

**CHANGING MANAGEMENT CONTROL AND PRACTICES
TOWARDS A HIGH-PERFORMANCE CULTURE:
THE CASE OF A NEWLY ACQUIRED ORGANISATION IN MALAYSIA**

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TOWARDS A HIGH-PERFORMANCE CULTURE:
THE CASE OF A NEWLY ACQUIRED ORGANISATION IN MALAYSIA**

by

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LIST OF ABBREVIATIONS

AFTA	:	Asian Free Trade Area
ASEAN	:	Association of South East Asian Nation
BDS	:	BDS Corporation
CA	:	Collective Agreement
CEO	:	Chief Executive Officer
ED	:	Employee Dialogue
EHS	:	Environmental, Health & Safety
Eng	:	Engineering and Maintenance
FOM	:	Factory Operations Meeting
GLC	:	Government-linked company
HR	:	Human Resources
HRC	:	Human Resource Conference
IAS	:	IAS Corporation
IAS-HPC	:	The IAS High Performance Culture
IE	:	Industrial Engineering
IT	:	Information Technology
KPI(s)	:	Key Performance Indicator(s)
MA	:	Management Accounting
MAPs	:	Management Accounting Practices
MAS	:	Management Accounting Systems
M&As	:	Mergers and acquisitions
MC	:	Medical certificate/leave
MCS	:	Management Control Systems
NAFTA	:	North American Free Trade Agreement

NIS	:	New Institutional Sociology
OC	:	Organisational Controls
OIE	:	Old Institutional Economics
PI	:	Product Industrialisation
PIP	:	Process Improvement Programme
PLM	:	Plant Manager
PMS	:	Performance Measurement Practices
PO	:	Plant Operation
QM	:	Quality Management
R&D	:	Research and Development
Regional CEO	:	Regional Chief Executive Officer
TQM	:	Total Quality Management
VSS	:	Voluntary Separation Scheme
WIP	:	Work-in-process

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**MENGUBAH AMALAN DAN KAWALAN PENGURUSAN
KE ARAH BUDAYA BERPRESTASI TINGGI:
KAJIAN KES KE ATAS SEBUAH ORGANISASI YANG BARU
DIAMBILALIH DI MALAYSIA**

ABSTRAK

Kajian ini menggunakan kaedah kajian kes untuk mengkaji dan menjelaskan bagaimana organisasi yang baru diambilalih mengubah budaya atau institusi dalam organisasinya. Secara lebih spesifik, kajian ini melihat bagaimana pihak pengurusan yang baru dari sebuah organisasi multinasional di Barat memperkenalkan budaya berprestasi tinggi yang seterusnya menjadi satu amalan budaya yang baru di dalam organisasi yang diambilalih. Data dan maklumat diperolehi melalui temubual, semakan dokumen syarikat, perbualan secara informal dengan pekerja-pekerja syarikat dan juga secara pemerhatian dalam organisasi kajian. Kerangka kerja perubahan institusi oleh Van der Steen (2006) telah digunakan untuk menjelaskan dan menerangkan data yang telah diperolehi.

Pihak pengurusan baru telah berjaya membudayakan amalan dan kawalan pengurusan yang baru melalui penerapan budaya berprestasi tinggi. Budaya tersebut telah mengakibatkan perubahan kepada aktiviti harian, peraturan-peraturan dan prosedur kerja yang wujud di dalam organisasi sebelum ini. Perubahan struktur dan fizikal ini menyebabkan ahli-ahli organisasi mula memikirkan rasionalisasi kepada perubahan-perubahan yang telah, sedang dan akan berlaku; sehinggalah mereka akhirnya mendapat kefahaman mengenai kenapa perubahan itu perlu melalui 'pengertian secara perbincangan'. Proses rasionalisasi ini mengakibatkan satu anjakan

paradigma di dalam minda; dan seterusnya, cara mereka bertindak. Perubahan dalam cara berfikir dan bertindak telah menyebabkan nilai-nilai dan kebiasaan yang sedia wujud dalam organisasi sebelum ini menjadi tidak sesuai lagi. Amalan dan kawalan pengurusan yang baru semakin menjadi sesuatu tindakan dan perkara biasa dan rutin, yang lama-kelamaan membudaya dalam organisasi. Kajian ini telah menunjukkan bahawa membudayakan satu amalan baru, walaupun sukar, bukanlah sesuatu yang tidak mungkin. Sesuatu proses perubahan itu memerlukan kesabaran dan keyakinan dalam diri semua pihak yang terlibat terutamanya bagi seorang pemimpin kepada perubahan. Kepimpinan memainkan peranan yang penting seperti yang ditunjukkan di dalam kajian ini. Keupayaan seseorang pemimpin kepada perubahan untuk memberi penjelasan dan memotivasikan ahli-ahli organisasi ke arah melakukan perubahan tersebut akan memudahkan lagi proses perubahan tersebut. Maka, apa-apa program pengurusan perubahan yang diperkenalkan di dalam organisasi yang baru diambilalih bukan sahaja perlu mengambilkira nilai-nilai dan kebiasaan yang sedia wujud dalam diri ahli-ahlinya, tetapi juga memerlukan kepada seorang pemimpin yang cekal menghadapi perubahan.

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ABSTRACT

This research employs an interpretive case study method to examine how a newly acquired organisation changes its organisational culture or institutions. The study specifically looks at how the changes brought in through a culture of high-performance, introduced by the new management of a Western multinational, have become institutionalised and formed a new culture in the acquired organisation. Data was collected through semi-structured interviews, document reviews, informal conversations and observations in the case organisation. Van der Steen's (2006) framework of institutional change is used to explain the data.

The new management has been successful in establishing new management control and practices through the inculcation and instigation of the high performance culture. The organisation's daily activities need to change in order to meet the new and higher expectations of the new management. The structural and physical changes have resulted in organisational members beginning to rationalize and make sense of the changes that have taken place, are currently taking place and are about to take place, before they finally reach an understanding through consensus as to why change is needed. This resulted in a paradigm shift in their mindset, and hence, their actions. The changes in the actions and mindset have rendered the existing norms and values of the organisation useless. New management control and practices then become habitual and routinised, and eventually institutionalised within the organisation. This study has shown that institutionalising a new practice, though difficult, is not

impossible. The change process requires patience and determination from all involved, particularly in the change leader. Leadership is identified as playing an important role in this study. The ability of the change leader to explain and motivate the organisational members towards the required change would further ease the change process. Hence, any change management programme introduced in a newly acquired organisation should not only take into account the existing norms and values of the organisational members, but should also be championed by strong transformational leaders.

CHAPTER 1

INTRODUCTION

The chapter begins with a brief background of the study and is followed by the discussion of the objective of the study and the approach. The chapter ends with brief explanations on the contributions of the research and how the thesis is organised.

1.0 Background of the Study

The changes in the global competition (deregulation, globalization, the emergence of powerful developing economies and technological diffusions) have resulted in the massive transformation by global corporations to redefine their strategies, structures, and processes (Busco, Frigo, Giovannoni, Riccaboni, and Scapens, 2006). Drawing on this transformation, some of the management practices used in organizations will also have to undergo certain changes. As in the case of mergers and acquisitions (henceforth, M&As), the transfer and adaptation of management practices from the holding-organisation to the acquired organisation may not be done wholly, because of the various complexities faced (Ferner *et al.*, 2001).

Many of the studies previously conducted looked at control change from the perspective of the holding organisation, and not much research has examined the impact of transferring management practices to an acquired organisation. As such, there is little understanding about the reasons why subsidiary or acquired or merged organizations choose to preserve or alter their management accounting system (Granlund, 2003; Vamosi, 2000). Similarly, not much is known about how a change initiative such as change in management accounting system (henceforth, MAS)

should take its course following M&As (Granlund, 2003). Thus, drawing on recent research, it is the intention of this study to fill the literature gap in this area.

A number of survey-researches have been conducted to examine the management or control of the acquired organizations by the holding organizations (see for example Al Chen, Romocki and Zuckerman, 1997; Kostova and Roth 2002; Myloni, Harzing and Mirza, 2004; Nohria and Ghoshal, 1994; O'Donnell, 2000; Richards, 2000). However, the studies are largely exploratory in nature and the results are generally descriptive. The use of the cross-sectional surveys approach was rather static in order to understand the diversity in the population, i.e. the extent to which the diversity of management accounting practices can be explained by certain variables, which are hypothesized to have some theoretical relevance. Such survey researches adapted a positivist methodology, which is reflective of the types of management accounting research undertaken during the 1980s and 1990s (Scapens, 2006).

However, there has been a shift in the nature of understanding management accounting practices from mainly explaining diversity in the population, as in the statistical/positivist research, towards an understanding of why organizations have their particular management accounting practices (Scapens, 1994). Scapens has argued that management accounting researchers should seek to understand the nature of management accounting practices, rather than comparing them to some theoretical ideal. This shift in the meaning of *understanding* has brought about the utilization of a more process oriented longitudinal case study approach. To this end, detailed case studies on management accounting in practice need to be undertaken since it is difficult to explore the processes, shared meanings and contextual factors within a survey based research (Major and Hopper, 2005).

Only a limited number of in-depth case study researches on changes in management accounting practices have been conducted (see for example Burns, 2000; Burns and Scapens, 2000; Busco *et al.*, 2006; Dambrin *et al.*, 2007; Granlund, 2003; Guerreiro *et al.*, 2006; Hassan, 2005; Ribeiro and Scapens, 2006; Vamosi, 2000; Yazdifar *et al.*, 2008). However, there is still a lack of in-depth research that examines the process of transfer of, or change in management accounting practices, especially in Malaysia (see for example Nor-Aziah and Scapens, 2007; Norhayati, 2009). Such a lack of understanding of the process of transfer or change was highlighted in Burns (2000), however, few studies have been able to explicate that change can also happen in an evolutionary manner, and not just revolutionary (see for example, Busco *et al.*, 2006 and Yazdifar *et al.*, 2008).

1.1 Problem Statement

From the above background information provided, it can be construed that changes in management practices, especially in the era of globalization, is inevitable. When an organisation merges with or acquires another organisation, the parent organisation is likely to inculcate its management practices on newly merged organisation or on the newly acquired organisation, for reasons, among others, of standardization and ease of control. However, inculcating new management practices on newly formed, merged organisation and newly acquired organisation, with prevailing organisational culture and practices already in place, is not easy.

This is especially so, when a foreign organisation merges with or acquires another foreign organisation from a different country. The acquired organisation previously perhaps was managed with different values and norms, different organisational culture and ways of thinking. Thus, when the new parent organisation

attempts to instigate new management practices and culture into the newly formed or acquired organisation, they might face resistance from the organisational members who resisted change. Hence, in practice, most organisations find it difficult to inculcate new management practices and change the mindset of the organisational members. Some organisations were successful in changing the organisational culture (for example, Busco et. al, 2006; Lodorfos and Boateng, 2006; Nguyen and Kleiner, 2003; Schraeder and Self, 2003), and some organisations were unsuccessful (Brouthers *et al.*, 1998; Cartwright and Cooper, 1993; Epstein, 2004; Norhayati, 2009; Schuler and Jackson, 2001; Siti-Nabiha, 2000)

Thus the research is searching for possible explanations as to why and how some merged and acquired organizations are successful in inculcating new management control practices as required by the new team of management to the extent that they are able to effectively change the prevailing institutions that exist within the acquired organisation. How are the existing rules and procedures changed and internalized by the organisational participants? What are the processes that the organisational participants have to go through? Through the understanding and the explanation of the successful process of change in management control and practices that has effectively taken place in an acquired organisation, it is hoped that similar process can be adopted to ensure successful integration and instigation of new management practices in other organisations.

1.2 The Objectives of the Study

The focus of this study is to understand how management control is used as a tool for changing the organisational culture that existed in an organisation and also to understand how, in turn, the management control practices themselves have been

altered as a result of the change in the organisational culture. The knowledge and understanding of the interaction and relationship between management control change and organisational change is vital to both academics and managers alike. From the background discussed above, the main objectives of this study are: to examine how control is achieved in a newly-acquired organisation, how new management control practices imposed by the new management are adapted and implemented by the acquired organisation, how the changes are accepted by the management and people of the acquired organisation, what forces are at work and whether the new management control system becomes embedded in the acquired organisation.

In examining how control is achieved, the researcher looked at both the formal and informal control tools used by the new management, which encompasses both financial control (such as budgets and financial reports), or non-financial control (such as performance measures and reporting procedures). The study considers how the new management transfers management control practices originating from the holding organisation to its acquired organisation, and the researcher views it from the acquired organisation's point of view. Specifically, the study attempts to investigate how the transferred management control practices are being implemented, whether they lead to acceptance or resistance from the acquired organisation, and whether change of culture is implicated as a result of the transfer and/or adaptation process. Thus, the main research question is how control is achieved in a newly acquired organisation. The detailed research questions are as follows:

1. Why did a European organisation takeover the Malaysian organisation? Why did they invest substantially in this Malaysian organisation?

2. What are the changes in the organisation's management practices, specifically, changes in its management control and management accounting practices (MAPs) after the takeover? Why were the changes made? What are the values that the holding organisation tries to inculcate?
3. How does the holding organisation transfer or integrate the new values originating from the holding organisation to their newly acquired foreign organisation?
4. What are the consequences of such changes? Have there been changes in the organizational culture? If yes, how did they happen? How did the process of inculcating such values happen and what are the consequences of such change?

The above research questions were derived from the theoretical framework, which is discussed in Chapter Three. The concepts and terms used here are explained in that chapter.

In this research, theory and case observation were essential in interpreting the research findings. The study first reveals the extent to which the acquired organisation has changed and second seeks an understanding of the process of institutionalisation of the new culture in the acquired organisation. The study converges on the process of institutionalisation of the management practices and investigates whether the new management practices and the management-intended culture has been ceremonially-, or instrumentally-institutionalised within the acquired organisation. For this purpose, the researcher adopts the framework of individual behavioural and institutional

change set out in Van der Steen (2006), which draws mainly from old institutional economics (OIE). The justifications for adopting this framework as the main theoretical lens to inform the findings of the case are provided in Chapter Three.

1.3 Contributions from the Study

It is anticipated that this research will provide an understanding and explanation of the process of management control change by looking in more detail at how individual participants in the case organisation come to the realisation of the need for them to change. Once the individual realization is there, the study continues to explain how that individual realization has been brought to the level that it is able to raise the collective realization of other organisational participants, which subsequently facilitates the change in their organisational actions, practices, rules and routines. As such, this research makes a contribution to the theory and practice of management control change.

This work will illustrate how it is possible for institutionally constrained individuals to change and the role played by human agencies in the process. As will be explained in the subsequent chapters, it is the aim of this research to obtain theoretical generalization. In other words, the thesis is seeking an extension to the theory. The findings of this research are compared against the findings of other researches that investigate the process of change. Thus, using Van der Steen's (2006) framework of institutional change the current study provides a refinement to the framework by highlighting the important role that transformational leaders play during the change process. Even though Van der Steen (2006) argues that leaders can only indirectly influence the sense-making of the organisational members, however, this study illustrates that transformational leaders, through their actions, inactions and

emotions, are able to greatly influence the sensemaking of the organisational members. Transformational leaders are able to make the fundamental shift in meanings and interpretations made by all other organisational members regarding the change. Hence, the most prominent contribution of this study is it illustrates the process that the transformational leaders undertook to unfreeze the prevailing mindset, changing or moving to a new mindset and refreeze the new mindset; thus ensuring successful organisational culture change within the organisation.

An improved understanding of the process of change as well as the effective role that the individual (change agent) plays during the change process will be valuable to practitioners, as it could shed some light on how the process of change takes its course, why it happens, and how the new practice gets institutionalised within an organisation that is highly institutionalised. This is especially important for practitioners, because studies have shown that not many change efforts are successful in transforming the culture and mindset of the people within the changing organisation (see for example, Norhayati, 2009); and that the change is only a ceremonial one rather than instrumental. Thus, in implementing change, management has to consider the issues that arise. These issues will be identified in this research. Thus, the thesis intends to provide insights that may be of help to the practitioners in managing and implementing management control change in their respective organisation.

1.4 The Organisation of the Thesis

The thesis has been divided into nine chapters. The first chapter concentrates on the background and the objectives of the study and its approach with a brief explanation of the research questions, and the contributions of the study.

The second chapter deals with the changing business environment that is facing business organizations globally. It provides the conceptualisation of management control systems and practices. It further looks at the effect of the changing environment, which puts pressure on business organizations to change not only the way they do business globally, but also in the way they manage their daily business and internal practices. The chapter highlights the findings from the existing literature in the area of organisational change as well as from the perspective of the management accounting change. It also highlights the important role of leaders in any change efforts. By concentrating on the findings from the case study research, the chapter shows that much more research in the area is required.

The third chapter brings to the fore the theoretical perspective of the study. The institutional theory, specifically the Van der Steen's framework is used as the main theory to explain the findings of the research. Thus, the chapter describes the philosophical and methodological underpinnings of the theory. Various sociological and cognitive concepts related to and supports Van der Steen's framework are also discussed.

The fourth chapter discusses the methodology that was used in the study. It delineates the justification for adopting an interpretive approach in understanding the process of management control and organisational change. The justifications for employing the qualitative case study research method are also explained together with a brief background of the case organisation. The chapter also explains how data was obtained, analysed and validated in the current study.

The fifth and sixth chapters deal with the findings from the case study. The fifth chapter details the setting in which the study is conducted, providing the background information about the case organisation followed by a description of the

new management philosophy introduced by the new management. Specifically, it highlights the structural changes that have taken place under the first change captain and how the new management culture is being integrated and implemented. Chapter Six focuses more on the steps and actions taken by the new captain in ensuring successful internalisation of the changes, and how the internalisation process is done to make sure the organisational members are able to accept the fact that change is ultimately necessary.

Chapters Seven and Eight provide the theoretical analysis of the case findings. The institutional theory and Van der Steen's (2006) framework are used to inform the case findings. As theoretically derived in Chapter Three, the explanation of the case findings is done by concentrating on the four phases of institutionalisation. Chapter Seven describes the process of inculcating the IAS High Performance Culture at Innoch in relation to the first two out of the four phases of change identified in the adopted framework. It explains when and how the realization of the need for change surfaces within institutionally constrained individuals and how they then make action decisions. Chapter Eight presents a more detailed analysis of the change process, in relation to the final two phases described in the framework. It looks at how the newly created actions become routinised and eventually institutionalised, delineating the conditions under which institutionalisation is made possible. Throughout these theoretical analysis chapters, the important and effective roles played by change leaders are highlighted to enhance the theoretical contribution of this research.

Chapter Nine further highlights both the theoretical and practical contributions of the research highlighting the importance of an effective leader in ensuring successful change implementation. Attention is then drawn to the limitations of the current study, its implications and suggestions for future research.

CHAPTER 2

INSTITUTIONALISING CHANGE IN MANAGEMENT CONTROL AND PRACTICES

2.0 Introduction

As a result of advances in technology and the changes in the way business is conducted, new management accounting and control techniques and innovations are developed and put into practice in order to keep the performance of the organisation abreast or ahead of the competition. These new management techniques or practices may be introduced by the existing management of the organisation, or by the new owner in the case of M&As, or simply as a result of following or keeping in trend with the new management practice fad. New management practices are established in order to achieve certain organisational objectives that would normally require a change in organisational behaviour.

However, not all organizations are successful in their mission to change the behaviour, the attitude and the way of thinking of their organisational members. Only a few organizations are able to materialise the behavioural change as well as make the paradigm shift in the minds of its people. How do they do it? What kind of change processes do they have to undergo? This thesis looks into how a case organisation was able to internalize the new management practices imposed on it after acquisition by a foreign multinational organisation. In the next sub-topic, the researcher will discuss management control and its conceptualisation. This is followed by a discussion on pressures for change in management control practices. In the subsequent sections, some insights from the organisational change and management accounting change literature are provided with some reviews on the institutional perspective of

management control change. In the final section, the role of leadership is being looked into as to how leaders influence the organisational change process.

2.1 Conceptualisation of Management Control

There have been various definitions and conceptualizations of control systems and management control (Anthony & Young, 1999; Horngren *et al.*, 2005; Langfield-Smith and Smith, 2003; Simons, 1995). In addition, the terms management accounting (MA), management accounting systems (MAS), management control systems (MCS), and organizational controls (OC) are sometimes used interchangeably (Chenhall, 2003). Chenhall gives specific definition to each term whereby he defines MA as a collection of practices such as budgeting or product costing. However, MAS refers to the systematic use of MA to achieve some goals and MCS is a broader term that encompasses MAS and also includes other controls such as personal or clan controls.

Control systems have been conceptualised as formal versus informal controls (Edstrom and Galbraith, 1977), behaviour versus outcome controls (Ouchi, 1979; Eisenhardt, 1985), and mechanistic versus organic controls, bureaucratic versus clan controls (Child, 1973; Balliga and Jaeger, 1984). However, these typifications are not distinct and there is some agreement that all organizational control systems consist of formal, explicitly designed controls, as well as the unwritten informal or social controls that cannot be designed directly.

There have been numerous conceptualisations of management control. Emmanuel, Otley and Merchant (2004) define management control as “involving monitoring activities and taking action to assure that resources were being effectively and efficiently used in accomplishing organisational objectives” (p.96). They

described the dimension of management control as focusing on the whole organisation, involving top management and line managers. They argue that management accounting information is the major tool for achieving management control.

However, Anthony and Govindarajan (2007) conceptualise management control with a strategic perspective. They define management control as the process by which managers influence other members of the organization to implement the organization's strategies. In other words, management controls are perceived as only one of the tools that managers use in implementing desired strategies (Anthony and Govindarajan, 2007). This is similar to Merchant's (1997) conceptualisation of control. Merchant defined control from the operational point of view, which includes the steps managers take to ensure that the organizational strategies are implemented or modified. He regarded management control as a system concerned with planning, the actions taken to implement the plans, the monitoring of both actions and plans and any required alterations to the plans. Thus, according to Merchant (1997), MCS are used by managers to aid them in performing all of the control functions of planning, decision-making, motivating, coordinating, communicating objectives, providing feedback and integrating activities within complex organizations. Thus, this indicates the broad nature of control, which is not limited to accounting and budgeting systems.

Cultural controls are one of the mechanisms used to promote mutual monitoring, an often powerful social pressure exerted by groups on individuals within the groups who deviate from the groups' norms and values. Among the methods highlighted by Merchant (1997, p.124) for shaping culture and, thus, effecting cultural controls are codes of conduct, group-based rewards, intra-organisational transfers (e.g. expatriates), physical and social arrangements and the tone at the top. Cultural

control is more implicit and informal than explicit and formal (Balliga and Jaeger, 1984). Here, all the organizational members share a common culture, which is defined as a specific pattern of expectations and beliefs. It consists of a system of ideologies, language, and symbols, etc., which are shared by all the members.

From the above, we can see that management control is a broad concept, and it encompasses far more than accounting and budgeting systems (Kloot, 1997). Merchant's broader conceptualisation of management control is used in this thesis since it embraces a wide range of formal and also social controls (Davila, 2005). Thus, in this research, management control includes all the devices managers use to ensure that the behaviour and decisions of people in the organization are consistent with the organisation's objectives and strategies (Merchant, 1997, p.2). It is these activities, processes conducted or implemented to ensure the achievement of the organisational strategies and achievement of organizational objectives. It is used to encourage, enable, or sometimes force employees to act in the organization's best interests. It concerns influencing the behaviour of managers and employees in ways that lead to the attainment of organizational objectives.

2.2 Pressures for Change in Management Control Practices

Operating in the borderless world of today necessitates organizations to alter their business structure through M&As and become globally operating firms (Bartlett and Ghoshal, 1998; Govindarajan and Gupta, 2000; Ghoshal and Bartlett, 1996; Mouritsen, 1995). Adapting to the new business and organisational structure, in turn, also requires the management, at all levels, to alter their management practices. It is the role of the management to monitor and coordinate their global research, production and marketing capabilities in order to gain a global competitive advantage

(Pucik and Katz, 1986). In the case of a new acquisition, for instance, the newly acquired subsidiary (the acquiree) needs to adapt to the new requirement of the new management (the acquirer). However, gaining control of a newly acquired organisation or of a newly formed merged organisation is not easy, and the outcomes are often disappointing (Ashkenas, DeMonaco & Francis, 1998; Shearer, Hames & Runge, 2001). Global organizations are required to be able to balance between seeking competitive advantage through greater standardization and coordination of management practices, while at the same time, continuing to maintain flexibility and local responsiveness (Busco, Giovannoni, Scapens, 2008). Several studies have pointed out that many complexities are faced in integrating new management practices in newly formed global organizations (Martinez and Jarillo, 1989). The complexities are in the form of differing goals, values, beliefs, ideas, systems, leadership issues (unclear roles, poor decision making), rocky integration, management practices and processes (Ashkenas *et al.*, 1998; Shearer *et al.*, 2001), communication barriers, complications in performance evaluation, cultural differences (for example, Mascarenhas, 1982; Rosenzweig & Singh, 1991; Tetenbaum, 1999) and other legally mandated expectations (Paik and Sohn, 2004). Busco *et al.* (2008) identify a number of tensions found in the processes of integration such as vertical vs. lateral relations, the convergence vs. differentiation of practices, and the centralization vs. decentralization of decision making. In order to achieve coordination, there needs to be some degree of convergence towards a common set of practices that facilitate communication and knowledge transfer (Busco, *et al.*, 2008). The issue is, how can the management obtain effective control of its newly acquired subsidiary or its newly formed merged organisation? How is it possible for the newly acquired organisation to be able to accept, implement, integrate and eventually

internalize the imposed new management control practices of the new management?
How did the change process take its course?

2.3 Insights from Research on Organisational Change

Research in the area of organisational change mostly accepted the fact that change is a complicated process, and that it is a non-linear static event. Many researchers have also discussed the challenges and problems faced by M&A firms at different stages of the M&A, i.e. pre-merger, during and post-merger challenges (Marks and Mirvis, 1992). Organisational alliances through M&As often fail (Porter, 1987) due to culture clashes (Cartwright and Cooper, 1993), confusion, internal disruptions (Epstein, 2004), unrealistic expectations, poor planning, talent lost or mismanaged, poor communication, changing external environment and integration difficulties (Brouthers *et al.*, 1998; Schuler and Jackson, 2001;). However, some acquisitions were successful and organisational culture is argued to be of particular importance in ensuring such success (Gundry and Rousseau, 1994; Lodorfos and Boateng, 2006; Nguyen and Kleiner, 2003; Schraeder and Self, 2003; Smircich, 1983). The role of leadership, thus, becomes undeniably significant (Shearer *et al.*, 2001; Thach & Nyman, 2001) in integrating and aligning the organisational culture within a newly acquired organisation. It is the leaders who need to have the courage to face the changing reality and to help the people around them to face the changing reality. A lot has been discussed about the role of leaders in the various phases of M&As (Corwin, Weinstein, & Sweeney, 1991; de Jong and Den Hartog, 2007; Nguyen and Kleiner, 2003; Thach & Nyman, 2001). Other than organisational culture and leadership, other factors that are considered important in any integration process are team building, role

negotiation (Marks and Mirvis, 1992), integration strategy, integration team, communication, speedy implementation and aligned measures (Epstein, 2004).

Literature in the area of organisational change suggested that among the activities involved during the integration and inculcation of new management practices are acknowledging emotional disruptions (Corwin *et al.*, 1991; Nguyen and Kleiner, 2003), set new directions and maximize involvement (Nguyen and Kleiner, 2003), knowledge transfers, organizing organisational-wide meeting, i.e. increased communication (Gundry and Rosseau, 1994; Nguyen and Kleiner, 2003; Thach and Nyman, 2001), laying-off of workers, changing the physical surroundings including the artefacts, changing responsibilities and reporting relationships (Nguyen and Kleiner, 2003), providing incentives and motivations (Corwin, *et al.*, 1991; Thach and Nyman, 2001), provision of training and integrating new values through new practices.

2.4 Insights from Research on Management Accounting Change

It has been argued that, at present, little is understood of the reasons why subsidiary organizations opt to maintain or change their (accounting) systems (Granlund, 2003; Vamosi, 2000; Yazdifar *et al.*, 2008) and of how a change programme such as a change in the management accounting system should take place (Granlund, 2003). Operations of a subsidiary organisation are affected by inter-related forces, both internal and external to the organisation (Yazdifar *et al.*, 2008). As such, the socio-economic context in which the subsidiary organisation is situated and its history are able to influence, sustain and change the prevailing institutions within the organisation (Yazdifar *et al.*, 2008). In other words, whether or not change takes place, the speed and the direction of change in a subsidiary organisation is very much

influenced by the context of the organisation (for example, the strength and forms of pressure from the parent organisation) and by the strength and durability of the institutions within the subsidiary organisation, which Yazdifar *et al.* (2008) termed as the power of the system. Likewise, Greenwood and Hinings (1996) contend that whether or not a system will change also depends on the synchronization between intra- and extra-organisational factors, such as powers that become sufficiently strong to coerce others. Thus, Burns and Scapens (2000) claimed that the processes that led to new systems being implemented, diverted or abandoned are “complex and grounded in the specific context and history of the company” (p. 16).

More needs to be done in understanding the processes of why and how new management accounting system have emerged (or failed to emerge) in subsidiary organizations over time (Granlund, 2003; Yazdifar *et al.*, 2008). A variety of studies have examined the external context and how management accounting change are affected by them, which, in turn, affect the way organizations change (i.e. examining the historical development of the organization as it responds to external contingencies) (Henri, 2006; Kurunmäki, 1999; Llewellyn and Northcott, 2005; Soin, Seal and Cullen, 2002). A different set of studies have concentrated on internal aspects of the organisation and show how management accounting systems help to assimilate the different information needs of different levels of managers for change (Collier, 2001; Seal, 2001). In addition, there are also studies that focus on the importance of management accounting in developing and supporting networks and managing interdependencies, which help diffuse and integrate change across the organisation (Abernethy and Chua, 1996; Briers and Chua, 2001; Dechow and Mouritsen, 2005; Euske and Riccaboni, 1999; Llewellyn, 1998; Modell, 2001; Nørreklit, 2003; Quattrone and Hopper, 2005; Vaivio, 1999). Finally, studies were

also conducted, which analyse the level of employees involvement in the change process and the extent to which their commitment to change is mobilized by the change in management accounting (Chenhall and Langfield-Smith, 2003; Ezzamel *et al.* 2004). There is also argument that for coordination to be achieved, some degree of convergence needs to take place, for instance, by shifting the parent company's practices into the subsidiaries, or through negotiations among the various local groups (Busco, *et al.*, 2008). More interesting questions have yet to be answered. For instance, in the case of mergers and acquisitions, to what extent does a parent organisation impose its rules, procedures and/or systems on a subsidiary, and how? How do new systems and practices become accepted, integrated and internalized as new values and beliefs and how do they complement the existing norms? Chenhall and Euske (2007) argue that individuals require some time to accept the relevance of the proposed change to the organisation or themselves. However, how and when do organisational members realize the need for them to change and, thus, accept the change?

2.5 Management Accounting Change from the Institutional Perspective

Inspired by the challenge to conventional wisdom (Abernethy and Chua, 1996), a growing number of researchers have adopted institutional perspectives to visualise and explicate management accounting change (see for example Burns, 2000; Burns and Scapens, 2000; Busco, Quattrone and Riccaboni, 2007; Granlund, 2003; Seo and Creed, 2002; Siti-Nabiha, 2000; Soin *et al.*, 2002; Van der Steen, 2006; 2009; Yazdifar *et al.*, 2008). From the institutional perspective, accounting change is taken as the change in accounting routines that may (or may not) be embedded in the taken for granted assumptions and beliefs of an organisation (Yazdifar *et al.*, 2008). Such

taken for granted assumptions and beliefs, which are familiar to all organisational members, are called 'institutions'.

Burns (2000) investigated the intra-organisational dynamics of accounting change in a product development department called PDD. New accounting practices and new forms of accountability, i.e. result-orientation were imposed on the department by the Managing Director of Becks. The purpose of the study was to reveal why and how new forms of accounting and accountability evolved and the problems encountered during the change process. The case highlighted the complexities involved when accounting change was imposed on a setting where the prevailing institutions were not in line with the new routines and acceptable ways of thinking. Thus, Burns (2000) suggested that consideration should also be given to the local institutional context where change is to take place. He also highlighted that change managers should be able to deal with the unexpected consequences of change as a result of change in both the internal and external environments.

Drawing on the findings of Hasselbladh and Kallinikos (2000), they reveal the explanatory power of the notion of decoupling to portray how processes of institutionalisation are never linear, with precise outcomes. In their study, they note that management accounting systems play a dual role in the process of change, i.e. being the target of change as well as the vector of change. They concluded that change can be implemented, rejected or decoupled through the existing practice of the organisation. They believe that the drivers of change are able to generate new ones, which will result in a change process that is non-linear, functional or predetermined, but chaotic. Thus, they were of the opinion that the way changes were internalized across the organisation can vary and take different forms. Thus, key in the change process is the ambiguity, not clarity, of the value driving change.

Granlund (2003) filled the gap further by looking at the integration process of a new management accounting system in an acquired organisation. He intended to better understand how organisational power and legitimation games impinge on the new system integration, i.e. MAS in takeover situations. The acquisition of Unico had resulted in cost cutting and lay-offs at the parent organisation, Proco. The organisational cultures, management style and operating philosophy that existed in the two organizations were very much different and contradicting each other. The organisation conducted both the operational integration and the management accounting system integration. The process of operational integration was started in Unico by merging sales organizations and channels, which eventually united the production operations. Though all is well with the operative integration, focus was not given to the social dimension of change, which slowly affected the operational change.

Thus, cultural conflicts that took place at all organisational levels resulted in problematic and unbearable management of the takeover organisation. Consequently, management turnover took place resulting in a more rationalized implementation. The MAS integration process was delayed for such reasons as the lack of resources for the integration work and the managers and accountants were confused as to how they should integrate and develop the system. The MAS integration, after a long and complicated process, finally resumed through an interactive process as result of the demands for comparability, coordination, logic and simplicity.

Yazdifar *et al.* (2008) conducted a longitudinal case study on a subsidiary, Omega, whose systems and rules were imposed by a new parent, CC Ltd. They studied why and how management accounting systems in the subsidiary organisation materialised, were prolonged, and altered over time. In other words, they looked at

how the new systems and practices were accepted and established as values and beliefs and how they complemented the previously existing norms. The new systems were widely accepted, well implemented and tightly coupled within Omega. CC was successful in institutionalising its rules and systems within Omega by conscious design of the new system, increasing the extent of interaction, increasing the information load with which the Omega members must contend, and by developing mutual awareness among its members such that new meanings and perceptions were formed. The parent company successfully implemented its plan as a result of the careful consideration it had provided to the values and taken-for-granted assumptions in Omega. They attempted to ensure that congruence was achieved between the institutional context and the new systems and practices. The study was drawn upon theoretical insights from the institutional theory (both NIS and OIE) and the power perspective. Use of power, as proposed by Hardy (1996), was observed in this study to bring about the change in institutions. However, the findings have still not provided the explanation as to when change took place or when people or the organisational participants realized that they needed to change and what caused this realization.

Busco *et al.*'s (2008) study on Nestle Waters (NW) integration processes highlighted how formal performance measurement practices (PMS) were drawn upon to manage the identified tensions within the integration process. However, relying on formal PMS alone is not sufficient, and other informal mechanisms are required such as informal interactions and knowledge sharing. The informal mechanisms help to develop a sufficient level of trust within the parties involved in the process of integration, as they can both challenge and reinforce the organisation's formal structures and systems.

However, the various studies discussed above give very little attention to the role of agency in affecting institutional change. Thus, some other studies focus more deeply on the agency role in influencing changes in the institutions (Covaleski and Dirsmith, 1988; Greenwood and Hinings, 1996; Greenwood *et al.*, 2002; Hargrave and Van de Ven, 2006; Seo and Creed, 2002; Van der Steen, 2006).

Covalevski and Dirsmith (1988) took on an institutional perspective to investigate how, by whom, and for what purposes societal expectations of acceptable management accounting practices (e.g. budgetary practices) in a large university are expressed, imposed, and adapted during a period of organisational change. Their study shows how specific individuals, within the organisation as well as within the larger social context, can dynamically institutionalise expectations regarding management accounting practices within an organisation.

Greenwood *et al.*, (2002) conducted a study on the accounting profession that had undergone major change, particularly focusing on how the profession legitimated the change to itself. Their findings suggested that collective agencies, at the level of the organisation (such as professional associations), play an important role in the process of deinstitutionalization of the previous practice and re-institutionalisation of new practice.

Seo and Creed (2002), however, focus deeper to understand how change agents can enable institutional change by first describing how the institutions can create various inconsistencies and tensions within and between social systems (i.e. contradictions). Second, they described how these contradictions convert the embedded social actors into change agents and finally they explained how these contradictions can make it possible for the subsequent change processes. Their findings also proposed an integrative framework of institutional change that concisely

puts the dynamic and complicated set of linkages between institutional context and human agency in creating institutional change. Nevertheless, the model proposed is still not able to provide a comprehensive analysis of the later stages of institutional change.

It was Van der Steen (2006) who produced a comprehensive framework that explains how individuals come to the realization of the need for them to change and how that individual realization to change is subsequently brought forward to prompt collective realization for change in other organisational participants. Through the framework, Van der Steen explains how change is still possible at a micro level, i.e. the level of the individual in the organisation. His study concentrated on how new accounting practice was introduced and implemented in one of the major banks, Rabobank in the Netherlands. The intention of the top management through the introduction of the new practice was to help inculcate a new method of strategic planning and control, by instilling a more result and risk orientation in their employees in their daily work. Thus, his work explores the process of accounting change using an institutional/cognitive perspective, i.e. using insights from the behavioural perspective of the earlier institutional explanations of the accounting change process, as well as insights from cognitive psychology.

2.6 Leadership

Literature across fields portrays a strong bond between the concepts of organisational change and leadership (Hamner, Hall, Timmons, Boeltzig & Fesko, 2008; Harker and Sharma, 2000; Pettigrew and Whipp, 1991). Leadership means different things to different people. Leadership is the process of guidance (James, 2005) and influencing others (de Jong and Den Hartog, 2007) towards achieving some kind of desired

outcome. The primary task of leaders is to bring about change, and, change requires leadership (Burnes, 2003). However, leadership is not sufficient, as effective change requires appropriate action on many fronts and the involvement of many people (Harker and Sharma, 2000, p.40).

Leadership is differentiated from management based on their intended outcomes: management seeks to produce predictability and order, whilst leadership intends to produce change (Kotter, 1990 in de Jong and Den Hartog, 2007, p.45). Leaders are regarded as persons who innovate (do the right things), bring about major change, and inspire followers to pursue extraordinary levels of effort, while managers are persons who do the same thing repeatedly (do things right) (Harker and Sharma, 2000). However, leaders and managers may not necessarily be different persons even though they play different roles (Kotter, 1990, as cited in de Jong and Den Hartog, 2007).

Contemporary organisational change literature provides the existence of several different but commonly accepted styles of leadership such as the power-influence approach style, the behaviour approach style (Covin, Kolenko, Sightler, and Tudor, 1997), and the concepts of transactional and transformational leadership (Bass, 1990), which Covin *et al.* (1997) and James (2005) refer to as inspirational leadership.

Transactional leadership starts with the premise that team members agree to obey their leader totally when they take a job on: the “transaction” is (usually) that the organization pays the team members, in return for their effort and compliance (Bass, 1990). As such, the transactional leader has the right to “punish” team members if their work does not meet the pre-determined standard (Bass, 1990). Under transactional leadership, team members do not have much opportunity to improve their job satisfaction (Bass, 1990). The transactional leader could give team members