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# Global or Local? Travelling Management Accounting Ideas

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There is an ongoing debate about the global standardization of management accounting. This takes place in the context of a much wider process of globalization. The empirical evidence here is inconsistent, however: some researchers find clear differences in management accounting practices in different countries (e.g. Ahrens 1999; Ahrens and Chapman 2000; Bourguignon, Malleret and Nørreklit 2004; Carr and Tomkins 1996, 1998; Chow, Shields and Wu 1999); others suggest that the same management accounting techniques are used, albeit in different ways, across different countries (e.g. Granlund and Lukka 1998; Macintosh 1998; Sheridan 1995). Using the same labels for what one does, however, does not necessarily imply doing the same thing. Contributions from different fields like hospital management (Erlingsdóttir and Lindberg 2005), municipal reforms (Solli, Demediuk and Sims 2005), and management accounting (Ax and Bjørnenak 2005) hint at the fact that the same labels may be attached to different practices, or vice versa.

Ax and Bjørnenak (2005), for example, identify in their study of the diffusion and adoption of the balanced scorecard (BSC)<sup>1</sup> in Sweden a *Swedish BSC package*, which differs from the original model as conceptualized by Kaplan and Norton (2001a, b) in at least two ways. First, the Swedish balanced scorecard is usually combined with either non-budget management, as paradigmatically practiced by Svenska Handelsbanken, or intellectual capital, as developed by Skandia insurance company. Secondly, the *Swedish BSC package* contains an independent employee perspective, thus adapting the balanced scorecard to the *Swedish stakeholder business culture* (Ax and Bjørnenak 2005: 16). This *Swedish BSC package* is far from the adoption of a ready-made tool, but rather a selective adaptation of some basic ideas derived from the original model, specifically the structure of different sets of financial and non-financial performance indicators.

In a study of management accounting practices in ten manufacturing companies in German-speaking countries (Germany, Austria, German-speaking Switzerland)<sup>2</sup> we found discourses specifically on two of the *new management accounting tools*, namely activity-based costing (ABC)<sup>3</sup> and the balanced scorecard. Very clearly in these cases, the companies rejected ABC, while they welcomed (the idea of) the BSC. We thus found a selective adoption of globally available control techniques in the specific local contexts, and not an uncritical or forced introduction as a result of forces of globalization. In the following, I concentrate on the case of ABC in the companies we studied to illustrate the process of the global travelling of management accounting ideas.

## Globalization and travel of ideas

To conceptualize processes of the global travelling of management accounting and control techniques and systems, it is helpful to consider that the attributes *global* and *local* refer to performative properties. “[P]eople make something into local or global; they localize or globalize” (Czarniawska and Joerges 1996: 21). In this view, global refers to a “*hugely extended net work of localities*” (Czarniawska and Joerges 1996: 22). Localized time/ space means “*a sequence of moments spent in a unique place*” (Czarniawska and Joerges 1996: 22). Globalized or translocal time/ space accordingly refers to “*co-temporary space, an ensemble of places accessed at the same moment*” (Czarniawska and Joerges 1996: 22). Globalized time/ space thus connects different localized time/ spaces implying that globalized institutions are also constantly reproduced locally. “*What we call global economy is a network of many local economies, which thus acquire an unprecedented scale and scope of action*” (Czarniawska and Joerges 1996: 22).

This means that what others refer to as a *process* of global dissemination of control technologies may be more usefully conceptualized as the *travelling* of ideas (Czarniawska and Joerges 1996) – drawing on Latour's notion of translation as “*displacement, drift, invention, mediation, creation of a new link that did not exist before and modifies in part the two agents*” (Latour 1993: 6, in: Czarniawska and Joerges

1996: 24). In the process of translation, both that which is translated as well as those who translate, the agents, are changed (Czarniawska and Joerges 1996). Processes of translation occur either within or across localized time/spaces. The process of institutionalization (within a specific localized time/space) involves translating an idea into some kind of object, often a picture, a text, or words; without this translation into objects in processes of communication the idea would never be knowable. An object may then be translated into an action. If this action happens to be repeated for whatever reason in a localized time/space it may become taken-for-granted and form an action pattern, and if this action pattern is then connected to normative justifications an institution may emerge (Czarniawska 2008: pp. 22).

Concerning the translation between different localized time/spaces, Czarniawska and Sevón insist that: “*only a thing can be moved from one place to another and from one time to another. Ideas must materialize, at least into somebody's head; symbols must be inscribed*” (Czarniawska and Sevón 2005: pp. 8, emphasis added). Neither ideas nor practices themselves are disembedded, but objects. As Erlingsdóttir and Lindberg (2005: 48) formulate, an idea is disembedded from its localized context as *packaged* in the form of a text, a picture, or a prototype and moved to another place where it is *unpacked* to fit into the new context by being connected to ideas and practices (reembedded) and, eventually, institutionalized. The spread of institutionalized practices which denotes the process of globalization is therefore the outcome of processes of translation across different localized time/ spaces which Czarniawska and Joerges (1996) term *travel of ideas*. Although some accounting researchers have referred to the concept of translation (e.g. Ezzamel, Lilley and Willmott 2004; Quattrone and Hopper 2001), Mennicken (2008) seems to be the only author to also draw on Czarniawska and Joerges' ideas.<sup>4</sup>

## When management accounting ideas travel

As already mentioned, in the companies studied activity-based costing (ABC) had been considered, but in the end was rejected as alternative to, or addition to, the existing costing systems. In the terminology introduced above, the translation of ABC from the context in which it originated – Anglo-Saxon, specifically US tradition of management

accounting – into the context of German *Rechnungswesen* (system of accounting) did not work.

As Jones and Dugdale (2002) show, in the Anglo-Saxon context the emergence of ABC was affected by the relevance-lost discourse triggered by Johnson and Kaplan's (1987) critique of management accounting's failure to provide adequate information for internal control. Johnson and Kaplan (1987) had criticized management accounting for being too much influenced by the demands of financial accounting, thus being unable to provide information relevant for management. Against this backdrop, Jones and Dugdale (2002) reconstruct the emergence of what they term *first-wave ABC* (p. 139) and its translation, or disembedding, into a global expert system and the later *invention* of a new form of ABC (ibid.). First-wave ABC is grounded in the idea of the complete allocation of overheads into product, i.e. the possibility of tracing all costs to a single cost object. This implies the promise of *true costing*. As Jones and Dugdale (2002) show, the institutionalized and black-boxed technology is then translated into another idea: allocation of all costs to a single output (product/ cost object) is impossible and not adequate because costs are incurred due to activities on different levels of a cost-incurrence hierarchy, that is, output unit-level, batch-level, product-level, or company-level activities. Therefore, costs should be allocated according to the appropriate level which implies that not all costs may be traced to product-level activities.

The German management accounting tradition differs significantly from the Anglo-Saxon tradition (Christensen and Wagenhofer 1997; Ewert and Wagenhofer 2006), the latter providing the background for the development of ABC in connection to the *relevance lost* discourse (Johnson and Kaplan 1987). The German tradition is firmly grounded in a strict separation of financial accounting and management accounting.<sup>5</sup> Financial accounting information – based on expenses and expenditures – is seen to have the function of external reporting to shareholders, investors, and tax authorities and is regulated by law. It is based on relatively narrow and selective disclosure obligations, and it is closely related to tax calculation (Jones and Luther 2005). In contrast, management and cost accounting's function is to inform (internal) management decisions assuming that cost information is less biased and thus provides a more accurate picture of the organization (Schmalenbach 1919a, b).

Therefore, management accounting in the Germanic tradition has developed a highly sophisticated system of cost accounting for tracing and allocating costs (see e.g. Scherrer 1996; Schildbach 1997). The standard costing system of flexible marginal costing (flexible *Grenzplankostenrechnung*, see Kilger, Pampel and Vikas 2002 [1961]) is grounded in a sophisticated structure of cost centres, the separation of variable and fixed costs specific to each cost centre, the allocation of variable overheads between cost centres, and a differentiated system of variable overhead allocation rates specific to cost centres. Variable overheads are in the last step allocated as percentage of direct costs specific to the different cost centres. Together with the highly elaborate system of cost centres – up to more than one hundred in a middle-sized company – this shall allow for a *true* allocation of variable costs to products. Fixed costs are either allocated to the facility as a whole or to different levels of a cost hierarchy like output unit-, batch-, product-, or facility-sustaining costs. Thus, the German multi-allocation system which predated ABC, already shares many similarities with ABC, specifically *second-wave ABC*.

Translating (second-wave) ABC into Germanic management accounting therefore encounters a context significantly different from the Anglo-Saxon context in which it originally emerged. Consequently, the idea which was attached to the technique of second-wave ABC was not the same as formulated by Kaplan (see Jones and Dugdale 2002: 139-145). Horváth et al. (Horváth 1990; Horváth and Mayer 1989, 1993) draw on ABC – the *thing* which travelled across time/space – as a remedy of a problem which came up for *Grenzplankostenrechnung* (marginal costing) due to changing cost structures. In *Grenzplankostenrechnung* variable overheads are allocated as percentage of variable direct costs, specifically direct materials and direct manufacturing labour. In the last twenty years, due to the increase of services relative to manufacturing, and changing production technologies, the *Grenzplankostenrechnung* systems experienced overhead rates of several hundred percent of the direct costs' value. This is hardly consistent with the causality principle (*Verursachungsprinzip*) underlying *Grenzplankostenrechnung*.

The idea which is attached to ABC comprises a better allocation of costs of support activities by allocating them according to their utilization by products or output units. Additionally, ABC is termed *Prozesskostenrechnung* (*process costing*) in German. Explicitly, Horváth and Mayer (1993) argue that *Prozesskostenrechnung* should serve as a

supplement to flexible marginal costing. ABC, or *Prozesskostenrechnung* respectively, has been perceived as an addition to an existing cost accounting system in German companies, and not as an alternative to it. Specifically, it should serve as a tool for special reports or specifically designated areas in manufacturing.

In the companies we studied, *Prozesskostenrechnung* is treated with great caution. Our respondents do not see much additional value which might legitimate the additional effort. Most management accountants and other actors in these companies think that their current standard costing systems are sufficient. It seems that the object ABC/*Prozesskostenrechnung* and the idea attached to it could not sufficiently be connected to the localized time/space contexts of the companies. In the view of our respondents, ABC/*Prozesskostenrechnung* does not sufficiently increase the capacities for control as opposed to the view provided through *Grenzplankostenrechnung* (marginal costing). This finding corresponds with quantitative studies which also report a reluctance to adopt ABC in German companies. Scherrer (1996: pp. 102), in a study from 1994, found virtually no companies employing *Prozesskostenrechnung* (ABC). More recent studies find that between 15% and 22% of the samples from different German-speaking companies use *Prozesskostenrechnung* (e.g. Währisch 1998: 147; Schäffer and Steiners 2005; Schiller et al. 2007). No significant variations due to company size have been found (Schäffer and Steiners 2005; Schiller et al. 2007).

## Conclusion

I have argued that the *globalization* of management accounting should be seen as one of travelling and translation across different localized time/spaces, rather than as a process of sweeping away of local practices in a wave of standardization. This argument has been illustrated through the case of the (non-) adoption of activity-based costing in the specific German context. Most importantly, this approach calls for an in-depth examination of each specific case of *globalization*. Globalized time/space connects a number of localized time/ spaces implying that globalized institutions are also constantly reproduced locally. That is to say that globalized time/space disembedding (Giddens 1990) involves at the same time a reembedding of disembedded practices into localized time/spaces. This is what is meant when Czarniawska and Joerges (1996) talk about the global as a network of localities. In a

rough analogy, globalized management accounting practices may be understood as a network of many local(ized) management accounting practices which are performed in identical or similar form across many localized time/spaces.

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## Endotes

1A balanced scorecard is basically a system of ratios, or *scorecards*, measuring different components of what is seen as the performance of an organization and its prerequisites. The standard model of a balanced scorecard comprises scorecards for financial performance, for customer relations, process efficiency, and *learning and growth* (relating to levels of qualification, infrastructure, etc.). Ideally, the performance measures in the different areas (scorecards) shall represent performance drivers and results connected in a causal chain, the so-called strategy map.

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3Activity-based costing is a costing technique, which traces costs in a detailed manner to activities that are seen as the cause of the respective cost, and allocates these costs to cost objects (products) according to the amount of the respective activity necessary for producing the cost object. This costing technique represents an important refinement of the so-called *traditional* costing systems, which allocate overhead costs in a much more general way and which seems inadequate for management purposes.

4Her work, however, is in financial accounting.

5There is, however, a discussion whether the introduction of IFRS will result in a weakening of the boundaries between financial and management accounting (Jones and Dugdale 2005; Weißenberger 2005).

6Jones and Dugdale (2002) differentiate between two consecutive versions of ABC. *First-wave ABC* claims to allow for allocating all costs to the product and thus for calculating its *true cost*.

*Second-wave ABC* is in part a revision of this strong claim. It concedes that the allocation of all cost to a single output (product, cost object) is impossible and not adequate because costs are incurred due to activities on different levels of a cost-incurrence hierarchy, that is, output unit-level, batch-level, product-level, or company-level activities. Therefore, costs should be allocated according to the appropriate level which implies that not all costs may be traced to product-level activities.

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