



# Does industry matter? How industry context shapes management accounting practice<sup>☆</sup>



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## ABSTRACT

The essay raises the question whether industry matters for management accounting practice and, if so, how this type of context can be accounted for in empirical work. To this end, I first explain what I mean by 'industry context' and in which sense organizational practice can be regarded as industry specific. In a second step, I discuss how the extant management accounting literature has incorporated industry effects. In particular, I highlight variation within these studies with respect to (1) the kind of industry specifics they have focused on; (2) the effects on management accounting they have identified; and (3) the empirical approach they have taken. In each case, I suggest opportunities for further research.

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## Preface

The motivation for this essay originates from a panel presentation that I was invited to give in March 2015 on the occasion of the 25th anniversary event of the journal *Management Accounting Research*. I chose to focus my talk on the question of whether industry mattered in management accounting research. My conclusion was that it mattered only to a limited extent and that there would be quite some scope for improving our understanding of how different industry contexts shape management accounting practice. In this essay, I consolidate and further develop these thoughts. I provide examples for how industry effects have been discussed in the literature and I theorize on different ways in which industry context may matter for management accounting practice. I also provide some avenues for future research.

## 1. Introduction

A key development in accounting research in the last couple of decades has been the acknowledgement that accounting practice is closely related to the broader organizational and institutional environment in which it is situated (e.g., Hopwood, 1983; Hopwood

& Miller, 1994; Chapman et al., 2009). Why accounting is practiced in a particular way, and how it influences behavior, cannot be understood by focusing only on the technical characteristics of the practice. Rather, such understanding requires seeing accounting as part of a bigger context in which it attains a specific meaning and significance. Accordingly, many scholars from the 1970s onwards started to "study accounting in the contexts in which it operates" (Hopwood, 1983) and, over time, created a rich body of literature that considerably influenced our understanding of how accounting is shaped by its context (and, in turn, shapes that context).

In the management accounting literature, this concern with a context-sensitive understanding of accounting has been pursued along different theoretical paths. For instance, in research drawing upon *contingency theory*, context is conceptualized as a set of factors that determine whether a particular accounting or control system is more or less appropriate for an organization (e.g., Otley, 1978; Hirst, 1981; Ezzamel, 1990; Gerdin and Greve, 2008). The context factors that have been examined in this line of research include characteristics of the external environment, such as environmental uncertainty or competition intensity, the type of strategy pursued by the organization, the culture of the organization, or certain characteristics of the firm's technology, such as its task complexity (cf. Chenhall, 2003). A different understanding of context emanates from studies drawing upon *institutional theory* (e.g., Brignall and Modell, 2000; Modell, 2003; Ezzamel et al., 2012). They associate context with the set of beliefs and norms that prevail in the particular institutional field to which the organization belongs. Within this field, it is 'rational' for an organization to adopt particular accounting and control systems, not least because of a concern to maintain its legitimacy within the field (Meyer and Rowan, 1977). A somewhat related way to conceptualize

<sup>☆</sup> I would like to thank the Founding Editors of *Management Accounting Research*, Bob Scapens and Michael Bromwich, for inviting me to participate in a panel discussion at the MAR 25th Anniversary Conference where I first presented these ideas. I am grateful to Wim Van der Stede, who chaired the panel, for inviting me to further develop my thoughts in written form and for providing helpful comments on a draft. I also thank Kaitlin Appleby, Albrecht Becker and Lukas Goretzki for helpful suggestions.

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context is offered by *governmentality studies*. Here, context is operationalized in terms of (economy-wide or society-wide) programs and discourses that translate into particular technologies of governance, such as accounting systems (e.g., Miller and O'Leary, 1987; Miller, 1992; Kurunmäki and Miller, 2011). *Practice theories* conceptualize context as a nexus of practices and material arrangements, of which accounting practices and technologies form one part (Schatzki, 1996, 2002; Ahrens and Chapman, 2007). Accounting studies drawing upon practice theories have mostly focused on the immediate organizational context of accounting, but practice theory can potentially inform also analyses of practice homogeneity or variation across organizations (Lounsbury, 2008). *Actor-network theory* conceptualizes context in a nominalist way, in terms of all the entities that are connected to the particular entity in question (Latour, 1987, 1993, 2005). The context of an accounting object is therefore the network of actants to which the accounting object is connected and through which it attains its significance and strength (e.g., Briers and Chua, 2001; Andon et al., 2007; Justesen and Mouritsen, 2011).

Extant literature has hence adopted different ways to theorize the context of management accounting.<sup>1</sup> But what sort of *empirical* contexts have featured in the management accounting literature, i.e., 'where' has management accounting been studied? Clearly, there is an infinite number of context characteristics that could be identified in any study of accounting. Consider the case in which management accounting practice is examined in a single organization. The context here would be composed of factors such as the size of the organization (small vs. large), its purpose (profit vs. non-profit), its ownership type (private vs. public), its geographical location, the industry to which the organization belongs, or the time period in which the study is carried out. Studies would routinely mention many of these context factors when explaining the empirical setting, not only to help the reader better imagine the organization(s) under study, but also, and importantly, because such context factors may matter for interpreting the findings of the study. Indeed, we can find studies that explicitly focus on particular empirical contexts and the accounting practices that are common to these contexts. There is, for instance, research that considers the specifics of management accounting in small firms and start-ups (e.g., Davila and Foster, 2005, 2007). Other studies focus on ethnic or cultural context factors and their relevance for accounting practice (e.g., Efferin and Hopper, 2007). There is a large body of studies that looks at accounting in the public sector, in governmental and non-profit organizations (e.g., Lapsley and Wright, 2004; Samuel et al., 2009). Finally, there is research that explores forms of accounting at particular historical periods (e.g., Quattrone, 2004; Ezzamel, 2009; Walker, 2014).

Interestingly, one type of empirical context that has received comparatively little attention is that of the industry (or sector) to which an organization belongs. While studies would routinely mention the industries which the organizations under study are operating in, they would usually engage in little explicit discussion of whether and how industry affiliation matters for management accounting practice. Even though all of the above outlined theoretical approaches allow for consideration of industry context, the majority of studies does not seem to regard industry as a particularly relevant type of context and hence does not elaborate on how industry specifics shape management accounting practice.

To be sure, *some* industries or sectors have featured quite prominently in management accounting research and there is thus a sense of 'accumulated industry understanding' emanating from these studies. For instance, there is now an important body of

research on accounting in the healthcare sector (e.g., Chua and Preston, 1994; Kurunmäki, 2004; Kurunmäki and Miller, 2011), in non-governmental organizations (NGOs) (e.g., Chenhall et al., 2010, 2013) or in the public sector more generally (e.g., Lapsley and Wright, 2004). While many of these studies are conducted on the organizational (rather than industry) level, they do allow for some insight into the particular sector or industry more generally. For instance, when a study in a hospital demonstrates the functioning of the diagnosis-related group (DRG) system and its consequences for medical practice, this clearly has relevance for more than just the individual hospital under study, given that DRG systems are now prevalent in hospitals all over the world. Similarly, when a study of an NGO relates to the role of volunteers and their involvement in accounting practice, we learn about an important characteristic of such organizations in this sector more generally.

However, studies that explicitly discuss industry contexts are exceptions rather than the rule. Especially for studies conducted in for-profit industries, such as manufacturing firms or retail firms, there is typically little discussion of how industry context shapes management accounting practice. In quantitative studies, 'industry' is either translated into a set of other variables (such as environmental uncertainty or competition intensity) or it is controlled for by introducing industry dummy variables in the statistical model (cf. Sharp et al., 2013). This industry effect is hardly ever discussed in any depth, however, as the main goal of such research is usually to identify relationships between phenomena at the organizational or individual level that can be generalized across industries. Similarly, qualitative studies are typically interested in theorizing the relationship between management accounting and other phenomena, such as individual actors' expertise and interests, organizational politics, stakeholder demands, or broader public discourses. Whether such phenomena manifest differently in some industries than in others is usually of little interest to the studies. And even if one looks at explicit (and most welcome) efforts to synthesize the state of knowledge on management accounting in different sectors or industries, the picture that emerges is somewhat sobering. While the three volumes of the *Handbook of Management Accounting Research* feature several interesting chapters on different 'management accounting practice contexts', such as the health care sector, non-profit organizations, or entrepreneurial companies, it is perhaps symptomatic for the state of the field that there is only one chapter that summarizes management accounting in the entire manufacturing sector (Davila and Wouters, 2007).

The objective of this essay is therefore to address the question of whether industry matters for management accounting practice and, if so, how this particular context can be accounted for in empirical work. To this end, I will first explain what I mean by 'industry context' and in which sense organizational practice can be regarded as industry specific. In a second step, I will discuss how the management accounting literature has approached industry effects. I then look in more detail at selected studies to show how they have examined industry specifics. In doing so, I identify opportunities for future research.<sup>2</sup>

## 2. Industry specifics

There are different ways of defining what an industry is. Most commonly, it is associated with a group of firms that offer similar products or services (Sharp et al., 2013). Classification schemes such as the Standard Industrial Classification (SIC) rely on this approach

<sup>2</sup> Calls for research on particular industries have been made, for instance, by Van der Stede (2011) and Gooneratne and Hoque (2013) who both focus on the financial sector.

<sup>1</sup> The above list of theoretical approaches is illustrative rather than exhaustive.

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