPU thereby making accounting “useful” (Andon, Baxter, & Chua, 2015) where previously it had no role in the management of the international postal system.

1. Theoretical framing

Our approach to understanding the evolution of management accounting draws on evolutionary economics as applied to management accounting change by Burns and Scapens (2000; see also Riberio and Scapens, 2006; Scapens, 1994), and sociological institutionalism, in particular, the conceptualization of the institutional realm as consisting of multiple, often contradictory logics (Seo & Creed, 2002). We combine these literatures to bridge between societal and field level institutional changes that affect the context in which organizations operate, and organizational level institutions.

From the evolutionary economics literature, we borrow the insight that organizational rules and routines are the units on which evolutionary pressures act. Nelson and Winter (1982) refer to “routines” as the object that is selected in economic evolution but their discussion of “routines” suggests that this is a multidimensional construct. In particular, they suggest that routines play both cognitive and social roles in organizations (cf. Becker, 2004). In its cognitive role, routines serve to capture knowledge in a manner that allows it to be passed on to others and to regularize action within the organization (Nelson & Winter, 1982, p. 99). The cognitive role of routines has been the focus of most accounting literature that builds on Nelson and Winter (1982) beginning with Scapens (1994). The bias towards the cognitive aspect of routines compared with the social role of routines has also been noted in other literatures (Mangolte, 2000; Pentland & Feldman, 2005).

Nelson and Winter (1982) suggest that routines also play a social or political role in organizations serving to allow a “truce” among divergent interests within the organization (see Pentland & Feldman, 2005, for a development of this view).

> “Conflict, both manifest and latent, persists, but manifest conflict follows largely predictable paths and stays within predictable bounds that are consistent with the ongoing routine. In short, routine operation involves a comprehensive truce in the intra-organizational conflict. There is a truce between the supervisor and those supervised at every level in the

[1] The UPU Congress is held roughly every four years and is the key governance body of the international postal network.