# Cand. Merc. ASC

2nd semester – Spring 2020

Compendium to the Course

CASCO1005U

# Implementation of Accounting

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CHAPTER 2

# *Human Relations and Budgeting Systems*

Recently the organizational behavioral ramifications of management accounting and information systems have come under the scrutiny of both practitioners and academics in this field. Some evidence is surfacing to suggest that accounting systems have been creating effects within organizations we had not bargained for. Our systems, it seems, are not always embraced warmly by organizational participants; and the magnitude of the unintended negative consequences is alarming.

As a result, considerable research and theory-building has ensued over the past couple of decades; and a small number of accounting and MIS academics have devoted a lot of their time, considerably more than most accounting and information systems managers realize, to researching this problem. Early on it became something of a convenience to refer to this whole endeavor as behavioral accounting. Most of the early studies of these systems postulated that if we could somehow get the human relations aspects right, then our accounting and information systems would work as they are supposed to.

## THE HUMAN RELATIONS PERSPECTIVE

The idea to involve participants in the design of organizational arrangements that affect them had its origin in the famous Hawthorne study conducted nearly fifty years ago by Mayo (1945) and Roethlisberger and Dickson (1947). This study revealed that human factors could have a profound effect on the productivity of our technical–economic organizations. From these beginnings, the human relations school of organizational behavior emerged and soon gained wide appeal.

The basic tenet of the human relations school is the belief that participation has great potential for curing many of our organizational problems. Increased productivity follows the release of an individual's creative energies. The leader's role, then, is to create a climate that allows all members of an organization to participate fully in the decision process. In turn, participating individuals appreciate the responsibility entrusted to them; morale is high and motivation is increased. The direction of influence, of course, is by no means clear, as Miles (1966) pointed out. Does higher morale lead to more productivity? Or does greater productivity lead to higher morale? Or are the two inextricably interwined?

Moreover, participation implies a process that is democratic, employee-centered, in which sound human relations are given priority. Few managers would deny that such a working climate has greater value than an autocratic, production-centered system, dominated by the bureaucracy. For many years participation in decision-making was thought to be a panacea for effective organizational effort.

But this school of thought was later to come under closer scrutiny. So much so that for many years participative decision-making became the most contentious and significant debate in the study of organizational behavior. More resources and energy were devoted to this issue than to any other in the history of organizational behavior. More recently, thoughtful and candid critiques of this approach, by notable theorists such as Perrow (1972), have helped to present a more balanced view of the human relations movement.

The outcome of the debate, unfortunately, has never been resolved. The believers have never been able to demonstrate rigorously that participative management really has a positive effect on productivity. The skeptics, for their part, have not been able to prove the opposite conclusively. So the issue remains unresolved. One cannot help but harbor the suspicion that enthusiasm for participation as a means to optimum efficiency and effectiveness outran careful research.

In any event it should be no great surprise to learn that the issue of participation found its way into the accounting and information systems field. And conventional thinking on management accounting soon embraced the concept of participation as the best means for getting managers and employees to make more effective use of accounting and information systems. Problems with imposed budgets were debated more than fifty years ago when a study by the National Industrial Conference Board (1931) indicated dissatisfaction with them and advised preparation by departments, followed by editing and revision in the central office. It was nearly twenty years later that Argyris (1952) reactivated the controversy by undertaking a study for the Controllership Foundation on the effects of budgets on people. The participation concept has troubled accountants for a long while.

### Negative consequences of budgets

Argyris' study showed that budgets were viewed differently by budget people, factory supervisors, and front-line foremen and workers. To the budget people, who perceived themselves as the 'answer-men' of the organization, the budget served the extremely important function of being 'the eyes and ears of the plant'. As they saw it, one part of their job involved a continuous uncovering of errors and weaknesses, as well as the examination and analysis of plant operations with an eye to increased efficiency. The next stage was to report the findings to top management so that pressure could be brought to bear on the lower echelons to increase productivity and achieve greater