THE UNIVERSITY OF
WARWICK

Accounting and Change in the Financial Services Sector:

The Case of Activity-Based Costing in a Portuguese Bank

by

Rui José Oliveira Vieira

A thesis submitted in partial fulfilment of the requirements for the degree of

Doctor of Philosophy in Industrial and Business Studies

University of Warwick, Warwick Business School
September 2002

This thesis is dedicated with love to my parents
for their priceless heritage of education, integrity and love.

Acknowledgements

The efforts of many people and institutions have contributed in a variety of ways to this research study. Interactions are critical to the development of a thesis and many people have made the writing of it possible in very different but important ways.

I am very grateful to my supervisor, Prof. Keith Hoskin, for believing in this project since my first approach. His comments, encouragement, and enduring interest were vital. I would also like to thank my second supervisor, Lin Fitzgerald, for her valuable comments and support. My appreciation is extended to Dr. Kim Soin and Dr. Fiona Anderson-Gough who kindly met with me to discuss my research.

My gratitude extends to the many valuable insights from academics with whom I had the opportunity of discussing my research, especially from the Management Control Association, Manchester School of Management (UMIST), Manchester School of Accounting and Finance, and Warwick Business School.

Three institutions in Portugal were of particular importance to this research. First, *Instituto Superior de Ciências do Trabalho e da Empresa* (ISCTE), who allowed me study leave and partly funded my research. Second, *Fundação para a Ciência e Tecnologia* (FCT) who acknowledged the academic merits of this project and awarded me a grant. Third, *Banco Lusitano* whose collaboration was invaluable to this research as they share with me their thinking, experience and knowledge.

I would like to thank my fellow PhD students at Warwick Business School and my friends in Portugal and Warwick, whose support and encouragement were very important to the completion of this thesis. Exceptional friends supported me during this period: Anne Stafford, Arjen van den Berg, Cândida Patrício, Carlos Conceição, Carmen Lages, Clara Rebelo, Claúdia Ribeiro, Cláudia Simões, Diana Ribeiro, Helena Santos, Jim Andrews, João Paulo Pereira, Jorge Neves, Luis Lages, Manuela Martins, Maria João Major, Nuno Catarino, Patrícia Castro, Pedro Martins, Rita Gaio, Rui Magalhães, Rui Robalo, and Sabir Giga.

Last, but by no means least, a very special acknowledgement to my family for their support. In particular a profound appreciation for the love, encouragement, and support of my mother.

Abstract

This thesis aims to trace the development of management accounting systems (MAS) in a Portuguese bank, where an activity-based costing system (ABC) was trialled for implementation, as a means to improving the economy, efficiency and effectiveness of employee activity. The culture of banking in Portugal has changed significantly over the last 25 years, but at the same time there are older traditions which remain strong. The purpose of this research was to study how an imported MAS like ABC is developed and disseminated within a Portuguese banking context. The research can be classified as a longitudinal study of organisational change using a single case study. Although based in the interpretive tradition since it is concerned with actors' perceptions, interpretations and beliefs, it also draws on a Foucault-inspired critical framework of the kind developed in the work of Hoskin and Macve (e.g. 1986, 1988, 1994, 2000), and in the research into the financial sector undertaken by Morgan and Sturdy (2000). The particular model developed here is designed to enable the exploration of the effect of accounting practices on change from three perspectives – changing structures, changing discourses and the effect of both of these processes on power relations. It also draws on Fligstein's (1991) institutional framework to understand change in terms of the interplay across three relevant institutional contexts – the organisational field, the state, and the existing strategy and structure of the bank.

The research draws on the literature and on primary data, including 41 in-depth, semi-structured interviews, and documentary and archive data. The main contributions of the research are related to the increase of visibility and perceived importance of accounting in the banking sector, and how accounting is significant beyond its technical roles. The study provides new insights into how management accounting practices, along with other organisational systems, play an important role in questioning, visualising, analysing, and measuring implemented strategies. These practices have an important influence on strategic decision-making, and help to legitimate action. As the language and practice of management has shifted towards strategy, marketing, and accounting discourses, patterns of work, organisation and career are being restructured. Consequently, feelings of insecurity and tension are widespread through the organisation. In this respect, the present study suggests that political and power issues are very important to explaining how ABC was implemented, with its resolutions, conflicts and reformulations.

Keywords: implementation of change, accounting roles, activity-based costing, financial services, case study.

Declaration

This is to declare that:

- I am responsible for the work submitted in this thesis.
- This work has been written by me.
- All verbatim extracts have been distinguished and the sources specifically acknowledged.
- During the preparation of this thesis a number of papers were prepared as listed below. The remaining parts of the thesis are unpublished.

1. Vieira, R., Hoskin, K. and Fitzgerald, L. (2001) *Accounting and Change in the Financial Services Sector: The Case of Activity-Based Costing in a Portuguese Bank*, Doctoral Colloquium and V International Management Control Systems Research Conference, Royal Holloway, University of London.
2. Vieira, R., Hoskin, K. and Fitzgerald L. (2001) *Management Accounting Change in the Financial Services Sector: The Case of Activity-Based Costing in a Portuguese Bank*, Doctoral Colloquium – III Workshop on Management Accounting Change, Certosa di Pontignano, Siena, Italy.
3. Vieira, R., Hoskin, K. and Fitzgerald L. (2000) *Accounting and Change in the Financial Services Sector: The Case of Activity-Based Costing in a Portuguese Bank*, I Encuentro Iberoamerican de Contabilidad de Gestión, Valencia, Spain.
4. Vieira, R., Hoskin, K. and Fitzgerald L. (2000) *Activity-Based Costing in the Financial Services Sector: The Case of a Portuguese Bank*, Doctoral Colloquium – VI Interdisciplinary Perspectives on Accounting – IPA 2000, University of Manchester.
5. Vieira, R., Hoskin, K. and Fitzgerald L. (2000) *Activity-Based Costing in the Financial Services Sector: The Case of a Portuguese Bank*, PriceWaterhouseCoopers European Colloquium in Accounting – XXIII European Accounting Association Annual Congress, Munich, Germany.
6. Vieira, R. and Hoskin, K. (1998) 'Activity Based Costing', *Revista Portuguesa de Gestão*, II/98, p.p. 49-66.

- This work has not previously been submitted within a degree programme at this or any other institution.

Signature: _____

Date: _____

Confidentiality Agreement

Initial contact was made with the bank where this study was conducted in early January 1998 through a manager from the accounting department. The purpose of this first visit was to negotiate access. It was agreed with the personnel and the accounting departments that the bank would remain anonymous. Thus, to comply with that agreement, the bank will be referred to as 'Banco Lusitano'.

To help maintain confidentiality, proper names of departments within the bank are not used in this thesis since they may be unique to the bank. There are two key departments in the bank which I will refer to as the 'accounting department' and the 'organisation department'. The accounting department has two main functions. First, to prepare accounting information in compliance with accounting principles and practices established by the Bank of Portugal that apply to the financial services sector. Second, to prepare the budget and its control in terms of cost evolution by responsibility centre. The main function of the organisation department is, as the name implies, the central organisation of the bank. However, it has other functions such as staff training, customer relations, and quality control. It also serves as a link between central departments and commercial network. Thus, it is a department that is strictly connected with the implementation of several change initiatives.

Table of Contents

List of figures

List of tables

1 Introduction

1.1 Introduction

The protected and highly regulated Portuguese banking sector has been changing, and has become part of the progressively more integrated European market for financial services. In 1985 the state started a progressive deregulation process that changed some of the rules of the sector, characterised by new entrants, a long-term process of mergers, and expansion into a range of lines of business, such as investment banking, insurance and leasing. These external changes and the reduction of the financial margins, triggered two main organisational responses: on the one hand, concerns about efficiency and cost-awareness, with mergers seen as potential source of cost savings through two effects: economies of scale and productive efficiency; on the other hand, increasing business through a higher focus on customers and marketing issues.

Therefore, the present investigation was undertaken in a Portuguese bank facing significantly more competitive conditions and reshaped by new discourses, particularly those concerned with 'strategy', 'marketing' and 'change'. The research aims to trace the development of MAS in a Portuguese bank, where an activity-based costing (ABC) system was trialled for implementation, as one of a range of initiatives, as a means to improving the economy, efficiency and effectiveness of employee activity. To comply with confidentiality agreements for all research activities, the bank will be referred to as 'Banco Lusitano'. It is a large family-owned Portuguese bank, nationalised following the fall of the Salazar regime in the 1970s, but reprivatised in the 1990s, at which point the original family regained control. This was part of a general privatisation of financial

houses, and this economic shift led, as in other countries, to a greater focus on profitability, cost control and efficiency and effectiveness of client services than hitherto. In this respect, an old business culture (dating back before nationalisation, but artificially prolonged by it) was suddenly confronted with new economic demands.

The objective of this chapter is to adumbrate the nature and scope of the research, developed in the subsequent chapters of the thesis. The chapter is divided into six sections. Section 1.2 establishes the overall field and summarises previous research. Section 1.3 provides a statement of the justification for the research. In Section 1.4, the scope of the research is presented. It includes the research questions and research methods. Section 1.5 briefly describes the expected research contributions. Finally, Section 1.6 describes how the thesis is organised.

1.2 Background of the research

Continuous changes in the organisational environment have made organisational change a key research issue. In recent years, the accounting literature has focused increasingly upon the ways in which accounting practices interact with and even shape organisational change, particularly after the call for new more 'relevant' management accounting systems (MAS) made by Johnson and Kaplan (1987).

Since Kaplan and Johnson published *Relevance Lost*, where they discuss the new manufacturing environment and the inadequacies of traditional MAS and set out prescriptions for the future, activity-based concepts have spread rapidly, especially through management consultants and practitioner publications. Nevertheless, their claims were disputed. Motivated by a problem-solving approach, there has been a tendency to

offer quick solutions to problems that have not been fully analysed and understood. The diagnosis of lost competitiveness and the proposed remedies have been generally accepted and accounting has been reduced to its technical roles that can be manipulated (cf. Kaplan and Johnson, 1987; Johnson, 1994):

> 'Accounting as a social and organizational practice is thus stripped down to its crudest, and most mundane skeletal form. Missed is an opportunity to examine the constitutive power of accounting that renders it enduring and (on occasion) endearing (Ezzamel, 1994a; Ezzamel and Bourn, 1990; Ezzamel and Hoskin, 1991)' (Ezzamel *et al.*, 1997:441).

At a theoretical level some consensus exists that ABC is superior to traditional cost systems (e.g. Ostrenga, 1990; Brimson, 1991; Brinker, 1991, 1993, 1994). Nevertheless, at a practical level, many problems arise when firms attempt to implement ABC systems (e.g. Innes and Mitchell, 1995; Shields, 1995; Malmi, 1997; Friedman and Lyne, 1999). Researchers have addressed this inconsistency between theory and practice[1] by shifting the focus from technical issues to the effect that behaviour issues have on ABC implementation (e.g. Shields and Young, 1989; Anderson, 1995a; Shields, 1995; Gosselin, 1997; Krumwiede, 1998a).

The traditional focus in accounting research had portrayed accounting change as an outcome of rational behaviour to maximise profits through 'better' information (cf. Hopwood, 1987). This has given way to, or been supplemented by, an increasing range of research into the 'complex (and often unpredictable) dynamics of change through time' (Burns, 2000:568). Where Pettigrew (1990:269) had accused conventional research of being: 'ahistorical, aprocessual and acontextual in character', there are now grounds for saying that there is an increasing body of research that incorporates an historical

[1] Kaplan and Cooper recognise this inconsistency as they implicitly claim that the reconciliation of theory and practice might result in ABC practice being reflexively reconsidered.

dimension into its analyses, and is more generally contextually sensitive, not least to the ways in which processes are developed via forms of accounting practice.

There are previous studies, undertaken in the financial services sector in Europe, which have focused on the relation between MAS and organisational change. The study by Cobb *et al.* (1995) used Innes and Mitchell's (1990b) factorial model to study a UK-based division of a multinational bank. Soin (1996) also studied the change process in a UK clearing bank but drawing on Laughlin's (1991) theoretical framework. Euske and Riccaboni (1999), using institutional theory (Fligstein, 1991), studied how an Italian bank managed interdependencies to meet a new environment.

Nevertheless, there is still a lack of empirical research, namely theoretically informed case studies, into the use and design of accounting systems, to understand the nature of management accounting practice (Hopwood, 1983; Kaplan, 1984a; Scapens, 1990). If the emergence of ABC techniques, with all their strengths and limitations, are already well researched in American and English contexts, there is a lack of published research studies about MAS in a non-English-speaking context. In particular, little research has focused on the issues of organisational change and control in Portugal, a country where there has been rapid economic and social change over the last 25 years. [I have not found published research although there is ongoing PhD research.] The culture of banking in Portugal has changed significantly, but at the same time there are older traditions which remain strong. It will therefore be significant to study how an imported MAS like ABC is developed and disseminated within a Portuguese bank.

1.3 Justification for the research

This project may be seen as serving two kinds of objective. First it contributes to the new mode of more critically-aware research, and is hopefully a useful contribution to the critical or sceptical wave of research into accounting-based management initiatives. Second it contributes to our understanding of how such initiatives may develop across different cultural contexts. This project, in investigating change in a Portuguese context, needs to show an awareness of cultural contextual issues, as well as the ways in which banking in Portugal cannot be wholly separated from wider, more global developments. Arguably this is particularly true for the past decade, when explicit globalising trends in banking and finance have made Anglo-Saxon banking practices and bank entities much more a part of Portuguese banking activity. Overall then, the justification for the project is its contribution to a critical understanding of accounting-based initiatives, as they develop in a range of new cultural contexts.

1.4 The scope of the research

This research aims to contribute to the understanding of the nature and management of change in the Portuguese financial services sector and to help generate a new kind of empirical understanding of how accounting change works in practice in different cultures, and so to contribute to deepening our understanding of accounting's role in modern management. Four main objectives can be identified. First, to study the changing banking context in Portugal during the last 25 years, and the way in which accounting systems have been utilised by Portuguese banking institutions over this period. The second objective was to study the development of a contemporary accounting innovation in its organisational context, with particular reference to the roles MAS can play in the

organisation and their relationship with strategy. The third objective was to provide a critical discussion of the development and implementation of the new ABC system: an MAS which was at the forefront of academic and practitioner debate, it was trialled for implementation, as a means to improving the economy, efficiency and effectiveness of employee activity. The final objective was to trace and analyse how people react to this initiative, whether supporting or resisting it, and so throw light on the organisational and behavioural implications of the initiative.

The key research question of the present study is: 'how and why has management accounting practice changed in the organisation under study, and what were the dynamics around the ABC proposal as its implementation proceeded?' Sub-questions derived from the main research question include:

- What conditions led to the change in MAS?
- How do MAS and other change initiatives depend on each other?
- Why has the organisation adopted ABC?
- What were the stated objectives when the new system was designed and how did the actual design and implementation conform to them?
- What were the roles of the consultants?
- How did the organisation design and implement the new system? What were the obstacles to change?
- Who were the important participants? How did they participate in the process?
- What were the organisational and behavioural difficulties of the process?
- What were the outcomes? What roles do (and can) MAS play in the organisation?

In order to answer these research questions, a qualitative research design was adopted, and a longitudinal case study approach, based on a critical-interpretive model was

developed. Although based in the interpretive tradition since it is concerned with actors' perceptions, interpretations and beliefs, it also draws on a Foucault-inspired critical framework of the kind developed in the work of Hoskin and Macve, and in the research into the financial sector undertaken by Morgan and Sturdy (2000). The particular model developed here is designed to enable the exploration of the effect of accounting practices on change from three perspectives – changing structures, changing discourses and the effect of both of these processes on power relations. It also draws on Fligstein's (1991) institutional framework to understand change in terms of the interplay across three relevant institutional contexts – the organisational field, the state, and the existing strategy and structure of the bank.

1.5 Expected research contributions

The study aspires to make an empirical contribution to research into the development and implementation of Activity-Based Costing (ABC) systems by observing the ebbs and flows in the implementation of such a system in a Portuguese bank. In so doing it aims also to make a contribution in theoretical and methodological areas too. Theoretically, it looks to build on the recent trend in accounting research to investigate the role and function of accounting practices on management practice and discourse. This kind of impact, it is hoped, can be shown in some detail in this Portuguese context, building on the work of those like Soin (1996) who have investigated ABC in other banking contexts (in her case in a UK clearing bank), and of those like Lim (2000) who have pursued the issue of the role of accounting practices on management discourse in other contexts too. [Lim's work considers the interactive and shaping roles of accounting in the realm of strategic discourse in a telecommunications company.] The focus on practices has a

number of possible sources, not least the kind of work into management practice (e.g. Morgan and Sturdy, 2000), but also the Foucault-inspired work into accounting practice past and present undertaken by Hoskin and Macve (e.g. 1986; 1988; 2000; cf. Hoskin, 1994).

Methodologically, it is hoped that this work contributes, like that of Soin and Lim among others, to the kind of in-depth case study work that does not attempt or pretend to discover generalisable regularities about a technique, in this case ABC, as it is implemented across different contexts. Instead it attempts to shed light on how far there may be both differences and underlying shared ideas, assumptions and discourses in the ways in which a technology such as ABC is implemented. What may be generalisable is that there is first of all difference (cultural, institutional, organisational), but that given such difference there are also certain regularities produced precisely because of the 'power' of accounting practice. The detail of the analysis remains to be set out. However, it is hoped that this kind of approach helps to ground more firmly the idea that the single case study approach has a validity in its own right, and does not need to pretend it is part of a quasi-scientific series of empirical studies leading to purported generalisable insights.

1.6 The structure of the thesis

This thesis is organised into seven chapters, the first of which is this introduction. Chapter Two contains the literature review and Chapter Three a discussion of the research methodology. The empirical parts of the thesis are contained in Chapters Four to Six, reflecting the importance of the cultural and historical context within which this particular ABC initiative took place. Finally, Chapter Seven offers my conclusions.

Looking at the contents in a little more detail, this first introductory chapter presents the rationale for and background to the research, its contributions and purpose. Chapter Two, **Literature Review**, pays particular attention to the evolution from activity-based costing (ABC as a product cost system) to activity-based management (ABM as a system that focuses on process management), and critically discusses the development and evolution of the activity accounting literature. Chapter Three, **Research Methodology**, outlines the approach adopted to understand the nature and management of change in this particular Portuguese financial services context. The research takes the form of a qualitative inquiry, using a longitudinal case study in order to evaluate critically how the new management accounting system was developed and disseminated within this particular Portuguese banking site. Attention is also paid here to relevant literature concerned with new or post-positivist approaches to studying accounting-based change.

Chapter Four, **The Portuguese Economy**, provides an account of developments in the Portuguese economy generally, and the financial services sector specifically, over the past three decades. This setting is explored historically in terms of the role, institutions and the state, played within a dynamic sector which pioneered the process of liberalisation, deregulation, and privatisation that transformed a state-dominated economy into a modern European economy. Particular attention is given to the changes of the past decade, when banks in Portugal began to see themselves much more as part of a global banking network, both in terms of their acquisition policies and in being more open to Anglo-Saxon trends in banking. Change initiatives, focussed increasingly on controlling costs (and therefore headcount), became part of the local banking culture, as they had in the US and UK from the 1980s on.

This then leads to a more detailed discussion in Chapter Five, **Case Study**, of the events in the bank studied here following its re-privatisation, putting the ABC initiative into a context of earlier 'change initiatives', with significant input from outside consultants over the period from 1992 on. It then presents a summary of some of the reasoning given for the decision to implement ABC, and describes the organisational efforts to co-ordinate the ABC project. Chapter Six, **Case Study Findings**, goes in more detail into the way in which the ABC initiative played out over time, in the context of these earlier initiatives, but also in a current context where two different departments were striving to 'own' the initiative (or to own such success as it had), and to extend their dominion over each other and within the bank more generally. The actions and reactions of key players in these departments and the various impacts of the initiative in the bank more widely, are the focus here. In this way, the chapter attempts to identify the range of ways in which accounting has been implicated in reconfiguring activity within the bank over the past few years. Finally, Chapter Seven presents the **Conclusions** that may be drawn from the project, whilst noting the limitations on the research and directions for further research. There are a number of Figures and Tables in the chapters that are designed to help clarify some of the complex information to be presented here. There are also some Appendices at the end, to provide information on data sources, and details of the research interviews.

With that summary of the contents and rationale of this study, I now pass to consider in my literature review the development of ABC, ABM and their associated literatures, as a first basis for defining the significance and value of this particular study.

2 Literature Review

2.1 Introduction

It is arguable that management accounting is at a critical stage in its development. First there are technical reasons for such a claim. Many recent debates and criticisms concerning management accounting systems (MAS) recognise that the competitive environment is changing in major ways, for example, through technological developments and the globalisation of markets (Schonberger, 1986; Hayes, *et al.* 1988). This has increased competition and has led to shorter product-life cycles. These changes have been argued to demand a more flexible approach to organising company activities (Bromwich and Bhimani, 1989). It is argued that these changes have led to important modifications in cost structures and cost behaviour in a way that means that conventional management accounting techniques must fail to provide relevant data for companies (Johnson and Kaplan, 1987; Howell and Soucy, 1988). Furthermore, it is claimed that conventional management accounting data are 'too late, too aggregated and too distorted to be relevant for planning and control decisions' (Johnson and Kaplan, 1987:1).

This new wave of technical critique and innovation is often dated to the publication of Johnson and Kaplan's 1987 book, *Relevance Lost.* While this may be too simplistic, there has clearly been, as we shall see, an intensification of innovatory claims and approaches for reforming MAS over the ensuing period. At the same time, it is clear that, with the concomitant development of a new kind of 'critical accounting' research paradigm, research and reflection has not been restricted to a technicist model. As we shall also see in this chapter, this research strand has had some significant observations to make both on

the technical adequacy of new approaches like ABC and on the extent to which technicist views have underplayed or ignored historical and cultural factors and their influence on technical innovations.

But let me begin by reflecting on the emergence and early development of the ABC phenomenon, before going on to contextualise it in terms of its technical adequacy and of the wider critical and theoretical observations that have been made about the ABC phenomenon. In this way, it is hoped that this chapter will present a solid base, grounded in the relevant literature, for understanding the significance of the ABC initiative studied here, and the reasons for the methodological approach to be adopted. [The latter of course is the subject of Chapter Three.]

The chapter is divided into five sections. Section 2.2 attempts to summarise the emergence of ABC, and the extent to which it was a new discourse and a means of promoting a new relevance for MAS. Section 2.3 puts ABC into the context of other recent developments in MAS, including the way it has been incorporated into approaches such as Strategic Cost Management, and to new ways of combining financial and non-financial performance measurement, even where such approaches may not at first sight have focussed to the same extent on 'activity' as a key category (e.g. Balanced Scorecard). The literature concerned with the technical adequacy of ABC systems is also addressed to identify the major critiques that have been made of the assumptions and claims of activity based accounting. Finally, it also considers the wider critical and theoretical work that has considered ABC in its strengths and weaknesses as an aspect of the contemporary development of both accounting innovation and accounting research. Section 2.4 then turns to consider the literature on the development of activity accounting

in the financial service sector, focussing on three major case studies on activity-based costing and change in banks. Finally, Section 2.5 locates this research in the literature and summarises the main issues raised in the literature review.

2.2 The emergence of activity-based costing: a new discourse and a major catalyst for change in MAS research and practice?

It is now widely accepted that ABC is not as 'original' as its proponents, Robert Kaplan and Robin Cooper, may have seemed to imply in some of their early papers. Proposals to use an activity or transaction-based approach to cost allocation can be seen to date back to earlier times before the relevance debate (Vatter, 1945; Longman and Schiff, 1955; Drucker, 1963; Staubus, 1971; Shillinglaw, 1982). More recently, Miller and Vollman (1985) had suggested that output volume may not drive overhead costs in modern manufacturing companies; but that rather, in the 'hidden factory' the real driving force comes from transactions:

> 'These transactions involve exchange of materials and/or information necessary to move production along but do not directly result in physical products. Rather, these transactions are responsible for aspects of the "augmented product," or "bundle of goods," that customers purchase – such aspects as on-time delivery, quality, variety, and improved design' (p.144).

This kind of work was not purely academic nor without impact. Miller and Vollman, for instance, were specifically proposing not only a new way of costing using transactions but also of managing those transactions.

> '[If] transactions are responsible for most overhead costs in the hidden factory, then the key to managing overheads is to control the transactions that drive them. By *managing transactions*, we mean thinking consciously and carefully about which transactions are appropriate and which are not and about how to do the important transactions most effectively' (p.145, italics in original).

Nonetheless, the impact of ABC or activity accounting can be seen to have been considerable, following on the back of the remarkable success of *Relevance Lost*, and the pioneering technical work, out of Harvard Business School, undertaken by Kaplan and Cooper through the publication of a series of case studies, notably in the Harvard Business Review. In these studies strong claims were made for the advantages of Activity Based Costing over conventional product-costing systems, and the rhetoric of 'Harvard innovation' was no doubt significant in translating academic work into the practitioner world, and so popularising activity accounting amongst both practitioners and academics. From these 'successful' stories there were distilled a series of 'recipes for success' circulated increasingly in academic and practitioner books and journals, at conferences, workshops and via consultancy work.

In this process ABC itself evolved, and moved from being focussed on getting the 'correct cost' for products (and thus making correct strategic decisions about profitable and unprofitable lines of business) to having a focus on co-ordinating all the activities of an organisation in the most effective way. In this guise ABC increasingly became Activity-Based Management (ABM), which as a system could enable you to move beyond a product focus definitely.

If we stay with a focus on Kaplan, who is clearly a key figure here, not just for his work on ABC but for his earlier work on advanced forms of management accounting and subsequently for his work with Norton on the Balanced Scorecard, we may see an internal evolution in his work over the years just before the formulation of ABC/ABM.

During the 1980s, Kaplan had published several polemical papers on the state of management accounting. One strand of this critique was then crystallised in the book with

the accounting historian, Thomas Johnson, *Relevance Lost: The Rise and Fall of Management Accounting*, where they described the historical development of management accounting, and its failure to be effective across the twentieth century in a variety of ways. They argue that in the new competitive environment, managers now needed a new kind of information that conventional management accounting practices did not provide. This argument requires some more amplification because it is so crucial to defining the themes and parameters of what we may call 'the relevance debate' (cf. Ezzamel *et al.*, 1990; Loft, 1995).

2.2.1 The relevance debate

The failure to adapt conventional MAS to changes in the new competitive environment was seen as an important reason for the competitive decline of Western industry (Johnson and Kaplan, 1987; Berliner and Brimson, 1988). Johnson and Kaplan justify this failure with their belief that it is possible to manage companies *by the numbers*. Johnson (1991b:A5.2) claims that companies feel able to 'both plan and control their affairs with accounting information that is compiled for financial reporting purposes'. Furthermore, management accounting became subservient to financial accounting, which was designed primarily for external reporting. The lost of relevance of management accounting was a case of 'putting the cart before the horse':

> 'Financial information about business results – the chart – became the prime object of managers' attention. Managers quickly lost sight of the horse – the underlying forces that produce financial results' (*ibid.*:A5.2).

Several other authors (e.g. Brimson, 1986; Maskell, 1989a-d; Bromwich, 1990; Simons, 1990) also discussed problems resulting from the fact that information needs were driven

by financial reporting requirements. However, their analysis did not go unchallenged, for instance, Johnson and Kaplan have been criticised for their theoretical approach, their historical analysis and for the conclusions they draw. Loft (1995) provides an overview of these criticisms. She maintains that Kaplan and Johnson's description of management accounting development to the (apparently) problematic present is debatable, since

> 'questions can be raised about the validity of their historical explanations which rely on assumptions of underlying economic rationalities. In Johnson and Kaplan's world view, employees of the firm are 'merely' a factor of production with a cost to be minimised, ...this explanation helps to mystify the origins of management accounting, which like other management techniques, acts primarily as a means of controlling labour' (Loft, 1995:41-42).

Further, there has been criticism from within the labour process approach. This approach focuses on how MAS can be seen as having developed primarily as a way of controlling labour, and therefore assumes that MAS are not neutral nechanisms for making production more efficient but the necessary practical means through which capital is enabled to exploit labour on a regular and systematic basis. Building on the work of Braverman (1974), Hopper *et al.* (1987), and Hopper and Armstrong (1991) have developed a critique on this model. So Hopper *et al.* (1987) dispute Kaplan and Johnson's argument that cost accounting changes are continuous and an inevitable consequence of economic and technological imperatives. Instead, they claim that cost accounting changes are discontinuous and shaped by social conflict and the needs of companies to control labour. Consequently for them the development of MAS can better be explained by changes in labour processes. Hopper and Armstrong (1991) broaden the basis of critical attack by developing a critique of the transaction cost framework which underpins Johnson and Kaplan's book, and by outlining an alternative labour process history of United States cost and management accounting.

Still another line of critical thinking has been brought to bear on the ABC problematic, inspired by the theoretical approach of Michel Foucault (1977) which brought a new attention to the ways in which forms of specialist knowledge in the 'human sciences' may have significant 'power effects'. On that basis, some of this work has argued that the knowledge created through MAS is one mode of exercising a 'disciplinary' power, which is in part a disciplining of activity in particular time and space 'configurations', but which is able to act as such a disciplining 'power' through the application of specialist 'disciplinary' knowledge. Accounting, according to Hoskin and Macve (1986, 1994) is a particularly significant form of 'disciplinary' power, because of the way that it puts financial and non-financial numbers to work to shape and appraise human activity in organisational contexts. From this kind of perspective, the introduction of MAS can be seen in terms of 'governing the calculable person' through a disciplinary web of control, based on prescribing and evaluating performance via feedback and feedforward performance measurement systems.

A diverse group of scholars reflect this line of thinking, including Hopwood and Miller (1994), Loft (1994) and Miller and O'Leary (1994), in addition to Hoskin and Macve. It is important therefore to note that there is a range of possible historical explanations grounded in the work of Foucault. Here the work of Loft (1986), Bhimani (1993), and Miller and O'Leary (1993) would not fully subscribe to the approach just outlined.

At the same time, such an approach is particularly valuable in the context of this project. For the approach ensures that an adequate recognition of historical and other contextual factors will be brought into consideration, while it also provides a valuable methodological focus on the role played by accounting practices, both in the nineteenth

century and today, in enabling different forms of management control and accountability to be exercised. The particular practices identified in the work of Hoskin and Macve are such small-scale practices, also identified by Foucault, as those of surveillance and normalising judgement, encapsulated in the modern practices of written and numerically graded examination. Such examining and grading practices, when applied in the context of factory and office, take shape as the distinctive system of 'managing by the numbers' found in all the new knowledge systems of management accounting, developed from the nineteenth century on. ABC of course as an approach to tracking and improving 'activity' is just such a system, albeit a distinctive modern variation on older approaches. In sum, as Ezzamel *et al.* (1990:164, italics in original) put it: '*managing by the numbers* is the essence of accountability, and the manifestation of the power of the new knowledge' (some form of accounting is unavoidable). They therefore criticise Kaplan and Johnson's historical analysis as failing to understand what MAS were about from the outset. The old systems, like the new ones of today, never had an *economic rational* relevance of the kind that Johnson and Kaplan propose. There was therefore no such 'relevance' to lose. Instead, the systems were and are all about enabling the effective coordination of and accountability for activity, via the practices of managing by the numbers. Thus one may see, as an alternative to ABC, the importation of techniques that have been successful in Japan as an equally adequate solution to the problems of MAS. On that basis, Ezzamel *et al.* argue that Kaplan and Johnson have ignored the socio-political context of the problems and remedies they present. Its proponents are therefore all too likely to see ABC solutions as being generally implementable, something that can be tested in a study such as this. Here it will be important to be aware of certain specific kinds of contextual influence, 'especially how managerial beliefs and discourses are related to the changing

constitution of what is deemed to be legitimate and sound business knowledge' (Hopper, 1994:497). Ezzamel *et al.* (1990:165) contend that, since *'managing by the numbers'* is a historically embedded and integral part of modern organisational life, we should be looking beyond the search for putatively successful techniques to a deeper level of analysis. There

> 'we should be thinking systematically about the underlying accounting problem that has been there from the outset. How best can we make the accounting numbers work within the overall system of control so that they become really effective complementary and interlocking ways of both describing and driving real-world performance while being aware of and responsive to the ways that a population of calculable persons change and evolves?'.

This project hopes to contribute in a small way to advancing that level of analysis. Insofar as it does, it may help address one assumption that has all too often compromised attempts to address the relation between strengths and weaknesses in MAS. Under this assumption, management accounting is seen in some underlying sense as subservient to financial accounting. This may be because external reporting is the public face of accounting, and so the 'ultimate' set of numbers that management needs to manage in order to satisfy the accountability requirements of markets, shareholders and analysts. It may be because at the technical level management accounting numbers are more *ad hoc* and provisional, and so less apparently solid or 'real'. But under the disciplinary approach just outlined, it is fundamentally misleading. This is not because the approach wants to assert an opposite priority for management accounting over financial. But its findings reinforce the view articulated by Chandler's history of the genesis of management in *The Visible Hand* (1977, pp. 1 ff.), that the development of 'modern business enterprise' follows on from the invention of the practices of 'administrative coordination'. These practices integrally involve the deployment of forms of accounting that prescribe and

track human performance, producing a new kind of 'disciplinary' business entity, where the various knowledge disciplines of accounting develop in new forms. Consequently, what one sees is a general new power of accounting, which begins historically when older forms of accountability focussed on the past use of physical entities (the 'good' use of assets, the suppression of pilfering and fraud, etc.) are supplemented by forms of 'human accounting' which focus on both past and future performance. Accountability in this world comes, with the development of modern financial and management accounting systems, to cover both financial and non-financial performance measurement. It then develops as a system in which managing the financial numbers becomes paramount, as just noted. But this is a system in which the management accounting breakthroughs come first, and in which there is always a *complementarity* between a particular financial accounting approach and some form of MAS. The development of ABC and ABM (and of other extensions of 'old MAS' like the Balanced Scorecard) therefore need to be understood in this kind of frame of understanding, not in one where management accounting is seen as essentially a secondary feature.

We may see the beginnings of the kind of critically informed research that may, as it builds up, contribute to undermining this assumption, from the ground up. In addition to the work by Soin (1996) and Lim (2000) already cited, some of the work by Hopper and a range of co-writers, and by Ezzamel and Willmott and theirs, are in this area[2]. One of the earliest of such studies was undertaken by Hopper *et al.* (1992) into six large UK companies in diverse industries. Here there was 'no clear evidence of external reporting conventions or accounting standards being cited as adversely affecting management

[2] Some of the key works by these teams include Hopper *et al.* (1992), Ezzamel (1994b), Ezzamel *et al.* (1997), Ezzamel *et al.* (2001a, 2001b).

accounting systems' (p. 310). Interestingly, there are signs that research informed by other less critical perspectives may contribute to this change in perception. To mention just one, a postal questionnaire to qualified management accountants working in UK industrial and commercial companies about the interactions between external financial reporting and management information and decision-making reached similar conclusions. 'The survey has disclosed little evidence of a generally held belief that external reporting dominates internal accounting' (Joseph *et al.*, 1996:90).

This initial part of my literature survey has attempted to identify some of the major perceptions of ABC, both from its protagonists and those with critically informed concerns about what it 'means' or signifies. In retrospect, it is perhaps important, if not contingent, that this particular new approach developed at the same time as the new approach known as 'critical accounting' was being articulated. This meant that while an appeal to history could be made by Johnson and Kaplan, as a clarion call to developing a new more 'relevant' form of MAS, history could be invoked to argue (Ezzamel *et al.*, 1990) that the real value of MAS was never in being 'relevant' in the sense that *Relevance Lost* would argue.

At the same time, this initial review indicates that there are more areas where ABC might be critiqued than purely in terms of its historical emergence. Roslender (1996) offers a useful summary that identifies four major areas of concern where Johnson and Kaplan's work has been seen as less than convincing. First, there appears to be limited evidence of technical developments within MAS being used to respond effectively to competitive environment changes[3]. Second, there is considerable doubt as to whether MAS are in

[3] Scapens (1994) admits that accounting practices – as institutionalised routines – are generally slow to change and this may explain the lag in terms of response to changes in the environment.

practice dependent on financial reporting demands. Third, this kind of research has been based on 'simplistic economics-based models of the outside world' (p.535), which have often been held in too unquestioning a way. Finally, it may be argued that managing *by* the numbers has developed as a 'perversion' of the role and nature of MAS, which needs to rediscover a concern with developing more appropriate (effective/constructive) ways of combining business activity with accounting numbers.

If this offers a general introduction to the ABC phenomenon, and to some of the significant ways in which it has been seen in the literature, let me pass now to considering the more technical literature, and its key arguments.

2.2.2 Activity-based costing as emergent technical breakthrough

Here I want to consider ABC as a technical innovation within the field of management accounting discourse, since to succeed as a new initiative it had to 'talk the talk' of management accounting effectively. Here the way in which Kaplan, as a leading management accounting researcher, could hook into one of the great management accounting conundrums, how to make sense of 'overhead costs', was crucial.

According to Kaplan's general argument, which comes from the heart of management accounting orthodoxy, management cost systems should address three different functions: inventory valuation for financial reporting purposes, operational control for performance and productivity evaluation, and individual product cost measurement. He then recognises, appropriately, that 'no single system can adequately answer the demands made by the diverse functions of the cost systems' (Kaplan, 1988:66). But he then goes on to focus on the overhead problem as the key problem to be addressed. So, while the

first objective is arguably fulfilled adequately by conventional MAS, such systems do not explain what the shop floor manager should do to improve performance, and they tend to distort product costs for strategic and marketing purposes, particularly in high overhead contexts (Johnson and Kaplan, 1987).

This overall analysis is what 'clears the space' for the new, if now familiar, ABC analysis. As we know, conventional product-costing systems (cost centre method) are based on a two-stage procedure. First, the consumption of direct resources is traced to products (direct costs) and cost centres (indirect costs). The costs in auxiliary cost centres are allocated to the main cost centres. In the second stage the indirect costs of the main cost centres are assigned to cost objects (e.g., products or services) through volume-related criteria such as direct labour hours, machine hours or materials consumption.

The Kaplan 'turn' on the overheads problem is to argue that wherever possible, even recognising that cost allocation is a judgement (i.e. 'arbitrary') issue, the objective should be to use judgement to identify cause-and-effect relationships. Kaplan argued that identifying the key activities that 'drive' indirect costs was the means to identifying such cause-effect relationships. Further, in the complex, multi-product environment of modern business enterprise, the allocation of hitherto 'indirect' costs could be tied more directly to products, thus leading to significant reduction in the distortions in product cost calculations. Today every Management Accounting textbook has a demonstration of how a product or service with low direct labour hours/costs but high demands in terms of previously 'indirect' or overhead costs can be seen in its 'true' light as costly and dangerous, if an ABC system is adopted.

At the same time, ABC as a technical accounting system remains based on a two-stage procedure. Overhead costs are first charged to cost pools, based on those activities that have been identified as causing such costs[4]. These costs are then attached to product lines via cost drivers which reflect the way in which each particular product line draws on the activity whose costs are collected in a particular cost pool. As Cooper (1990:59) puts it,

> 'the first stage determines the cost of activities (this stage relies on the assertion that activities cause costs). The second stage determines the cost of products, customers or any other cost object for that matter (this stage relies on the assertion that products or customers consume activities)'.

The accounting argument behind this proposal is that conventional MAS go wrong in allocating overhead costs on the basis of a product's consumption of direct activities (e.g. labour hours or machine hours). As the textbook examples show, any such approach will tend to *overcost* high volume products and *undercost* those low volume ones where the consumption of indirect activities turns out to be much higher (Cooper and Kaplan, 1991)[5].

However, this general approach can be turned around, once it is accepted that the ABC analysis has effectively got at the causal relations between activities and costs at an entity level. There is now no reason why the focus on products may not be substituted by a focus on the control of activities in general. At this level ABC can begin to become ABM (Activity-Based Management) where, regardless of generating product costs 'right', new

[4] Such analysis typically involves the following facets: study an organisation or a department in order to find what activities are done, how many people perform those activities, how much time they spend, and what resources are required. Over time, one key technical development has been to limit the number of drivers used, to maintain focus on key relationships and enable effective management. Early approaches frequently identified fifty or more key 'drivers', which proved too many to manage an ABC system effectively in practice.

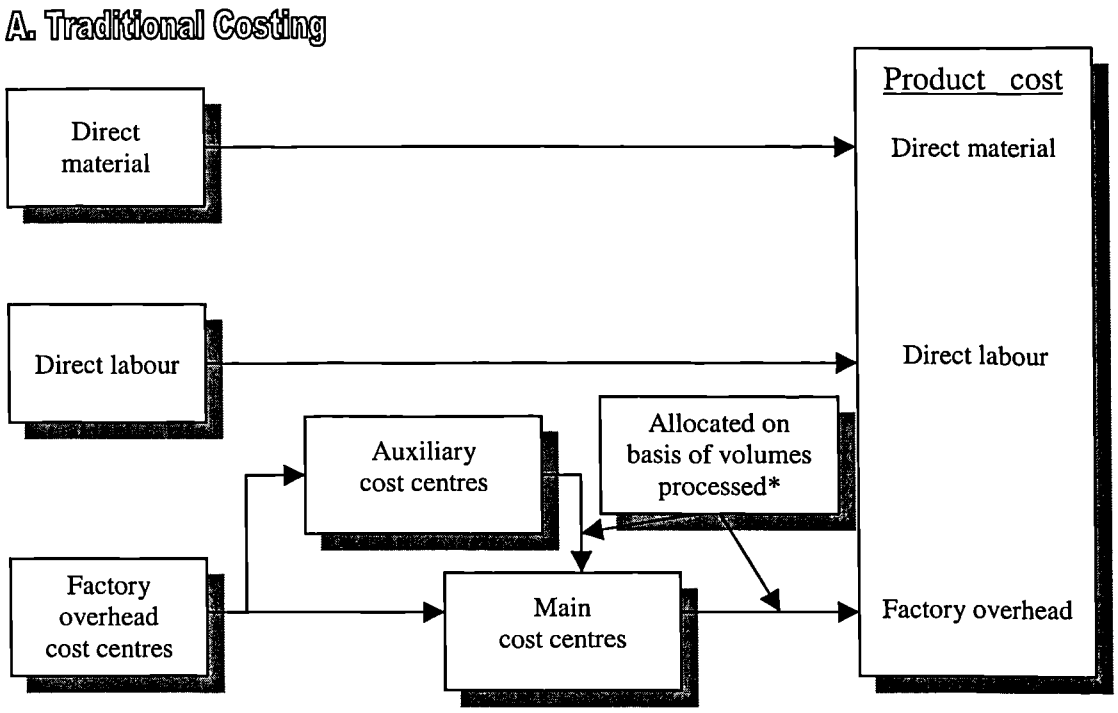
financial and non-financial performance measures can be developed to control processes and quality effectively (Maskell, 1989 a-d). In the ABM approach, activities can now be controlled at a series of organisational levels, beginning with those definable as occurring at the local department level, and then moving up through an appropriate series of higher levels to those that are definable as 'entity-wide'. Potentially, the approach may now be used in complementary ways. ABM may run the business, while ABC may still be used to cost a product correctly over its life cycle since, given the continuing business environment where life cycles are becoming shorter, leaving less time to recoup a bad pricing decision (Brimson, 1986).

If we compare ABC with traditional costing overall, therefore, there is a similar approach in both systems since both use a two-stage process (see Figure 2.1). However, according to its proponents, ABC provides a framework for 'achieving the two overhead costing objectives of cost pool homogeneity and a cause/effect relationship between absorption bases and costs' (Innes and Mitchell, 1998:24). Accordingly, ABC has been put forward as *the* solution to many of the problems of modern businesses in competitive environments. This is because conventional MAS gives 'too little attention to internal cost controls, matches revenue and expenses improperly, and emphasises conservative inventory valuation at the expense of management reporting' (Peavey, 1990:31).

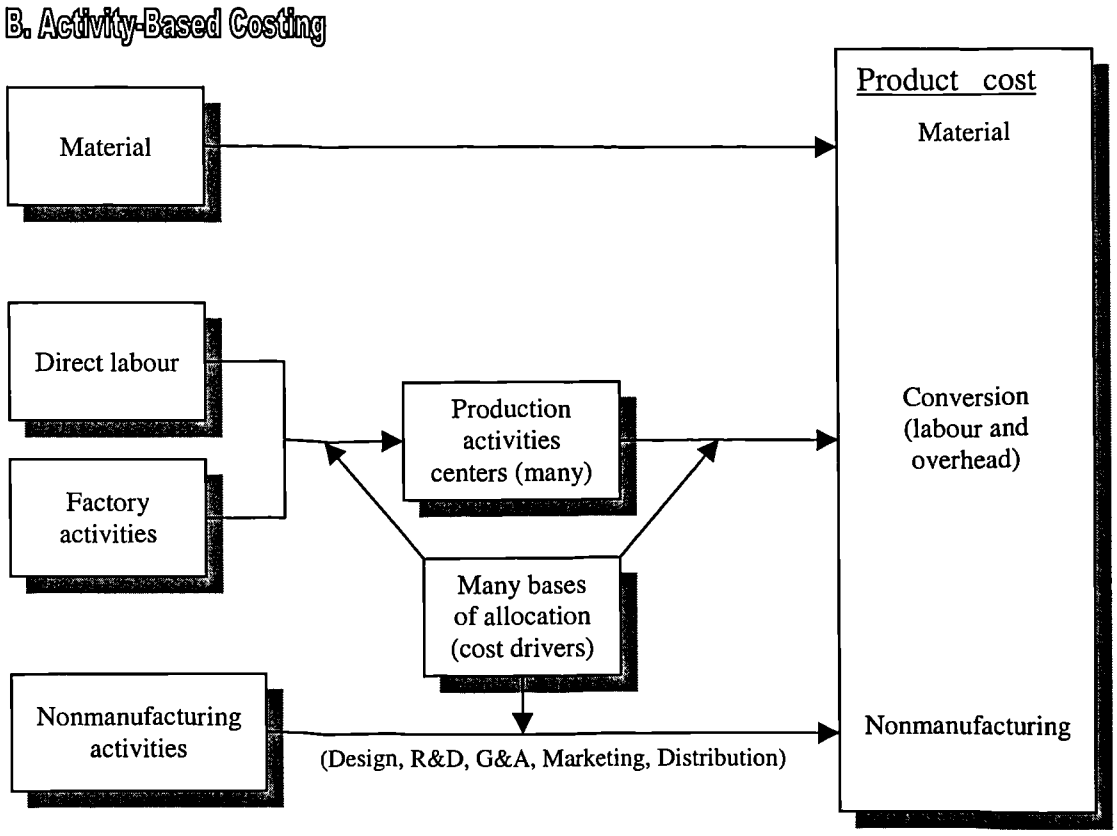
I hope that this is a fair yet critically-informed summary of the technical beginnings of ABC. Its great strength was to make overhead activities visible and controllable in a new

[5] It is further argued that recent competitive environmental changes tend to raise overhead costs and decreased direct costs, thus exacerbating the effects of any distortions in product cost calculations made using direct allocation methods. This can be 'catastrophic' in a world where it 'is more accurate to say that overhead drives labour costs than vice-versa' (Nanni *et al.*, 1988:43).

Figure 2.1 – Contrast in product costing



* labour hours, machine hours, material weights, sales figures, and so forth



Source: Adapted from Anthony and Govindarajan (1998:321)

way, via activity analysis (see footnote 4), and thus to provide managers with new performance measures (Raffish and Turney, 1991). At the same time, there were several technical objections that could be quickly levelled against it. For instance, it was not clear, once one went beyond the studies of the ABC boosters, that there was any strong evidence of increased accuracy through implementing ABC (Bromwich and Bimanhi, 1989). More fundamentally, as a technical fix the new approach to attributing costs could not fully overcome the 'judgement' problem. There was a judgement being made that causal relations could be established. But there were two problems with this. First there would always be some costs (e.g. head office costs) that had to remain 'arbitrary' allocations, where there was no causal relation either to individual products or to different (lower) entity levels (Wells, 1994). Second it was not necessarily clear that it was possible in a complex, multi-product, constantly changing environment that supposedly causal relations were causal. There are inevitably complex interactions between the activities in different departments and unintended consequences of apparently simple causal relations. One sign of that complexity was the way in which (see footnote 4) the number of key 'causal' activities had to be limited if ABC was to be an effective management system (cf. Anderson, 1995a; Cooper, 1996; Foster and Swenson, 1997; Gosselin, 1997; Ittner *et al.*, 1997). The ABC move was therefore a bold attempt to deal with the practical problems of management. But the claim of causality was arguably at least in part rhetorical. ABC, in this respect, could be argued not to be a major break with the past, but just one more refinement of conventional MAS. So Horngren and others would argue that in effect it just has more absorption rates, which it then applies, via its version of the two-step model, in exactly the same way as conventional costing (Horngren, 1989; Shillinglaw, 1989; Kennedy, 1996).

The role of rhetoric is arguably also significant in the development of ABM. In one early approach to what would become ABM, Johnson argued that companies should manage activities rather than costs (Johnson, 1988; Ostrenga, 1990), the principle being that activities consume resources and products consume activities. He maintained that 'activity-based information would focus managers' attention on underlying causes (drivers) of cost and profit unlike the distant, often distorted financial echoes of those causes that appear in traditional cost and performance reports' (Johnson, 1988:24-25).

But Johnson then, in a 1991 article, goes on to justify the new approach via an analogy with Plato's Allegory of the Cave. In this analogy, Johnson compares the relationship between ABM and post-1950's financial management to the condition of the prisoners in Plato's *Republic*, who have lived all their lives in an underground cave. The only images the prisoners see are the distorted shadows of people on the other side of a barrier, projected onto the roof of the cave by the light of a fire. The first time they are allowed out of the cave into the open is the first time they see objects and each other clearly.

Johnson links the standard costing numbers to the shadows on the wall projected by management accountants working behind a barrier, manipulating objects and resources to create the shadows. For the people living in the cave (managers), these numbers represent the only reality they have ever experienced. Only after being exposed to the light of the real world outside (ABM) are they able to see the true objects and resources that were previously only known to them as the distorted shadows on the wall. Johnson concludes that ABM allows managers to observe the real activities and resources consumed, and to take decisions based on a new vision of reality that was not previously available to them.

He maintains that as long as managers use the distorted numbers to take decisions on the activities of the business, their decisions are likely to be flawed, and result only in improvements in the distorted numbers. Only by using an accurate vision of the companies' activities can they hope to make good decisions. Companies' competitiveness and long-term profitability have declined because the use of these distorted numbers

> 'motivates people to sustain output in order to achieve cost targets. It encourages managers to achieve financial cost targets by producing output for its own sake, instead of encouraging them to focus on the one key to competitive operations and long-term profitability – namely, empowering people to efficiently satisfy customer wants' (Johnson, 1991a:231)[6].

It is a powerful piece of writing. But it no more proves that the new numbers are 'true' than does the claim of causality advanced for the superiority of ABC initially.

The continuing problem for ABM may be illustrated by referring to Brimson's methodology (1991:11) for the implementation of an accounting-based activity management system. There are now six steps:

1. 'Determine enterprise activities.
2. Determine activity cost and performance. Performance is measured as the cost per output, time to perform the activity, and the quality of the output.
3. Determine the output of the activity. An activity measure (output) is the factor by which the cost of the process varies most directly.
4. Trace activity cost to cost objectives. Activity costs are traced to cost objectives such as products, processes, and orders based on the usage of the activity.
5. Determine corporate short-range and long-term goals (critical success factors). This requires an understanding of the current cost structure, which indicates how effectively operating activities deliver value to the customer.

[6] It is argued that there is a tendency to focus on short term profits, rather than pursuing long term strategies of investment and research into more effective and efficient manufacturing systems (Hayes and Abernathy, 1980).

6. Evaluate activity effectiveness and efficiency. Knowing the critical success factors (step 5) enables a company to examine what it is now doing (step 4) and the relationship of that action to achieving those goals'.

Steps 1 to 4 are arguably the ABC method. Its expansion via steps 5 and 6 describes the broader scope of ABM methodology, which allows managers to use the information from ABC for decision making.

However, there are two sorts of problem here. First, there is a problem implied by locating the determination of goals at Stage 5. This suggests a tendency to start from current practice. Yet current practice may be highly dysfunctional in terms of implementing an activity-based approach. It is not clear in the methodology how such an endemic problem is overcome. The second problem concerns the degree to which interactions and unintended consequences are being overlooked. For instance, how are contextual issues to be recognised as posing a problem for the implementation of ABM (whether these be firm-specific or more general cultural or economic issues)?

That is one issue that this study hopes to address. However, let me conclude this section with a reflection on what has happened at a technical level for Johnson and Kaplan, post Relevance Lost.

2.2.3 Beyond the 'relevance' debate

Johnson, who of course was never an exponent of ABC as such, has moved totally away from a belief in accounting's transformative powers. Instead he has gone on to argue that accounting is the problem in the work summarised in his book *Relevance Regained – From Top-Down to Bottom-Up Empowerment* (1992a), and a series of related articles. He now claims that accounting can only provide a top-down control, and that therefore ABC

may improve cost information by using activities to allocate costs, but it does so without providing information on how customers are satisfied or processes are stable and efficient (Johnson, 1992b). He now focuses on three features: customers, quality and employees, and argues that 'what matters in business is to create fulfilling jobs and survive by profitably satisfying customers' needs (without harming society or the environment)' (Johnson, 1992b:28).

Johnson's theme now is that 'relevance was not lost by using improper accounting information to manage. It was lost by improperly using accounting information to control business operations' (Johnson, 1992a:31). The problem is that managers manage results - not processes. It is vital to understand 'customer power' and 'worker power'. Companies should stop managers and employees from attempting to manipulate processes in order to achieve accounting targets (*ibid.*), and managers should understand the differences between managing by remote control and practices that will lead to flexibility and customer satisfaction. He argues that the solution is total quality management (TQM) which involves teamwork and 'empowered' workers. It is also important to change education. ABC now, for Johnson (1994), is part of the problem, not the solution.

This about-turn by Johnson is intriguing, not least for the way it suggests that there were unresolved tensions in the collaboration with Kaplan. [It is perhaps worth noting that ABC as such is never referred to in their 1987 book, even though the book is widely perceived as the launch-pad for the ABC 'revolution'.] At the same time, it is not clear how influential this approach has been or will be. Ezzamel (1994b) offers a response to Johnson that indicates how far accounting remains embedded within systems of management and worker 'power' even when the aspiration is to move beyond it. Building

on the Ezzamel *et al.* (1990) analysis, he argues for a deeper appreciation of what it is that accounting is doing, in which it is important to build a critical understanding of accounting's power effects. Accounting, as a form of exercising power within organisations, may *never* have been irrelevant, and may have a deeper relevance than that raised in the debate so far. On this basis, he disagrees with Johnson's contention that TQM can be a solution where accounting fails. On the contrary, he argues, the TQM literature has neither been sufficiently reflective or critical, so this is at best a 'problem-solution' approach which tries to give quick solutions to problems that may not yet have been fully articulated. As such, the approach fails to grasp that it may be an inferior, or less effective, way of exercising the kind of power that accounting has exercised. For instance, he argues that many of the techniques used by TQM are similar to those used in accounting (in that they still impose 'managing by numbers', now based on non-financial numbers), and that consequently, 'TQM does not promote any real concern for understanding and managing organisational processes' (Ezzamel, 1994b:276). Finally, he suggests that 'while the limitations of MAS are increasingly, but slowly, being recognised, those of TQM have for the most part been masked by uncritical exhortations of what TQM is capable of delivering' (p. 279). Accounting approaches may thus be more realistically placed to engineer significant change in the future. Ezzamel continues to argue that it is essential to build on the existent critique of the power of accounting and recognise that accounting is not a neutral and passive mirror of the organisation but rather a set of practices through which organisational reality is constituted and shaped (cf. Morgan, 1988).

We may contrast the fortunes of Johnson's later work with those of Kaplan. Kaplan has not abandoned the belief in developing better and more effective accounting systems,

even though he has conceded (1992) that ABC is not 'magic', but only one of many information systems to help managers. However, he maintains that this system has several advantages. First, it can be part of the improvement process. It gives a cost/benefit analysis when it is necessary to achieve quality or other improvements. Second, it can be linked to performance measurement. After having identified the process drivers for a critical activity, it is possible to put measures in place to improve those process drivers in terms of efficiency. In addition, it can help one to understand operating cost consequences and improve supplier relationships. For Kaplan, it is vital to distinguish between low-price and low-cost suppliers. The cost of receiving, inspecting, storing and moving materials should be linked with supplier prices. Finally, ABC can help identify the segments and customers that can be satisfied profitably.

At the same time, Kaplan has become particularly associated with a different kind of 'logical step' beyond ABC, the Balanced Scorecard, which may be seen as an attempt to capture the range of what goes on as 'activity' in a different way, by combining financial and non-financial measurements to produce a control system that theoretically combines the best of both worlds.

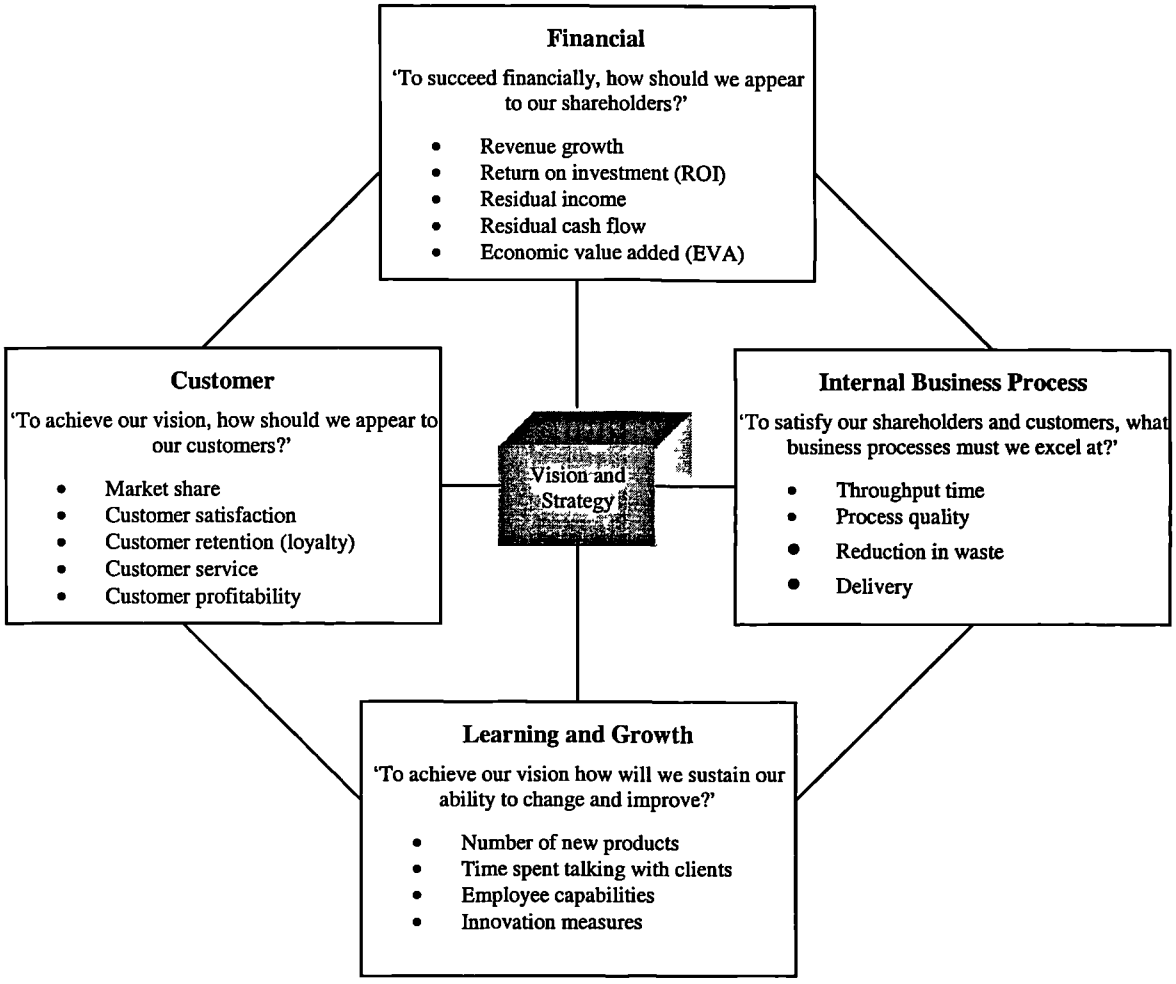
The aim here is to develop a more strategic kind of performance measurement system that goes across the old financial accounting / management accounting divide, by combining financial measures that tell 'whether the company's strategy, implementation, and execution are contributing to bottom-line improvement' (Kaplan and Norton, 1992:77), with non-financial measures tracking customer satisfaction, internal business processes,

and the company's ability to learn and improve[7]. Kaplan and Norton (1996a:75) state that 'the scorecard addresses a deficiency in traditional management systems: their inability to link a company's long-term strategy with its short-term actions'. Here, the idea is to identify the key external and internal factors that will ensure both short and long-term financial success (see Figure 2.2). Kaplan and Norton claim that this approach enables a company not only to know the results of actions already taken, but also to monitor progress in building the capabilities they will need for continued growth. A Balanced Scorecard overcomes key barriers to strategy implementation by making the strategy specific and actionable, engaging everyone to set stretch targets and resource allocation plans that specifically relate to the strategy, and by providing strategic feedback and learning (Kaplan and Norton, 1996b).

Given the two very different paths that these two founders of the focus on activities have taken, and the fact that neither of them is now involved directly with ABC or ABM, one might conclude that this is an area whose time has passed. Yet this is clearly not the case, either in terms of the practice of management or the theorising that surrounds it. ABC has, on the one hand, continued to flourish as a key technique in the consultancy armoury, as is evidenced by its application in the case considered below. On the other, there has continued to be considerable critical intellectual concern with its adequacy and significance (e.g. Armstrong, 2002). This, I suggest, is because of the way that ABC took on the underlying problem of indirect or overhead costs in a new and high-profile way by

[7] This is not the only call for non-financial measures (cf. Vaivio (1999) for a review of previous calls for including non-financial measures into MAS). In several European countries, the extensive use of a reporting system – *The Tableau de Bord* – that tries to model the internal operations of the organisation and relate them to its environment, also applies a variety of non-financial indicators (e.g. Lebas, 1994, 1996; Roberts, 1995). A few authors have questioned the novelty of the Balanced Scorecard due to its similarities with the Tableau de Bord (Lebas, 1994; Epstein and Manzoni, 1998).

Figure 2.2 – Balanced Scorecard



Source: Adapted from Kaplan and Norton (1996a:76)

claiming to discern cause-effect relations. The approach did not necessarily have to be 'correct'; it was valuable nonetheless as a way out of a theoretical logjam. At the same time, it can be seen as having paved the way for new kinds of connection between management and accounting at the practical level, as exemplified both by Kaplan's move on and Johnson's. Each has broached what were previously significant if tacit discursive boundaries: the former between management and financial accounting discourse, the latter between accounting and operations management discourse. Both have contributed thereby to what may be seen as more general broadening and deepening of management accounting discourse. Such a view has recently been articulated by Lukka and Granlund (2002), and it is to the nature of this discursive change that I now turn.

2.3 The broadening and deepening of 'old management accounting discourse'

Lukka and Granlund (2002) argue that one can discern three strands to management accounting research over the past generation, each of which has its own distinctive role, but all of which together need to be seen as complementary or even symbiotic. First there is the traditional technical kind of MAS research. Second there is a significant strand of consulting research. Third there is the critical strand of research. Each has its particular content interests, research methods, argumentation styles, and each has a distinctive kind of conclusion or 'results'. But none of the three can be considered in isolation, since there are interactions between them. Clearly there is a strong connection, in the work of people like Kaplan and Johnson, between 'basic' and consultancy work. But each is drawing on a form of critique too. Critical work may seem a long way from consultancy, but as its insights become incorporated into more mainstream thinking, critical work cannot always

avoid being taken up as part of consultancy thinking. Lukka and Granlund therefore present a way of seeing how these approaches are all variously implicated in a new kind of broader and deeper management accounting discourse. They begin at the most applied end, consultancy.

2.3.1 Consulting research: 'wider ripples in the pond'

The strong emphasis on practicability and its prescriptive and propagating style with empirical evidence from case studies is, they argue, typical of 'consulting research'. This genre of research was clearly dominant in the early stage of ABC literature when costing was the primary concern. The literature dominated by *Relevance Lost* (Johnson and Kaplan, 1987)[8] includes situations where conventional costing systems were inadequate and the information provided was unreliable (e.g. Kaplan, 1984b, 1988; Cooper, 1987; Cooper and Kaplan, 1988a), and ABC was discussed as a solution to those problems (e.g. Cooper, 1988a, 1988b, 1989a, 1989b, 1990, 1992; Cooper and Kaplan, 1988b, 1992; Johnson, 1988; Kaplan, 1988; Drury, 1989; Jeans and Morrow, 1989; Green *et al.*, 1991; Committee and Grinnell, 1992; Hirsch and Nibbelin, 1992; MacArthur, 1992). This series of papers provides easy-to-read, practical contributions as it helps to identify when and if ABC is needed, and provides suggestions for the number and kind of cost pools and cost drivers that should be used. A significant amount of the literature was published mainly in professionally-oriented journals such as *Harvard Business Review*, *Journal of Cost Management*, *Management Accounting (US)*, and *Management Accounting (UK)*.

[8] Kaplan (1998:90) refers to his own research as 'innovation action research' as it helps organisations to implement a new idea. Innovation action research is first used 'to develop the theory, and then to examine the feasibility of applying the theory'. As scholars actively engage in helping organisations, they 'learn not only about the idea itself and how to improve it, but also about the conditions for successful implementation in organizations'.

During this period, a series of case studies describing ABC were published. Harvard Business School published a set of case studies, many of which were written by Cooper and Kaplan. The book *The Design of Cost Management Systems: Text, Cases, and Readings* (Cooper and Kaplan, 1991) includes several, now well-known cases. Johnson and Loewe (1987), Berland *et al.* (1990), Geitzmann (1991), and Brinker (1991, 1993, 1994) also provide examples of companies using activity-based techniques with relative success. However, these case studies are alleged to be 'too brief, too managerial, too close to behavioral and external factors, unduly atheoretical, and hence inadequate for unravelling managerial processes and problems' (Hopper *et al.*, 2001:278). The case studies were mainly undertaken in manufacturing, although articles describing ABC in other sectors also exist (e.g. Rotch, 1990; Sephton and Ward, 1990; Menzano, 1991; Antos, 1992). The emphasis on costing was clearly dominant with almost no reference to other uses of activity-based data. At this early stage, the main debate around ABC ideas and assumptions was the result of two articles by Piper and Walley (1990, 1991) which intensely criticised the internal logic of ABC and its relevance for management decision-making. Cooper (1990) provides a response to those critiques.

However, several authors adopted a different approach at this stage. They were associated with the Computer Aided Manufacturing – International (CAM-I) and their emphasis on costing was less. Instead, they focused their attention on the use of ABC information for cost management, often establishing a close link with: TQM (e.g. Brimson, 1986, 1988, 1991; Berliner and Brimson, 1988; Turney, 1989, 1991b; Turney and Reeve, 1990; Raffish and Turney, 1991), just-in-time (e.g. Foster and Horngren, 1988; Morrow and Hazell, 1992), continuous improvement (e.g. Turney and Reeve, 1990; Greenwood and Reeve, 1992), and modern manufacturing systems (e.g. Turney, 1989). In addition,

Johnson (1988, 1990) considered activity-based techniques from a TQM perspective. This was the starting point for the debate that followed the publication of Relevance Regained (Johnson 1992a, 1992b; Kaplan, 1992). From this debate resulted the abandonment of costing as the ultimate objective since the advocates moved from ABC to ABM (Cooper *et al.*, 1992a, 1992b). Furthermore, Johnson, who earlier considered ABC to be the *key* to continuous improvement of profitability (1988), now warns that it has gone too far, since 'accounting information is not capable of guiding companies toward competitiveness and long-term profitability' (Johnson, 1992b:31).

However, even after 1992, the literature kept focusing on product costing and profitability (e.g. Gammell and McNair, 1994; Kaplan, 1994; Dedera, 1996; Wiersman, 1996). There has been an increasing number of articles describing the transition of ABC to other activity-based techniques such as ABM (e.g. Drumheller, 1993; Turney, 1993; Cooper, 1994; Keys, 1994; Mecimore and Bell, 1995; Selto, 1995; Reeve, 1996; Cokins, 1999) or activity-based budgeting (e.g. Connolly and Ashworth, 1994; Kaplan, 1994; Mason, B., 1996; Börjesson, 1997; Grasso, 1997; Cooper and Kaplan, 1998; Block and Carr, 1999; Brimson and Antos, 1999, Bleeker, 2001). Articles often discuss its links with: TQM (e.g. Carlson and Young, 1993; Turney, 1993; Marshall, 1995), Economic Value Added (e.g. Hubbell, 1996a, 1996b), and the theory of constraints/throughput accounting (e.g. Salafatinos, 1995; MacArthur, 1996, Coate and Frey, 1999; Huang, 1999; Corbett, 2000).

Bjornenak and Mitchell (1999) suggest that the focus of ABC literature has recently changed from ABC to ABM. Consulting companies also helped to make this shift and close links between ABC and ABM (e.g. Mabberley, 1992; Mabberley, 1997; Player and Keys, 1999; Player and Lacerda, 1999). Attention has also shifted to new ways of

combining financial and non-financial performance measures. There has been less of a focus on 'activity' as a key category. The development of the Balanced Scorecard (Kaplan and Norton, 1992, 1993, 1996a, 1996b, 1997) has increased debate over the importance of non-financial performance indicators. The chief editors (Stenzel and Stenzel, 2001:3) of the *Journal of Cost Management* assert that:

> '[t]raditional financial practices are the structural cornerstone of business operations. As functions of process, the focus of traditional practices is usually quantitative. As business thinking evolves, however, best practice has increasingly included the qualitative to account for the human element. In short, along the developmental road through quality principles, process initiatives, and the information revolution, people represent the competitive edge of that future'.

The editorial reflects the proliferation of articles about the Balanced Scorecard and the 'growing in prominence' of non-financial measures (Curtis and Ellis, 1997; Kaplan and Norton, 1997; Borgstrom, 2000; Syfert and Schumacher, 2000; Thor, 2000; Gooderham, 2001; Neely and Adams, 2001; Niven, 2001).

Lukka and Granlund (2000:172) conclude that consulting research is oriented towards the construction of a market to ABC, the aim is 'selling to readers technologies, which would increase the quality of organisations' cost allocation models and thereby support their management'. However, the methods used are not rigorous and 'can be criticised due to their one-sided views and Jesuitical 'aim justifies the means' mentality' (p.173).

2.3.1.1 Strategic cost management

As the debate has broadened, so have proposed solutions. In addition to the Balanced Scorecard mentioned above, Shank and Govindarajan (1993) have argued for a new kind of 'strategic cost management' as the next step forward. They argue that this is a more

appropriate way of connecting a better understanding of internal processes and their cost behaviour to the wider concern with positioning a company strategically with respect to its competitors. They draw on Porter's (1985) value chain analysis, which was already an accounting-dependent approach, since the 'values' attributable to different points on the 'chain' were calculated from accounting numbers, which they believe can be incorporated here to enable companies to develop strategy more effectively for competitive advantage.

Porter had described the value chain as an analytic tool which 'disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation' (p.33). Shank and Govindarajan (1989:40) show how to combine better internal cost management, via activity analysis, with a value chain approach. They see this as involving three major steps:

1. 'Define the firm's value chain and assign costs and assets to value activities.
2. Investigate the cost drivers regulating each value activity.
3. Examine possibilities to build sustainable competitive advantage either through controlling cost drivers or by reconfiguring the value chain.'

The terminology of 'cost drivers' is significant here. To describe the value chain, the company must first define the physically and technologically distinct activities carried out by the company. These activities are separated into *primary* and *support* activities. The former directly relates to the provision of the product or service, its distribution to the customer and after-sale assistance. The latter enables the primary activities to take place by providing purchased inputs, human resources, technology, and other functions. Divided out in this way: 'The value chain displays total value, and consists of *value activities* and *margin*' (*ibid.*:38).

Through careful analysis of the value chain and the company's strengths via this Strategic Cost Management approach, Shank and Govindarajan contend that managers should be able to make better decisions where they can best exploit the company's strengths for competitive advantage (*ibid.*). They may also develop strategic partnerships with customers, distribution channels, or other suppliers, to create links that will ultimately create value for the customer.

In all work such as this, the linkage is increasingly clear and strong between consultancy work and basic technical research. There can also be an almost promiscuous dissemination of new connections. Johnson for instance has not simply gone down the operations management route. In joint work with Sapp, (Johnson and Sapp, 1992:184-185), he moves towards suggesting that the management information system for the future should enable managers to analyse the value chain by focusing their attention 'on the underlying causes of cost and profits. It comprises any relevant information about the processes across the entire chain of value – design, engineering, sourcing, production, distribution, marketing and after-sale service' and identify activities that 'consume resources but do not add value to the customer'. They believe that 'a firm must sell products that satisfy customers by meeting global standards for quality, flexibility, service, dependability and price; and those products must cost less than customers are willing to pay for the value received' (p. 179).

Or again, in his most recent book, *Profit Beyond Measures: Extraordinary Results Through Attention to Work and People* (Johnson and Broms, 2000) he and Broms claim that, rather than *managing by results*, companies need to manage by means. In this version of the new consultancy discourse, companies need to concentrate on encouraging

employees to develop their creative talents so that they can best serve customer needs. The authors cite the examples of Toyota and the Swedish truck manufacturer Scania that, instead of being driven to meet preconceived accounting targets, have achieved superior performance by following three principles that guide living systems – self-organisation, interdependence and diversity[9].

What we have then is a range of connections between consultancy and 'basic' research, where key authors feel no significant difficulty in theorising and recommending a variety of linked approaches. This applies to ABC as well. Here Kaplan has continued to collaborate with Cooper, and in that work a new 'deeper' rationale for the use of ABC emerges, as this approach and other systems like it are seen as part of an internal evolution in the logic of MAS. In this context Kaplan and Cooper (1998) can assert that the next stage is to design and integrate ABC systems and systems for operational learning and improvement.

2.3.1.2 Recent developments in management accounting systems

To this end, they present a four-stage model of MAS evolution. In Stage I, MAS were not even adequate for periodic financial reporting because of poor internal controls that did not record transactions or record them incorrectly. Most companies today have an MAS that has reached Stage II, where cost information is available for valuing inventory and

[9] However, Hopper (1994:506) disputes these claims: 'Johnson, in his advocacy of human relations and more Japanese oriented methods may be overoptimistic about the prospects of concensual change. Essentially, Johnson is making a plea for corporate governance along earlier human relations lines. From the ethical and humanitarean perspective there is much commend in his proposals. Yet, they share the defects of earlier relations analyses as they ignore issues of ideology, power, conflict and the role of social and economic institutions'.

calculating the cost of goods sold for financial reporting[10]. Kaplan and Cooper now see their initial ABC proposals as advocating that companies should develop Stage III MAS, wherein they retained their existing Stage II MAS to prepare financial reports, and implemented ABC systems for process improvement activities, and providing useful information for strategic decisions. However, they now claim that ABC systems are not sufficient to ensure the twin goals of strategic vision and effective short-term operational decision-making and control. Other MAS are necessary to provide feedback on operational learning and improvement. This (to date ultimate) Stage IV in the evolution of MAS can enable cost and performance measurement information to become integrated.

So if the Balanced Scorecard is one form of such integration, it is by implication not the only one. Building on the ABC tradition, Kaplan and Cooper recommend that management should

> 'calculate product and customer costs with standard activity cost driver rates and actual activity cost driver quantities. In parallel with the ABC system, the operational control system monitors the efficiency with which activities are performed and the actual prices of resources used to perform activities' (Kaplan and Cooper, 1998:300).

When changes are detected, the operational control system can send a signal to the ABC system to update activity cost driver rates. The ABC system can then be used to establish the budget for supplying resources to perform activities. The operational control system uses this budget for monitoring spending in responsibility centres. The data from both systems can also be used for periodic financial reports.

[10] These are the systems that Johnson and Kaplan criticised for allowing continued dominance by financial reporting rules, thus rendering MAS information irrelevant for managerial purposes.

In this approach, one may see aspects of critical understanding alongside the basic research and consultancy discourses. There is an internal logic to accounting technical development which can only appear across time, so that history leads us upwards towards better solutions. Thus, according to Kaplan and Cooper (1998), the future of MAS development can be secured via an upgrade of ABC systems to incorporate additional features, namely 'measurement of resource and activity capacity, accurate assignment of all business – and corporate – level expenses through the use of secondary and primary activities, incorporation of the cost of capital, and comprehensive measurements of life cycle costs and profitability' (p. 322). The operational improvement system monitors a company's resource consumption but also, the efficiency, quality, and responsiveness of departments and processes. The ABC system reports the cost of activities and processes, and the cost and profitability of products, services and customers. Furthermore, 'virtually all organizational expenses become variable and subject to management's control' (Cooper and Kaplan, 1998:119).

Now this approach like all the others offers hostages to fortune. For instance, one may observe that it remains unclear how in practice the new operational improvement system is supposed to identify activities at all levels in a way that is both comprehensive and discrete (e.g. controlling for the interactions between activities) and how it is to measure 'life cycle costs and profitability' effectively when the changing and competitive environment renders cycles so unpredictable. It remains unclear how the expanded cost and activity control system is supposed to produce 'numbers you can trust', to quote an earlier Kaplan and Cooper phrase, and how it can be effectively integrated, in real time, with the ABC system. It is also unclear, despite the rhetoric of historical evolution, whether this approach does overcome the objection that Kaplan himself has made, that

this kind of reconciliation between operating information and cost systems is not (yet) feasible[11]. At the same time, it shows just how far consultancy discourse has moved towards implicating aspects of both technical and 'critical' discourse within it.

2.3.2 Basic research: theory development

This is not, as Lukka and Granlund observe, to say that consultancy and basic discourses cannot be differentiated. The aim of 'basic research' remains to describe, explain and understand in a 'neutral' fashion and with scientific rigour, how and why ABC is used[12]. Authors of basic research in the ABC field therefore will tend to analyse its nature, functioning, effects and diffusion, without raising significant critical questions about it. The objective is to contribute to and extend existing understandings and theories of management accounting phenomena (Lukka and Granlund, 2002). Key publication forums for this genre of research, which is largely though not exclusively US-based and focussed, include the *Journal of Management Accounting Research*, *Management Accounting Research* and *The Accounting Review*.

Within this discursive frame, they argue that the use of different research methods differentiates ABC literature into four sub-genres: conceptual research, mathematical modelling, statistical studies, and case studies. The aim of conceptual research is to clarify the concepts of ABC and compare it with conventional practices (e.g. Innes and Mitchell, 1990a; Boons *et al.*, 1992; Israelson, 1994; Bescos and Mendoza, 1995). The aim of mathematical modelling research is to analyse cost behaviour in different kinds of operational environments, and to mathematically construct models that predict cost

[11] As noted before, Kaplan (1988:66) claims that 'no single system can adequately answer the demands made by the diverse functions of the cost systems'.

behaviour (e.g. Noreen, 1991; Babad and Balachandran, 1993; Datar and Gupta, 1994; Balachandran *et al.*, 1997). Statistical studies use questionnaires for data collection. They focus on the prevalence of ABC within countries or business sectors, and user opinions on ABC (e.g. Innes and Mitchell, 1991a, 1991b, 1995; Innes *et al.*, 2000), success and satisfaction with ABC implementations (e.g. Anderson, 1995a; Shields, 1995; Swenson, 1995; Krumwiede, 1998a), and the nature of ABC diffusion (e.g. Bjornenak, 1997; Gosselin, 1997; Chenhall and Langfield-Smith, 1998; Anderson and Young, 1999; Malmi, 1999). The aim of case studies is to describe and explain, at the level of individual companies, why and how ABC has been implemented (e.g. Bhimani and Pigott, 1992; Malmi, 1997). This sub-genre of research permits more in-depth analysis of the practices of a company, and adds 'to theory by examining and discussing issues such as power games around ABC projects, accountability relationships and the changes in them in relation to new ABC systems, and the unintended consequences of ABC implementations' (Lukka and Granlund, 2002:176).

This last sub-genre is important in relation to this study. As already indicated in Chapter One, this study does not see itself as located within the US mode of 'basic' research. Therefore while it is a study of one particular case, it is not intended to be a contribution to that research mode, in particular insofar as such case-based research is seen as a cumulative process of adding to a theory which therefore remains in place and unexamined. At the same time, at the level of techniques and concerns it is clearly linked to these studies, insofar as it also is concerned with power games, accountability relationships and unintended consequences. The difference remains at the level of how

[12] This is to the extent that any research can adopt a truly neutral stance (cf. Baker and Bettner, 1997). Basic research does not try to sell the ideas around ABC, but does not tend to fundamentally criticise them either.

this whole process is theorised. Under the basic model, accounting technique remains fundamentally neutral rather than problematic yet powerful, as it does under the approach being developed here. Therefore there are procedural similarities, but that level of similarity should not be allowed to obscure the significant level of difference in approach and forms of analysis.

This level of difference is recognised by Lukka and Granlund, who conclude (2000:178) that basic research is oriented towards theory development using a 'standard format' where there is no fundamental theoretical questioning of accounting as technique in play. Instead there is 'a thorough link to earlier literature/theory (ex ante), the presentation of the problem setting, analysis based on scientific techniques, presentation of results vis-à-vis earlier knowledge (ex post)'. Such work can allow a heterogeneous set of knowledge and research methods, but it is set up on a scientistic kind of model which tends to avoid 'audacious claims and generalisations without extensive, systematic evidence on which to base such claims' (p.177).

2.3.2.1 New Directions in Management Accounting Research and the debate on ABC

Given this understanding of the gaps between accounting discourses, it is perhaps not surprising that researchers have theorised some form of 'gap' between management accounting theory and practice (cf. Kaplan, 1984a, 1985; Dunk, 1989; Horngren, 1989; Shillinglaw, 1989; Lowry, 1990; Emore and Ness, 1991; Scapens, 1991). One implication of Lukka and Granlund's analysis is that this should perhaps be seen as a series of gaps within and across discursive positions, which therefore lead easily to a widespread if diffuse dissatisfaction with product cost and management accounting techniques (cf. Bork and Morgan, 1993). We arguably now inhabit a situation where a considerable number of

innovations[13] have emerged in the field of management accounting during the last two decades (Chenhall and Langfield-Smith, 1998) and with ABC as one of the most important. There is inevitably, in the current state of research and publication, a flourishing activity accounting literature spanning the basic research/consultancy divide and consisting mainly of prescriptive books and papers describing how to implement ABC/ABM and listing its potential benefits when replacing 'outdated' conventional MAS (e.g. Bruns and Kaplan, 1987; Ostrenga, 1990; Brimson, 1991; Cooper and Kaplan, 1991; Raffish and Turney, 1991; Turney, 1991a, 1996; Brinker, 1991, 1993, 1994; Roberts and Silvester, 1996). Within this literature, there is also a range of sceptical and critical studies, e.g. pointing out that relatively few organisations seem to be switching to ABC and those that decide to do so have experienced significant problems (Innes and Mitchell, 1991a, 1995, 1998; Cobb *et al.*, 1992, 1995; Cooper *et al.*, 1992a; Miller *et al.*, 1992; Argyris and Kaplan, 1994; Bromwich and Bhimani, 1994; Anderson, 1995a; Shields, 1995; Roberts and Silvester, 1996; Innes *et al*, 2000).

Overall, therefore, the jury remains out on just what the success of ABC has been and may be. Studies in several countries now indicate that the diffusion process for ABC has not been intense despite strong advocacy. In the UK, surveys report adoption rates around 10 to 20 per cent (Drury *et al.*, 1993; Innes and Mitchell, 1991a, 1995; Innes *et al.*, 2000). Innes *et al.* conclude that adoption rates are significantly higher among larger companies and among those from the financial sector. Similar or lower adoption rates were found in other European countries (Ask *et al.*, 1996; Bruggeman *et al.*, 1996; Israelsen *et al.*, 1996; Scherrer, 1996; Virtanen *et al.*, 1996; Clarke *et al.*, 1999), and in Canada (Armitage and

[13] Bradfort and Kent (1977) define innovation as the successful introduction of ideas, perceived as new, into a given social system. Diffusion is the process of spreading or disseminating the innovation (Bjornenak, 1997).

Nicholson, 1993). At the same time this may only signify that the take-up of ABC is more gradual, with a mix of early and later adopters. Surveys in the USA may be taken as indicating such a pattern. For example, Green and Amenkhienan (1992) reported that 45 per cent of the companies used ABC to some extent. Hrisak (1996) reported a figure of 53 per cent and Shim and Stagliano (1997), asking a slightly wider question, reported that 27 per cent of companies had fully or partially implemented it and 38 per cent were planning to do so.

It is unsurprising then that questions remain on how far ABC succeeds in bridging the theory/practice gap. Some authors have claimed that the virtues of ABC have been exaggerated (Staubus, 1990; Piper and Walley, 1990, 1991), while Johnson (1992b:26) argued that the 'selling' of ABC should be 'redirected and slowed down, if not stopped altogether'. More recently Bjornenak (1997) observed that we still have little research-generated understanding of the relative significance of factors supposedly leading to the successful adoption of ABC. Factors having a significant impact have included company size (Innes and Mitchell, 1995; Ask *et al.*, 1996; Innes *et al.*, 2000), business sector (Innes and Mitchell, 1995; Innes *et al.*, 2000), cost structure (Bjornenak, 1997), and product diversity (Malmi, 1996). Factors have been identified as supposedly militating against adoption (cf. Innes *et al.* 2000), these include the fact that the design, implementation, operation and updating of the systems is expensive and time consuming in terms of staff and resources (cf. Cobb *et al.*, 1992; Malmi, 1997). There is the possibility that people are

awaiting the 'test of time', wanting to see whether ABC may be a fad or fashion[14] (cf. Bjornenak, 1997; Gosselin, 1997; Malmi, 1999). There is the possibility that its relevance for decision-making may be perceived as occurring only in very restrictive conditions (cf. Noreen, 1991). As Malmi (1999) has recently reiterated, change may be expected to occur if the new system is seen as leading to better decisions, and if the expected benefits are seen as exceeding the cost of its implementation (Feltham, 1972; Demski, 1980). But it is not clear, at any given moment, when those conditions will be seen as having been met, or which companies are likely or about to become adopters.

In the context of the project envisaged here, this work is of great value, to the point that the project would not be 'thinkable' without the existence of this research tradition. At the same time, the insights offered by the research to date are not sufficient to define this project. It is apparent that within the 'basic' and 'consultancy' paradigms a range of views has been and will continue to be taken up. But the very fact of this variability indicates that it is not essential to hold any one of the positions taken up so far within these paradigms in looking to understand the theoretical and practical strengths and weaknesses of the ABC approach. It is therefore proposed to consider the impact and relevance of more wide-ranging and critically informed research approaches that have engaged with the ABC problematic. These include approaches concerned with highlighting the role of social, organisational and behavioural factors in the implementing

[14] Fashions and fads in management have been the subject of growing discussion in recent years (e.g. Abrahamson, 1991, 1996; Kieser, 1997; Benders and van Veen, 2001). For instance, Benders and van Veen (2001:40) claim that to understand the popularity of ABC, it is necessary to study the discourse, and the organisational changes taking place: 'The organizational changes are then not simply the result of fashion setters imposing beliefs on fashion followers, as Abrahamson's diffusionistic account would have us believe, but instead are linked to the ways in which actors make use of the discourse around the concept and enact that. Fashion users are not simply setters and followers, but actors who use their own judgements and start from their own interests to decide how to enact fashionable rhetoric (cf. Kieser, 1997:62). Managers will not blindly copy concepts to their own situation but are capable of producing new content and associations'.

of various kinds of accounting-based management change. They also include approaches that are grounded in alternative philosophical approaches to the positivism or naïve realism of orthodox basic/technical research. The intention is to enable a more critical but practically-based analysis to be developed when considering the Portuguese case discussed below.

2.3.2.2 Organisational and behavioural issues on ABC

There is a tendency in reviews of research to make a distinction between mainstream and critical approaches to accounting, but my analysis here would suggest that it is not always easy to make hard and fast distinctions between such approaches. There can be a critical dimension to work that focuses on such technical issues as the complexity of ABC systems, and the problems involved in data collection, the selection of activities and cost drivers, and the residual need for reciprocal cost allocations (Roberts and Silvester, 1996; Innes and Mitchell, 1998; Armstrong, 2002). Researchers who are apparently mainstream may make critical claims about the failure of ABC advocates to recognise the organisational roles that accounting can play besides helping decision-making, neglecting its motivational role (e.g. Merchant and Shields, 1993). It is not clear that such work should be denied the critical label, just because more overtly 'critical' research focuses on issues such as power, domination and ideology (Macintosh and Scapens, 1990, 1991; Armstrong, 1991; Hopper and Armstrong, 1991; Scapens and Macintosh, 1996; Tinker and Niemark, 1987; Macintosh, 1990).

Taking all this work together, instead of labelling it as 'different', one may suggest that it contributes in different ways to an ongoing critical discourse around ABC. More specifically, all this work contributes to making a case that, in the implementation of

accounting-led change, technical innovation is only ever a necessary condition, not a sufficient one for effective change.

Along these lines, Atkinson (1987) had already pointed out that cost allocation decisions are affected by political, behavioural and organisational factors in addition to economic ones. More recent investigations into the factors affecting the successful implementation of ABC have increasingly indicated the significance of organisational and behavioural issues[15].

For instance, Shields and Young (1989) have argued that the key precondition for success is a change in corporate philosophy from *managing by the numbers* to *managing by commitment to continuous improvement*. Their 'Seven Cs Model' breaks this down into seven key factors (all beginning with 'C'), including Corporate culture, a Champion in top management, Commitment, Controls, Compensation and Continuous education. Brewer (1998) has suggested an eighth 'C': national culture[16].

But this is not the only such recipe-based approach to factor in organisational issues. Indeed the importance of this type of analysis is implicitly underlined by the fact that Kaplan himself has engaged in it, combining with his Harvard colleague Argyris, to consider possible reasons for employer resistance to ABC (Argyris and Kaplan, 1994). Drawing on Argyris' earlier work (1985, 1990), this paper argues that barriers to change

[15] Such studies include Shields and Young, 1989; Innes and Mitchell, 1990a; Bhimani and Pigott, 1992; Cobb *et al*, 1993; Argyris and Kaplan, 1994; Anderson, 1995a; Shields, 1995; Player and Keys, 1995 a-c; Roberts and Silvester, 1996; Shields and McEwen, 1996; Malmi, 1997; Krumwiede, 1998a. Further detail of the factors for a 'successful' ABC implementation is given in Appendix I. Although not central to the discussion here, the material is presented there on the ground that it is important background information to the case study analysis proposed here.

[16] Brewer therefore moves beyond an inherent US-centrism in much 'recipe for success' research. He argues that in this way, besides 'tailoring ABC implementation approaches to cultural contexts, change management programmes can be sensitized to cultural issues, thereby improving the 'fit' between people and the principles of ABC' (p. 257).

arise 'from the defensive routines that participants trigger to protect themselves from experiencing embarrassment and threat from new ideas' (Argyris and Kaplan, 1994:83). They then suggest that three phased organisationally-sensitive steps to implementation may reduce resistance to change. First, managers should be informed of the internal consistency and external validity of ABC through seminars and publications. Second, they should ensure that influential individuals become sponsors and champions of ABC. Finally, they should align the incentives that will result from internal commitment to the new system and promoting external ways of persuading individuals to use it. [Interestingly, this recipe draws on certain 'C's: those of Communication, Championing and Compensation.]

There is a range of studies that are similar in approach. Anderson (1995a) and Krumwiede (1998a) draw on an information technology implementation approach developed by Cooper and Zmud (1990), which involves a questionnaire survey, in this case circulated to key accounting department personnel. The Anderson (1995a) survey, which studied the ABC implementation process at General Motors, concluded that key success factors differed and varied in importance at different stages of implementation. The Krumwiede (1998a) analysis divided the factors affecting the success or failure of implementation into two sets – contextual and organisational. Contextual factors he defined as those related to the user, organisation, technology, task and environment. Organisational factors were those related to the human relations and interactions involved. His findings also support the view that the impact varies depending on the particular stage of implementation.

Other studies offer further suggestions for key significant factors, depending on the organisational context, economic climate, etc. Shields (1995) concludes that the main factors affecting success or failure are top management support accompanied by a fair amount of pressure, linkage to competitive strategies and other major initiatives, linkage to performance and compensation, an intensive programme of education and training, non-accounting ownership, and adequate resources for the process of designing and implementing ABC. Staubus (1990) suggests that there is a problem of 'emotional costs' which include the costs of trying to overcome resistance to change. But the net impression is of a research paradigm simply committed to accumulating more factors (cf. Lammert and Ehrsam, 1987; Campi, 1992; Shields and McEwen, 1996; Campbell *et al.*, 1997). By implication, if implementation attempt 'A' fails, either factor 'X' must have been omitted, or not considered at the right moment, or not in the right combination with factors 'Y' and 'Z'. This is a game full of endless possibilities, but one where it is not clear that there is ever a definitive conclusion. In addition, given the survey approach, there are, as Krumweide (1998a) points out, certain limitations imposed by the lack of contextual information and opportunity for interview-style questioning. There is also the danger of selective perception given that so many respondents have been controllers and accounting managers (Krumwiede, 1998a).

Malmi's observation seems apposite, namely that too often: 'factor models fail to address both the competing and complementing ways of obtaining information and controlling activities in organizations, and the existence of many stakeholders in the ABC implementation process' (Malmi, 1997:460). It is to deal with that kind of problem that case studies offer particular opportunities. Because they are able, if appropriately constructed, to deal with the questions of motivation, of interpersonal or departmental

conflict, and to investigate reasons for resistance or acceptance, they can go beyond an approach that looks for 'factors' to generate a more nuanced and arguably realistic kind of understanding. Here human interactions may be seen less as a response to 'factors' acting as stimuli, and instead the outcome of actions, plans, motivations and decisions which may range from being highly conscious to unconscious, in a context where individuals and groups may actively compete and conspire for dominance or advantage. Such case studies can be one way of answering the call for a better understanding of the rationales of accounting change set out in the programmatic 1980 article in *Accounting, Organizations and Society* (Burchell *et al.*, 1980), which is often seen as the launch-pad for the critical accounting paradigm (cf. Hopwood, 1978, 1987).

In this kind of approach, it follows, as Hopwood (1984:185) alerts us, that 'the consequences of accounting do not necessarily have a close and automatic relationship with the aims in the name of which it is introduced'. Such an approach is particularly appropriate in the ABC context, where such strong claims have been made for its technical superiority. An immediate consideration, for a study taking a more critically aware approach, is how far the supposedly technical change has more structural implications, e.g. on the disposition of organisational power. In one early study on these lines Bhimani and Pigott (1992) concluded that, following the implementation of an ABC system, the accounting function was perceived as having a much more visible and active role in ongoing day-to-day management, with consequential effects on the perceived authority and power of line managers.

This kind of case study approach does not only shift the focus of analysis, but also alters the very vocabulary used in the course of analysis, e.g. from factors and causes to motives

and reasons. But it also shifts the frame of analysis from an implicit top-management perspective, where success and failure are the key concerns, to a more global framing, where the actions of all relevant players can become objects of attention, and where analysis that is arguably more dispassionate can tolerate uncovering various levels and kinds of explanation. This kind of work therefore bridges the final gap to which Lukka and Granlund draw attention – between 'basic' and 'critical' research.

2.3.3 'Critical' research: paradigm or frame of mind?

One way of seeing critical research is as an activist approach concerned with the promotion of social change. It may also be more widely characterised as an approach that draws on one or more 'critical' philosophical or sociological traditions of thought. But it may also be more widely characterised as an approach that draws on some kind of philosophical or sociological tradition that by its approach to defining and contextualising problems sees technical change as located within wider dynamics. Such work may or may not be committed directly to social or organisational change, but its theoretical grounding means that it will, given the influence of philosophy, social theory, sociology, political economy or organisation theory, recognise the need to address critically the complex social and organisational ramifications that accounting systems may have (Lukka and Granlund, 2002).

There have arguably two main strands or streams of critical work in the accounting literature over the past two decades. One draws more directly from a Germanic Enlightenment philosophical tradition going back to Hegel and Kant, and including work in the Marxist and Critical Theory traditions, the latter leading down, via the Frankfurt School, to the work of Habermas (see for instance Laughlin, 1987, 1988). Such work can,

within this tradition, occupy very disparate theoretical positions, for instance the Marxist work of Tinker and his various co-writers can be differentiated from the work of (David) Cooper, Hopper, and the more Habermas-inspired work of Broadbent and Laughlin. But in all this work critical theory can, as Laughlin puts it, be seen as being used as

> 'a vehicle through which understanding about reality can be achieved and transformation of concrete institutions occur ... It is the view that the present is not satisfactory, that reality could be better than it is, and that ... critical theory can create this improvement which marks out this thinking as essentially critical'(Laughlin, 1987:482).

A rather different strand of work has developed out of the Enlightenment tradition, via a more French-inspired take on reason and modernity, particularly drawing on the work of Foucault (e.g. Hoskin and Macve, 1986, 1988, 2000; Loft, 1986, 1988; Miller and O'Leary, 1987, 1993). This kind of work cannot be totally divorced from the German approach, not least because both approaches draw on the same Enlightenment tradition, and on the older 'logocentric' tradition of reason that leads back to Plato and Aristotle. Further, some of those who work from the Marxist and Critical Theory traditions, e.g. Cooper or Macintosh, have also worked within this French one. Nevertheless there are some important differences, which have often been identified as having a greater direct concern with issues of power and knowledge and their interrelations, and with a commitment to locating particular power-knowledge relations in their historical context (cf. Stewart, 1992 for a review of Foucault's influence on accounting history).

In reviewing the French-inspired work in accounting, an impression should not be given that this is exclusively Foucauldian. Critical accounting research has also been considerably influenced by, for instance, Bourdieu (e.g. Lee, 1995; Williams and Rodgers, 1995; Lukka and Kasanen, 1996) and Latour (e.g. Preston *et al.*, 1992; Robson, 1992; Chua, 1995; Mouritsen, 1999; Briers and Chua, 2001). From Bourdieu, researchers

have picked up on the importance of the role of powerful 'knowledge agents' in the modern world and the way in which such agents capture 'cultural capital', and been able to reflect on how managers and accountants succeed in playing this kind of game. Drawing on Latour, researchers have focussed on how accountants and managers constitute networks of knowledge experts, and how as actors in such networks they can negotiate and increase accounting's social and organisational power[17].

At the same time, the most utilised theorist is clearly Foucault, perhaps because his focus on power-knowledge interrelations focuses on what he calls micro-technologies that combine forms of surveillance with what he calls (1977: 177) 'normalising judgement'. Accounting, both in its financial and management forms, fits very well as a technology that combines these procedures, and thereby enables certain forms of value and valuing to be widely disseminated.

Much Foucault-derived work focuses on how surveillance and (management) judgement produces a kind of 'panoptic' control across the workplace. In a typical overview, Williams (1998:56) claims that Foucault's focus on the relationship between power and knowledge can be used to characterise accounting/management relations in the following terms. Management Accounting Systems 'can be regarded as a set of discursive practices and the manager can be seen in these terms as a docile and obedient automaton who controls subordinates according to the rules, and is himself controlled in the same way to produce financial returns'.

[17] Bourdieu himself drew attention (e.g. 1988) to how scientific fields are often dominated by an élite that controls the production and publication of research findings, thus becoming 'filters of information' (Lukka and Kasanen, 1996). Latour (1987) has analysed social processes of science construction through networks. One spin-off from his work is actor network theory which is concerned with the processes by which scientific disputes become closed, ideas accepted, tools and methods adopted: the 'translation' process.

Such a characterisation draws on a widespread reading of Foucault's *Discipline and Punish* (1977), which is a book largely devoted to a consideration of how the modern prison, like other institutions such as factories and schools, 'disciplines' and 'reforms' individuals and populations. But it is also possible to go beyond this kind of characterisation, and to develop a Foucault-based approach that does not see power as a top-down exercise on 'docile bodies' and which also does not necessarily assume that 'discourse' is so closely identified with 'practices'.

This kind of approach, as in the work of Hoskin and Macve, starts from a rather different reading of Foucault, which draws particularly on the central part of the section on Discipline in *Discipline and Punish*, 'The Means of Correct Training' (1977: 170ff). Here Foucault, in elaborating his analysis of how hierarchical surveillance and normalising judgement are combined in the modern world, focuses on the role of such micro-practices as writing and examining, even arguing (1977: 185) that 'the superimposition of the power relations and the knowledge relations assumes in the examination all its visible brilliance'. His analysis then observes that these examining practices not only produce the 'docile bodies' of the disciplined modern population, but also produce the expertise of the 'human sciences', and the experts who generate the new kind of 'disciplinary' knowledge that such sciences represent.

Hoskin and Macve have on that basis argued (e.g. 1986; 1988; 1994) that management is a distinctively powerful form of human science, in which accounting is a particularly significant 'disciplinary' technology, in a double sense. For while accounting does contribute to disciplining workforces, e.g. through standard costing systems (cf. Miller

---

Latour himself has now distanced himself from ANT, but it has proved useful in understanding the interactions of large business entities, through its focus on how the actions of actors (e.g. cosmopolitan and

and O'Leary, 1987), it also flourishes precisely because it is such a powerful expert knowledge.

In this reading of Foucault, therefore, the power exercised by accounting is not a simple top-down power, it is also bottom-up, as managers and workers pursue 'success' as individuals by introjecting accounting-set targets. Far from simply being forced to act by a repressive negative power, they embody a productive or positive mode of power, as they actively aspire to succeed within the new kind of systems that 'manage by the numbers'. Also, MAS is not simply a 'discursive practice', as Williams (1998) would have it. Instead the categories of 'discourse' and 'practice' need to be distinguished (cf. Hoskin, 1994). Accounting systems operate via a set of interlinked *practices*, which Hoskin and Macve identify as the practices of writing, examining and numerical grading. Once systems deploying such practices are in place, whether one is looking at an older MAS or a newer ABC system, there are *discursive effects.*

Here Foucault's concept of 'discourse' can be drawn upon (Hoskin, 1994), a concept which argues that discourse refers to the range of things that in a given era and context get said (and do not get said). What is then interesting is how and how far, with a change such as ABC, what gets said (and written) changes to a new range of things. In such a conceptualisation, the concern is largely with how a change at the level of practices may engender a change at the level of discourse, something that could perhaps be read off from the Bhimani and Pigott (1992) study mentioned above. Such a change process, once underway, may of course also operate in the other direction. Again referring to the literature reviewed above, one may see, as the ABC model is rolled out in academic

---

local) are tied together in intersecting, interorganisational networks (Briers and Chua, 2001).

journals, a change at the level of the discourse of 'basic' research taking place. This shifts the range of what is said in consultancy discourse, and proves a key means through which the ABC practice developed in the research world can be disseminated and put into practice in particular companies and sectors, and refined in that process.

One kind of outcome, as Hopper (1994:498) points out, is that the context of new initiatives becomes more visible. As he sees it:

> '[t]he major contribution of the Foucauldians is to show how transformations in cost accounting, including ABC, are related to broader socio-political debates and the history of ideas and modes of social governance'.

Another is to give a more informed basis for understanding why certain implementation approaches succeed and others do not. In this regard, Foucault-inspired work can have a practical impact as well as providing a critical-theoretical understanding. But perhaps the most important outcome, in this context, is to provide a specific theoretically informed basis for understanding how and why accounting can be so powerful in the modern managerial world.

In this respect, the argument made in Ezzamel *et al.* (1990) is of particular significance for a study focussed on ABC, even though strictly speaking that paper is a critique of *Relevance Lost*, and therefore, as has been noted, not of ABC as such. The argument developed from Hoskin and Macve's Foucault-influenced history of management's genesis is that management accounting never had a relevance to lose, at least not of the kind that Johnson and Kaplan propose. Their book argues an economic-rational case for management's invention, i.e. it appeared when the complexity of business activity reached a point where it was economically preferable to internalise transaction costs instead of maintaining market relations (Johnson and Kaplan, 1987, Ch. 1).

But as Ezzamel *et al.* (1990) point out (cf. Hoskin and Macve, 1988), the historical record shows that this is not what happened. Such complexity had already occurred in Britain in the First Industrial Revolution, but no modern management systems were developed. Further, the people involved in developing the first management systems in the US, at the Springfield Armory and on two of the US railroads (cf. Chandler, 1977), were not businessmen at all but graduates of the US Military Academy at West Point. What these men brought to bear was not economic rationalism, but high-level knowledge expertise in the engineering and science disciplines, plus experience of a highly disciplinary system of 'human coordination' introduced at West Point in 1817 by a new Superintendent, Thayer. What they contributed to business practice was the practices of writing, examining and grading, and a commitment to disciplinary expertise to improve internal coordination. The first management accounting systems designed to track costs and human performance were developed in these sites, via the application of the practices of writing, examining and grading to older forms of stewardship accounting.

This, they argue, is the genesis of managing by the numbers, and the continuing commitment of businesses to forms of MAS shows the continuing relevance of management as 'disciplinary system' that disciplines workforces via the expert sub-disciplines that make up management today. What one observes therefore in the development of techniques like ABC, which do engage in a new and effective way with the overhead problem, is an intensification of this disciplinary regime, both in the sense of generating more efficiency and effectiveness across activities, and in the sense of implanting the knowledge discipline of accounting more centrally at the heart of business. It is hoped that this study may, among other things, contribute to deepening this kind of

understanding of how business operates, and thereby prove to have a practical as well as theoretical benefit.

Johnson and Kaplan's (1987) work has clearly been highly influential. It has become a launch-pad for a wide range of reflections on the history and current status of management accounting (e.g. Hopper *et al.*, 1987; Ezzamel *et al.*, 1990; Hopper and Armstrong, 1991; Lowry, 1993; Hopper, 1994; Vollmers, 1995). In many of these ABC is perceived as one of the instruments used to support the prevailing *status quo* in society (cf. Hopper, 1994; Hopper and Powell, 1985; Lukka and Granlund, 2002). Going further, Armstrong (1991) argues that such accounting systems are often dysfunctional for business, but are 'successful' in accruing status and power to those who run the accounting systems within a given organisation, as they are the key providers of the information through which the activities of others are monitored and controlled.

In sum, Lukka and Granlund (2000:180) conclude that critical research typically combines some form of conceptual analysis with a literature or archival-based study, and that its main objective 'is to increase the reader's awareness of the suppressing influence of accounting (and managerial) technology'. That is certainly the case for much of the literature just reviewed whether it draws upon the German or French traditions. The effect of such research on the practical operations of business is therefore very limited, or at best indirect as (or if) a critical understanding of accounting becomes more widespread.

At the same time, there is work that draws from both traditions that is closer to the 'real world' of business, e.g. through the undertaking of empirical studies of what goes on at

various levels in organisations, up to and including top management[18]. The recent work of Ezzamel and Willmott (e.g. Ezzamel et al., 2001a; 2001b) for instance traces how top financial management is enacted, and sheds new light on how finance directors act and see the world. The work of Broadbent and Laughlin (e.g. Broadbent and Laughlin, 1998; 1999) draws on a Habermasian perspective to diagnose the roles of accounting in promoting and maintaining the 'New Public Management'. Finally the Foucault-based approach developed by Hoskin and Macve also offers a basis for undertaking empirically-based but critically aware research, as for instance in the work of Lim (2000) into the ways in which accounting practices shape strategic discourse, even though management may not be aware of how this occurs.

It is hoped that this study, informed by a critical awareness of the positive power of accounting, can also trace some of the ways in which accounting practices have such significant organisational effects, and on that basis possibly identify and propose practical ways for improving implementation. However, there is one more set of research studies for review before that possibility can be more fully evaluated: those studies which have already undertaken empirical study into the implementation of ABC in the sector I intend to study, financial services.

[18] Broadbent (2002:443) provides a review of the state of critical accounting in England, recognising that critical accounting 'is not separate from accounting practice in general. Instead, it is simply a means of reflecting or interacting with accounting information in order to challenge the understandings that are conventionally generated'.

2.4 Activity accounting in the financial services sector

The financial services sector is one that has developed dramatically on a global level over the past two decades. There has been a concentration towards fewer and larger entities both at a global level, with the growth of global capital and money markets, and in many countries at a national level as well. Here the US has been a conspicuous mover of change, with the final revoking in the 1980s of 1930s laws, passed after the 1929 Wall Street Crash, setting regional limits to banking conglomerates.

One major outcome in the process of concentration, which has been largely prosecuted through merger and acquisition activity, has been an intensified focus on revenue generation alongside cost and manpower control in banks of all sizes. There has been a search for more effective organisational forms to deliver these two objectives. Mabberley (1997:2) has summarised the situation as follows:

> '[m]arkets are becoming increasingly competitive as institutions fight for profitable business and technology and deregulation allows other organizations to enter the markets. The constraints on profits and the need to find new ways to improve performance and compete successfully in the highly competitive financial services industry creates a need for the ability to review existing performance in relation to the external environment and identify ways to improve revenues or refocus costs to ensure greater profitability in both the short and longer term'.

Banking is arguably a sector where approaches like ABC, with its focus on making overhead costs visible, were always likely to be seen as attractive. The classic or traditional bank structure has depended on a separation between front office and back office staff, which has meant that the activity of the latter in particular has been difficult to allocate to specific products or services. Further, the traditional branch structure, where

the local manager has been responsible for the local set of front and back office staff and has been the key point of contact for local customers, has reinforced the overhead problem, and the consequent difficulty in capturing the costs of products and customers. Hence the traditional cost management approach, found in many different countries, of concentrating on the total cost/revenue ratio as the best index of bank 'efficiency'.

This context has led Sephton and Ward (1990:29) to observe that the situation of financial institutions is very like that of manufacturing industry, with both showing the characteristics that should make adoption of ABC attractive, namely:

- 'highly competitive market;
- diversity of products, processes and customers;
- significant overhead costs not easily assigned to individual products;
- demands on overhead resources placed by individual products and customers not proportional to volume'.

They go on to highlight three areas where ABC can benefit financial institutions. First, it can calculate 'meaningful' product costs. Second, this can then help dramatically in analysing profitability and understanding cost behaviour as part of the strategic management project. Third, it becomes possible to develop more effective budgeting, forecasting and performance measurement systems in traditional 'overhead' departments. Since, as they argue, financial institutions' services do not have cost information requirements for external financial reporting or stock valuation, the major purposes for ABC introduction will be decision-making and cost control.

The potential for ABC to effect major beneficial change has therefore been seen as extremely promising. Mabberley (1992: 4) gives a classic statement of the benefits to the management system, once:

> '[m]anagers are concentrating their attention on the costs that they can manage and beginning to link the cost/benefit analysis to the value chain. Thus, they are focusing on those activities that add value and, hence, differentiate their products and services or delivery capability from that offered by the competition in a way that maximises the return to the organisation as a whole'.

This localised benefit ends up producing a global win for the organisation as a whole, as the ABC system

> 'leads to a better understanding of cost/resource management, emphasising the lag between spending and consumption by analysing the factors that cause the initial expenditure and monitoring the consumption of resources and capacity utilisation. It does not *control* the business, but simply provides information that influences the decision makers in the management process by providing indicators that demonstrate the cost utilisation within the organisation' (Mabberly, 1992:16).

In such ways, the basic and consultancy discourses came, in the early 1990s, to exercise a considerable fascination for the banking sector, both within the US and internationally. One does not have to buy into everything said in such discourses: for instance one can see, for those operating from the more critical perspectives just reviewed, that the claim that the accounting system 'does not *control* the business' might be questionable at least. The issue of just what effects ABC might have is, they might well argue, one for a more critically aware and reflective analysis, based on an appropriately intensive form of empirical study.

However what one can reasonably say, on the basis of this kind of analysis, is that there was a considerable interest in the possibility of ABC adoption in the financial sector, and there were clear and pressing reasons why this should have been so. Survey-based research may leave unclear precisely what motives banks had where they decided to implement an ABC approach, but they can show us that there was a high adoption rate in the financial sector during the 1990s, particularly among larger entities (e.g. Innes and

Mitchell, 1995, 2000). The reasons for such adoption may include the increasing competitiveness in the sector, or it may more simply be a result of there being a number of large organisations in the sector, all with the resources to implement substantial and costly change initiatives. Fashion and fad factors often lead to a 'follow-my-leader' adoption of new approaches, and the influence of consultants and practical 'how-to' guides in locations like the *Harvard Business Review* may have been significant too (cf. Mabberly, 1992, 1997). At the same time, it is important to recall that ABC was always going to present itself as a far superior way of managing costs and activities to traditional overhead-based MAS systems (cf. Innes and Mitchell, 1997).

There have been a number of case studies which have then gone on to investigate more closely just how successful ABC has been in practice, with a particular focus on the relations between MAS and organisational change. These have been grounded in different theoretical traditions, and this is important in evaluating their significance. At the same time, they all share in enabling us to get beyond the rhetoric of success and establish a more considered approach to evaluating just what happens with this kind of MAS-based change. This is in part because all of them contribute to countering the weaknesses of so much would-be-scientific management research, the tendency identified by Pettigrew (e.g. 1985, 1987) towards being *acontextual, ahistorical*, and *aprocessual*. All, by having a more longitudinal dimension enable the research 'to link the content, contexts, and processes of change over time to explain the differential achievement of change objectives' (Pettigrew, 1990:268).

But in addition all enable us to reflect on the extent to which MAS systems in general, as well as ABC specifically, do actually structure and control the organisation as a whole.

One implication that can be drawn from the literature on the banking sector already cited is that ABC is at least part of engineering a major restructuring. Banks that can (or believe that they can) cost products accurately can make new kinds of product-focussed strategic decisions. They can, as it is apparent the sector has, move away from a branch focus towards a more central strategic command structure, where the branch manager and his/her team can be accountable to various kinds of targets. The branch may have an overall revenue or profit target. This can be broken down into sub-targets, e.g. number of product X sold, profit on product line Y, number of key customer contacts, etc. The identification of profitable (and unprofitable) customers in terms of the activity costs different types incur can be developed. Internally, a focus on reducing time spent on certain activities and a re-engineering of worker roles, to incorporate a range of back office and front office activities, becomes feasible. No one bank may follow exactly the same pattern of activities as its close competitors. However a general restructuring across the sector, driven by what the new accounting system makes possible at the micro-level, is one kind of effect of ABC that more longitudinal, case-study research may be able to capture.

In the following section I wish to consider more closely three particular case studies, all of them undertaken in the financial services sector in Europe, in part for what they can tell us empirically, but also to note how different each of them is in its theoretical grounding. This is not necessarily a weakness. On the contrary, it shows how open good case study work is to a range of theoretical approaches. This study indeed, as will be shown in more detail in Chapter Three, draws on their theoretical insights in developing its own theoretical position. I propose to discuss these studies, by Cobb *et al.* (1995), Soin (1996) and Euske and Riccaboni (1999) in the order of their publication.

2.4.1 Mapping the 'factors of change': ABC in a UK division of a multinational bank

The study by Cobb *et al.* (1995) focussed on one U.K.-based division of a multinational bank. It is perhaps the least 'theoretical' of the three studies, in the sense that it does not explicitly adopt a theoretical framework, but simply builds on the kind of apparently atheoretical approach of much survey-based work, by working with the Innes and Mitchell factorial approach (e.g. 1990b) to change initiatives. That model had identified three kinds of factor as influencing management accounting change: *motivators* (which influence change in a general manner), *catalysts* (which trigger the change process to start), and *facilitators* (defined as the conditions that are necessary but not sufficient for change to occur). Innes and Mitchell's own conclusion was that management accounting change occurs through the interaction of these three types of variables.

The Cobb *et al.* study focused specifically at the level of the management accounting reports generated within the division, to track changes in the reports, and then to investigate via interview the perceptions that managers and accountants had as to why those changes had occurred. They then looked to relate those changes to the context and process of change. This did not lead to any great theoretical reformulation. However they did refine Innes and Mitchell's (1990b) model in certain respects, concluding that what they defined as 'environmental pressures', both external and internal, had a considerable impact on the way in which change took place in the division. As they put it:

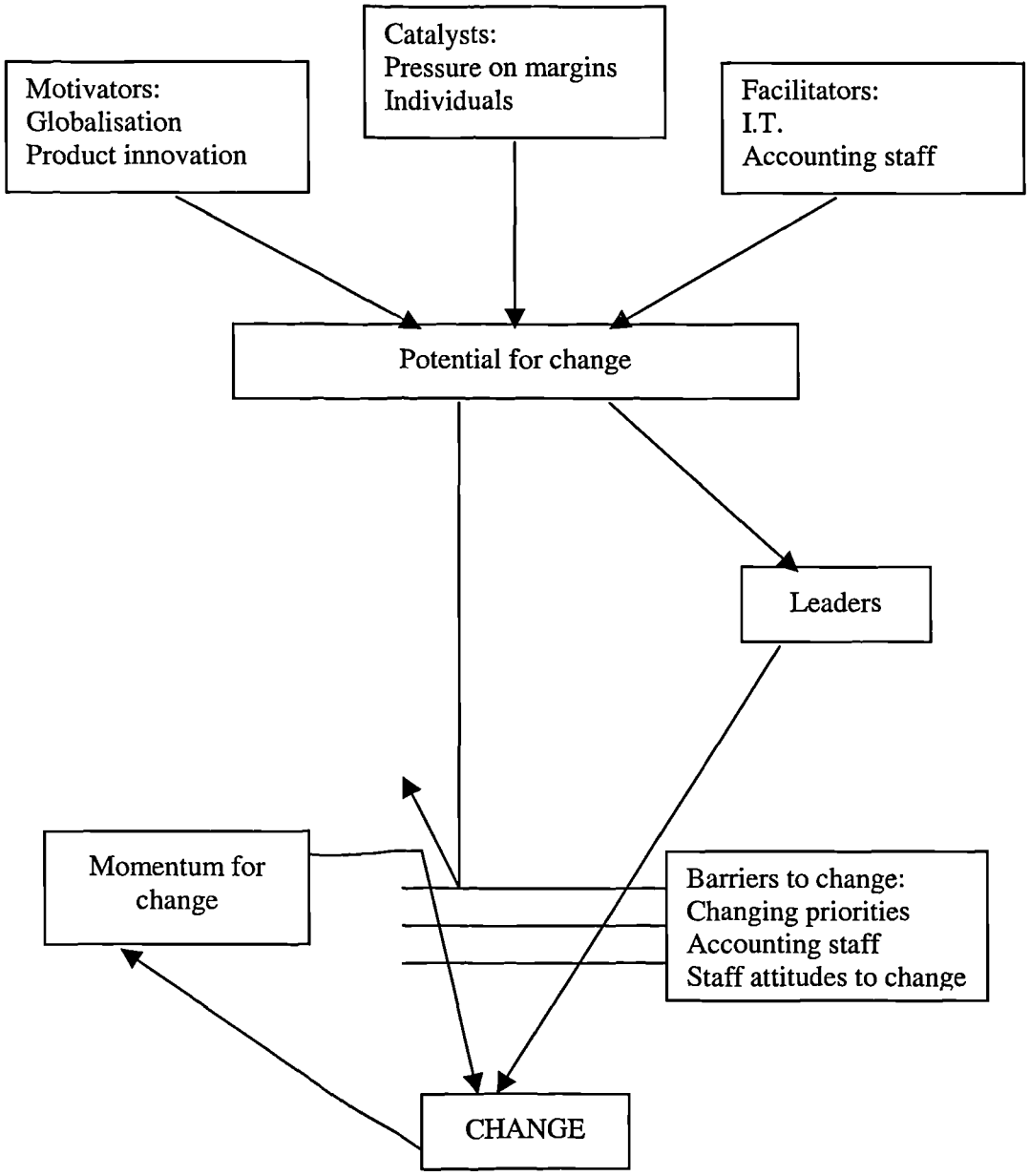
> 'In 1989 the Bank's external environment was changing in three main areas... Firstly, the globalization of the Division's markets through the use of increasingly sophisticated technology meant that products had to be delivered to a much bigger market-place against more competitors. Secondly, the advances in technology had also led to lower operating costs for competitors, increasing the pressure on the Division's margins. The third feature was the increasing pace of new product introduction, again mainly a function of the advances in technology. Thus the Division had to become more innovative to compete.

> The internal environment of the Bank was also changing. There was the pressure of financial imperatives from the Bank which, like most banks, had suffered a considerable amount of bad debts. This increased the pressure on the Division to improve results to help offset these losses. Also, in due course, initiatives by new senior managers created new information needs. To respond to these pressures the Division's management needed information about its cost structure and product profitability – information that was not then available from the MAS' (Cobb *et al.*, 1995:169).

It is perhaps not surprising that this kind of factor-based approach does not see the accounting system as particularly active as a shaper of change. Instead an expanding range of factors is seen as coming into play as the study progresses. Among other internal factors, they notice the influence of key individuals, staff attitudes to change, and the role of accounting staff turnover. They note additionally that many planned changes were either delayed or did not happen due to changes in priorities. This led Cobb *et al.* to posit further key factors which they identified as 'leaders of change', 'barriers to change', and the 'momentum of change' (see Figure 2.3). In other words, they were tracking a process in which forms of resistance were becoming increasingly visible, and where it also became apparent that the initiative was 'failing', at least in the terms of conventional consultancy discourse.

Overall then, this study is very useful at showing what a longitudinal study can uncover. However its focus on 'factors' makes it difficult for the authors to reflect in a more integrative or distanced way on what is going on as the project is rolled out. The roles of key individuals, the issue of attitudes, the phenomenon of staff turnover are not subject to the kind of more in-depth analysis that might raise issues of power and resistance. The accounting change model as developed by Cobb *et al.* remains interesting, but unable to go into such questions, perhaps because it allows analysis to remain relatively ahistorical and acontextual. This factor-based model has little space for events, motives and conflict.

Figure 2.3 – Accounting change model

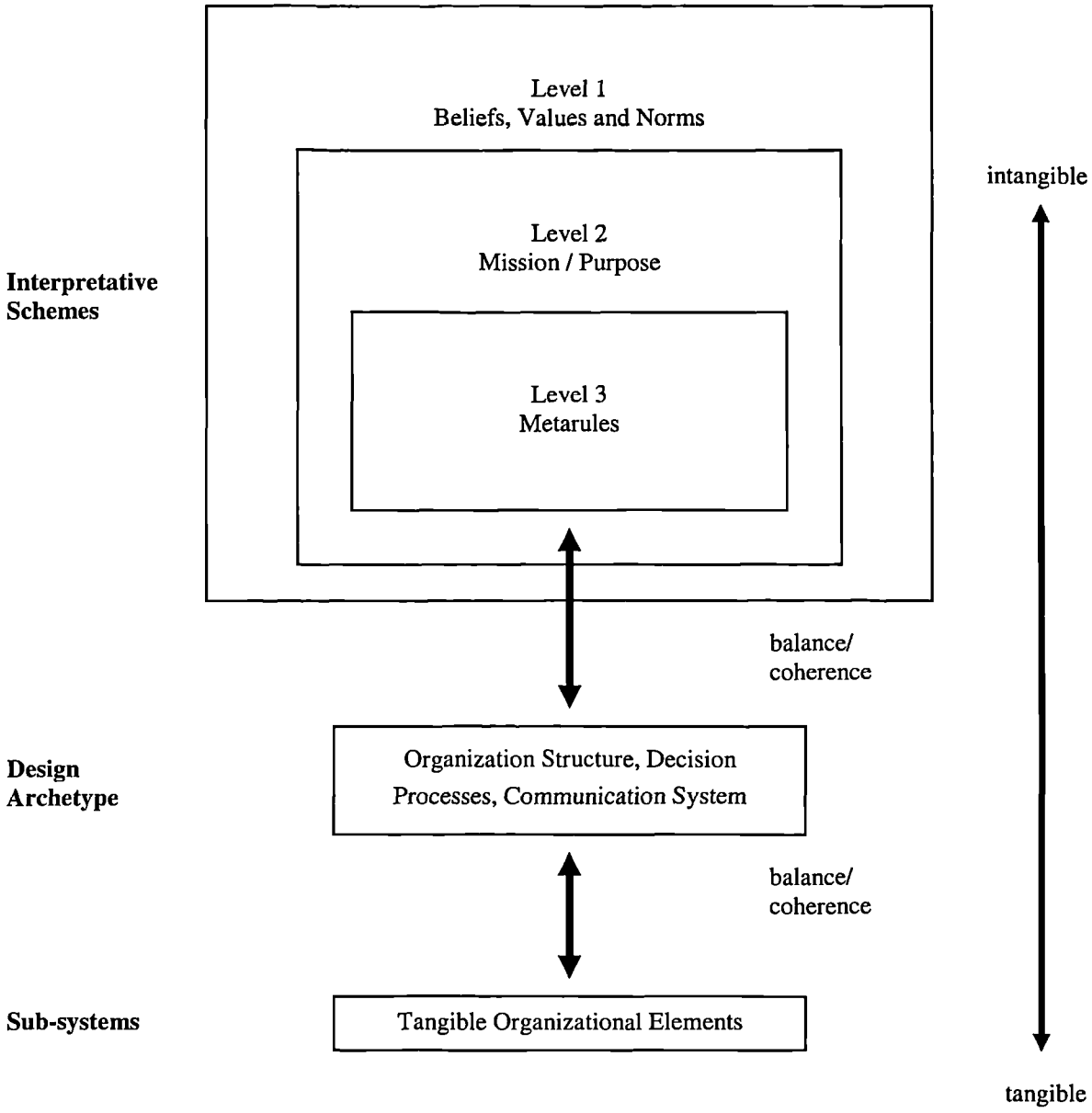


Source: Cobb *et al.* (1995:173)

2.4.2 Theorising ABC implementation: tracing the 'pathways of change':

The study by Soin is in one respect similar, since this too was investigating a change process where competitive pressures drove changes and the response was to focus on cost structures, in this instance in a U.K. clearing bank. However, Soin is able to take a more distanced and reflective view on the events that took place in her longitudinal study, through drawing on a Habermasian theoretical perspective. The particular approach she used drew on the method of 'middle range thinking' (Laughlin, 1995) and on the development of 'skeletal' theoretical models (Laughlin, 1991). Laughlin's approach here begins form Habermas's hermeneutic concern with humans as beings who interpret the world to make sense of it. It therefore conceptualises organisations as an amalgam of interpretative schemes (out of which are constructed the underlying sets of values and beliefs of individuals within the organisation) and design archetypes (which shape an organisation's structures and management systems, including its accounting systems). The interpretative schemes (see Figure 2.4) are the 'highest' level in this conceptualisation, and also the most intangible, incorporating beliefs and values, sense of purpose and the metarules behind specifically articulated rules and procedures. From these are derived the design archetypes, and then below these, at the most tangible and visible level are the organisations sub-systems, which will include such elements as buildings, people, machines, money, etc. At any given point in time, there is some kind of dynamic balance between interpretive schemes, design archetypes, and sub-systems that holds the organisation together and makes it a coherent whole.

Figure 2.4 – Accounting change model



Source: Laughlin (1991:211)

This, however, says nothing about the specific nature or robustness of the balance that obtains at a given moment. Thus an environmental disturbance may develop, and may prove sufficiently significant to generate a shift in the existing dynamic balance, to the extent that people in the organisation, however reluctantly, are forced to rebalance the previously 'inert' characteristics of organisational life (Soin, 1995).

Laughlin (1991) develops four 'pathways' that characterise the way that organisational change may occur within this model: rebuttal, reorientation, colonisation and evolution. The first two, for him, constitute forms of first-order change, the second forms of second-order change. First-order change is here defined as less significant and transformative. It may involve shifts in managerial arrangements but does not affect the interpretive schemes (Laughlin *et al.*, 1994). However second-order change is more fundamental, affecting the interpretative schemes and thus penetrating deeply into the 'genetic code' of an organisation, with lasting effects on its future nature and functioning.

Within this overall schema, the two models of first-order change are rebuttal (where disturbance is deflected) and reorientation (where disturbance cannot be rebutted, has to be accepted and internalised, but in such a way that does not affect the real 'heart' of the organisation). The models of second-order change are colonisation (where change is not chosen but forced on the organisation) and evolution (where change is deliberately chosen and accepted freely by all organisation participants)[19].

Soin uses this model to trace how the effects of ABC are in some respects fundamentally transformative, in a way that Cobb *et al.* (1995) could not. Her approach enables her to

[19] Broadbent (1992) asserts that these are simply heuristic devices to provide a framework of possibilities. Actually they may be oscillations on a pathway, or different parts of the organisation may progress at different paces, on different pathways, or in contradictory ways (cf. Laughlin *et al.*, 1994).

analyse how ABC is initially promoted as a major solution to long-standing banking problems, and how its implementation is then resisted in ways that largely subvert that initial view, But in addition along the way she is able to trace how the new kind of accounting does have discursive effects on what gets said, as well as practical ones in terms of organising the sub-systems and re-shaping things at the design archetype level. On this basis, she concludes (1996:291-292) that ABC 'is more than a technical phenomenon: it has social and behavioural implications and was intimately involved in the creation of meanings: meaning relating to the notion of costs, efficiency and rationalisation'.

Soin's approach begins to show how accounting can play powerful roles in the process of organisational change. In this case, ABC is both a response to and a facilitator of organisational change, helping to shift perceptions and understandings of the notion of cost. It creates a new discourse and gives visibility, particularly in the bank's clearing department, to things not previously visible that have now become available for calculative practice and economic-decision making (cf. Hopwood, 1990). The study is able to identify resistance, but the approach is able, through its more distanced and theoretically grounded approach, to go beyond a view that would treat it as irrational resistance. Instead, ABC 'can be construed as a device through which the powerful were observing the less powerful, and in that context, one can understand the resistance to it, particularly from the middle management' (Soin, 1998:17).

Soin's study therefore shows the value of a theoretically informed case study. The empirical work gives a deeper and more nuanced set of insights into the implementation process. At the same time, it contributes to the deepening of the theoretical model, e.g.

through highlighting the issue of cultural fragmentation as it turns out that organisational members do not necessarily hold identical sets of interpretative schemes (cf. Broadbent, 1992). The issue of power is also thrown into relief (cf. Richardson *et al.*, 1996), as the empirical research shows how those with the authority to force acceptance of the design archetype and the required cultural change use their power position to force change.

2.4.3 Using 'institutional theory' in an ABC study: managing interdependencies to meet a new environment

The study by Euske and Riccaboni (1999) differs in its cultural and geographical location, being a longitudinal study of an Italian bank, specifically one of the first large state-owned banks to be privatised in Italy. Once again, one can note the presence of environmental disturbance from financial markets – market globalisation, deregulation by the Bank of Italy, and a new law giving all the banks the authority to operate in any financial sector. Finally, the study also adds to the theoretical richness of the work in this area, through using institutional theory. To this end, the authors draw on the work of Fligstein (1991) to explain the process of change and also to understand the roles of management control systems in managing internal and external interdependencies. Fligstein's approach has argued that the manager of an organisation has to be concerned with three domains in which (1991: 312): 'rules are created, meaningful actions occur, power relations are formed, and concrete forms of social organizations are set in place'. The three domains are 'the existing strategy and structure of the organization, the set of organizations comprising the organizational field, and the state'.

This kind of study arguably contributes at the other end of the spectrum to the Habermasian approach developed by Soin. In her analysis, with its stress on the world as

a place of interpretation, it was possible to get down close to the meanings that people were making of the change process and to trace forms of resistance and the reasons for them. Under the Fligstein approach, the role of wider social and economic domains in shaping change and its potential success is thrown into sharper relief. Such an approach can bring out a valuable and important complementary set of insights as we seek to understand the change process.

Euske and Riccaboni's study concludes that a key element in the evolution of the management control system and in the management of the interdependencies between different groups is the role of the top manager (cf. Fligstein, 1990). At one level this is a fairly traditional management-focussed conclusion. However, it is a traditional conclusion which recognises that there is more to the success (or otherwise) of top management than mere force of character or 'leadership'. Instead 'the context, history, and personalities seem to provide the data to explain much of the behavior of the use and evolution of the management control system' (Euske and Riccaboni, 1999:479).

2.4.4 Accounting and organisational change

Hopwood (1983:302-303) long ago argued that 'there is a very real need for theoretically informed studies of both the use and design of accounting systems' and that 'studies of accounting change also could do much to illustrate the nature of the diverse forces, both internal and external to the organization, that are operating on the accounting craft'. Those needs remain, particularly in an emerging field such as this, where the intention is to study the implementation of fairly new MAS in the financial services sector. Hopefully, this thesis will help to move us further away from the situation described by

Spicer (1992:4), where 'only a few studies have looked in detail at changes in internal accounting systems in response to major realignments of the competitive environment'.

If there is one final reflection to be made before closing this chapter, it might be helpful to recall Hopwood's (1990) observation concerning the three major organisational roles that accounting can have.

As Hopwood puts it, accounting first creates a certain kind of 'visibility' in the organisation. It 'can influence perceptions, change language and infuse dialogue, thereby permeating the ways in which priorities, concerns and worries, and new possibilities for action are expressed' (p.9). Second, accounting functions as a calculative practice. It 'is implicated in the objectification of phenomena, of making appear real and seemingly precise those things that would otherwise reside in the realm of the abstract' (p.9). Third, accounting plays an active part in creating the world as a domain of economic action. Here accounting practice engenders a discursive shift, where new things get written, said and thought (Hopwood, 1990:11). So accounting

> 'can play a role in strategically changing managerial awareness away from the problems of just internal interdependencies towards a view of the external positioning of the organisation or a particular segment of organisation. The language, pressures and requirements of the marketplace can be infused into the organisation as a result of a strategic realignment of organisational structures, internal patterns of organisational segmentation and flows of information, including accounting information'.

Such changes do not then remain trapped at the level of the organisation. Accounting, through promoting this kind of economic discourse as being valuable, can even play a major role in making the world 'more economic':

> 'The language of efficiency, value for money, cost effectiveness and the market has entered into political debate. Organisations are being changed in the name of such an economic

vocabulary and, as this happens, new calls are being made for the extension of modes of economic calculation to objectify and operationalise the abstract concepts in the name of which change is occurring (Hopwood, 1990:15)'.

The case study that is undertaken here attempts to bear this kind of observation in mind, at the same time that it is concerned to reflect accurately what goes on at the micro-level in the particular organisation studied.

2.5 Conclusion

This literature review has attempted to review the main areas of research in the ABC area, and to summarise in a balanced way the main parameters of the debates that have developed on and around ABC and its implementation. It has also attempted to reflect on the research approaches used to date in a way that is fair and which at the same time will enable this study to draw on the various strengths of the different approaches summarised. I would add a brief final summary as follows.

Relevance Lost (Johnson and Kaplan, 1987) has attracted much attention in part because it was identifying a real problem or crisis in management accounting, and in part because of its controversial features. Their description of the historical development of management accounting, their assumption to justify its loss of relevance and their recommendations for improving current practices have, as we have seen, been criticised by academics on a range of grounds (e.g. Hopper *et al.*, 1987; Ezzamel *et al.*, 1990; Hopper and Armstrong, 1991). At the same time, they have described a major change process with real effects for accounting, as they have discussed the new manufacturing environment and the inadequacies of traditional MAS and set out prescriptions for the future. It is apparent that over the past decade activity-based accounting concepts have

spread rapidly, especially via management consultants and practitioner publications. There has been a widespread consensus that ABC is superior to conventional cost systems (e.g. Ostrenga, 1990; Brimson, 1991; Brinker, 1991, 1993, 1994) in the way that it provides more numerous and appropriate bases for measuring the costs of activities in order to provide more accurate product costs. But that consensus has had to be qualified. 'It is not however, a panacea which will solve all of management's cost information needs *per se*' (Innes and Mitchell, 1998:34).

The literature indicates that at a practical level, various kinds of problem have arisen when organisations have attempted to implement ABC systems (e.g. Innes and Mitchell, 1995; Shields, 1995; Malmi, 1997; Friedman and Lyne, 1999). One strand of research has addressed this inconsistency between theory and practice by shifting the focus from technical issues to the effect that behaviour issues have on ABC implementation (e.g. Shields and Young, 1989; Anderson, 1995a; Shields, 1995; Gosselin, 1997; Krumwiede, 1998a).

A range of second-generation technical approaches is arguably now being disseminated. Ferrara argued over a decade ago that: 'Much research remains to be done concerning how a firm should integrate corporate strategy, cost driver analysis, and life cycle costing into its cost/management accounting system' (Ferrara, 1990:52). Arguably, it is the crystallisation of earlier one-off technical innovations, focusing on the term 'activity', which is now presented as an integrated solution to large-scale management problems. It is not clear as yet, however, that the whole is greater than the sum of its parts.

There remain concerns about ABC implementation, e.g. over the cost/benefit ratio of ABC/ABM systems, since they are expensive to design, install and maintain. There are

not simply initial consultancy and design costs, but ongoing costs of maintenance and improving the system. Furthermore, as with most major investments made to engineer significant organisational change of a kind that is likely to arouse fear of redundancy and resistance, the level of resources required is not easy to cost with any confidence. There are too many interactions between technical accounting and organisational factors. What one may say given the existing body of knowledge concerning the theoretical and practical problems associated with implementing an ABM system is that management accountants should be participating in these discussions. As McNair *et al.* (1990:36) put it,

> '[i]nterpreting the financial and nonfinancial signals of the business and responding to them, even when they disagree, is a management issue, not an accounting issue. As part of the management team, management accountants can be an invaluable source of information. They can help operating managers focus on the right activities for continuous improvement and provide feedback on how those activities were managed'.

At the same time, we can see, from the more critical literature (and from the comments of Hopwood just referred to) that it is often not that easy to differentiate 'management' from 'accounting' issues in this kind of way. For accounting systems will be embedded within, and may be actively shaping, the practice and discourse of management. This study therefore hopes to draw on the range of approaches reviewed here, whether they emanate from the technical basic field, the consultancy field, or the critical field, as is appropriate to the prosecution of this case study. Clearly there is a rich body of work, across these fields, on which this study is able to draw as it moves forward, as its next step, into the methodology chapter.

3 Research Methodology

3.1 Introduction

This chapter outlines the methodology adopted in this research to understand the nature and management of management accounting change in the Portuguese financial services. Methodology refers not only to the processes used to carry out the research, but also how the dialogue between theory and practice is constructed. A research methodology is a strategy of inquiry that moves from underlying philosophical assumptions to research design and data collection. One should consider one's own values and beliefs about the nature of society and the social sciences, as research approaches and the understandings of social phenomena differ according to one's assumptions about those phenomena (Burrell and Morgan, 1979; Hopper and Powell, 1985).

Epistemologically, the research is broadly interpretive and critical in its assumptions that practices, and in particular in this context management accounting practices, are not natural phenomena but socially and historically constructed by groups and individuals operating as social actors. The interplay between social and individual levels of action is therefore of key interest, as is the way in which meaning is constructed intersubjectively in the organisational context under study. In addition, as an interpretive yet historically aware study of managerial innovation, it hopes to contribute to the generation of a new kind of empirical understanding of how accounting change works in practice in different cultures, and in that way to help deepen our theoretical understanding of accounting's role in modern management.

The research can be classified as a longitudinal in-depth study of organisational change in a single organisational context. Case studies can be seen as contributing to our understanding of the differences and similarities between organisations and cultures, rather than to a monolithic and scientific 'body of management knowledge'. On that basis, the aim here is not to contribute to a supposedly scientific establishment of ahistorical and acontextual 'factors' in 'successful management'. Instead this is more of an exploratory case, extending a critical and interpretive form of analysis to a new cultural context, and looking to contribute to our understanding of management and cultural difference, through identifying possible reasons for the ways in which accounting practices change across time and space. More specifically, it has a focus on management accounting practices, as it looks at the changing context for banking in the Portuguese financial services sector and how managers who are involved in change use internal accounting system tools to facilitate the change process.

Finally, concerning the process of theoretical development experienced in undertaking this research project, it is fair to say that, rather than imposing *a priori* a theoretical framework, the worked proceeded through engaging with a range of theoretical possibilities which were expanded, revised, abandoned or supplemented in a iterative research process, moving back and forth from data collection to analysis. The approach was therefore one which attempted to recognise how theory both informs and is developed by empirical data. It is a necessary means of making sense of a complex and uncertain human world; yet, while being regarded as an important starting point for case study research, it needs also to be 'capable of being challenged and refined as a result of the research process' (Humphrey and Scapens, 1996:88).

The objective of this chapter is to clarify the ontological and epistemological foundations of the research, justify the research methodology, outline the research design selected, and present the data collection techniques used to achieve the key research aims of this study. The chapter is divided into nine sections. Section 3.2 justifies the theoretical paradigm and methodology adopted to respond to the research problem. Section 3.3 presents the research framework used to analyse the significance of MAS in the context of organisational change. In Section 3.4, the research design, a longitudinal case study, is developed. Issues relating to the rationale for the use of a single case study and criteria to choose the site are discussed. Section 3.5 presents the research procedures used in the study, putting forward the procedures of data collection and methods of data analysis. Section 3.6 focuses on issues of reliability and validity. Section 3.7 discusses the limitations of the methodology and Section 3.8 raises ethical issues. Finally, Section 3.9 summarises the main issues discussed in the chapter.

3.2 Rationale for the theoretical paradigm and research methodology

A researcher needs to be clear about the ontological and epistemological roots of his or her research. Ontology concerns the 'nature of being' so is widely taken to constitute the underlying stance to the nature of the phenomena to be investigated (Hopper and Powell, 1985), referring particularly to the assumptions made by a given approach to social science enquiry about the nature of human being and reality. Epistemology concerns the 'nature of knowledge', and the researcher's views of what constitutes knowledge about the phenomena under investigation (*ibid.*). It refers to the assumptions about the ways in which it is possible to gain knowledge of 'reality', sc. what can be known and what criteria can be applied to information to qualify it as knowledge rather than belief.

Implicitly epistemology engages with the reflexive problem of how the knower, as human being, can know a world that is also human. In approaches such as functionalism this problem is widely assumed to be dealt with by the functionalist method, although in more 'critical' approaches it is seen as requiring more explicit reflective engagement (and one of functionalism's failings is seen as its failure systematically to undertake such engagement). Social and organisational research therefore has to make assumptions about 'human nature' or the nature of human activity and about the ways in which that activity can be understood. Ontological and epistemological issues thus cannot be ignored. In particular, given the reflexive problem, it is important to recognise that 'all empirical research will be partial, despite any truth claims to the contrary, and thus it would be better to be clear about the biases and exclusions before launching into the empirical detail' (Laughlin, 1995:65).

Authors such as Burrell and Morgan (1979), and in the accounting literature, Hopper and Powell (1985), Chua (1986) and Laughlin and Lowe (1990) have helped to make explicit the various ontological and theoretical assumptions underpinning much organisational analysis. In terms of accounting research an increasing level of theoretical reflection has addressed such issues in recent years. Laughlin (1995:69), for instance, claims that the interest in empirical research in accounting has 'generated a range of intellectual *borrowing* from social and political thought'. Broadbent (1992:343) notes 'numerous approaches available to those who wish to study accounting in organisations', while acknowledging that 'much of the work which has been carried out in both the organisational and accounting spheres can be located in the functional paradigm (Hopper and Powell, 1985; Chua, 1986; Laughlin and Lowe, 1990)'. However, as fieldwork and case study research have increased, simple theories of organisations can be seen to have

become inadequate and alternative theories necessary to provide a research framework that can explain and integrate empirical work.

Hopper and Powell (1985:429) point out that theoretical and philosophical assumptions underlie any research – 'there is no such thing as a totally objective or value free investigation. ... researchers into the management sciences should consider their own values and beliefs concerning the nature of society and the social sciences'. From their perspective, an initial theoretical construct, views on the nature of society, tends to make two alternative approaches possible: one grounded in regulation (stability), the other in radical change (interests, conflict, and power). Depending on how one sees society's nature, a particular view on the 'objective' nature of reality, knowledge and human action will follow, as will a view on how we act 'subjectively'.

This was one of the earliest articulations of a more critical-interpretive approach in the accounting research community. There is now widespread debate concerning the assumptions that researchers hold about ontology (i.e. concrete existence versus individual consciousness), epistemology (observation versus interpretation), human nature (determinism versus autonomy) and methodology (scientific method versus hermeneutics), often drawing on Burrell and Morgan's (1979) typology, which argued that organisational analysis had to adopt one of four incommensurable ways of seeing or paradigms: functionalist, interpretive, radical humanist, and radical structuralist. Chua (1986) was one of the first within accounting research to argue that argues that this classification is problematic if not inadequate for a field such as accounting where the object of analysis is both quantitative and qualitative. Given that so much quantitative research falls into their 'functionalist' category, it is not clear what purchase or legitimacy

more critical work can get, since it can so easily be defined as marginal, unrealistic or irrelevant. In this respect, the claim that there are in general mutually exclusive and incommensurable dichotomies is arguably inapplicable to this field of research analysis. Second arguing for a difference between the radical structuralist and humanist paradigms is unhelpful since in working to develop critique spanning the quantitative/qualitative divide and focussing on both social and individual levels of analysis, it may be necessary to draw on aspects of both. Third, the framework encourages a latent relativism concerning truth and reason, which is not helpful when engaging with a field where calculative techniques and mathematical correctness are integral issues. Finally, the approach implies some epistemological equivalence between the fields of sociology and management (and by extension accounting) given that the authors believe it is possible to transplant the paradigm framework from sociology. Yet the kind of epistemological issues just raised suggest that for accounting at least the assumption of equivalence will not hold. In a similar way, Hopper and Powell (1985:432)[20] argue that Burrell and Morgan's framework 'create[s] a dichotomy between 'objective' and 'subjective' approaches, even though the dimension relating to social science assumptions was constructed as a continuum (see Morgan and Smircich, 1980). They, like Chua, therefore argue for a different tripartite categorisation of types of research. Going back to the assumption of a continuum between objective and subjective approaches, they divide research into the organisational and social aspects of accounting into 'three main categories – functional, interpretive, and radical'. The latter two 'straddle Burrell and Morgan's mutually exclusive frames of reference'. Furthermore, they sub-divide the

[20] See also Chua (1986), Laughlin and Lowe (1990), and Macintosh (1994).

functional literature 'into three sub-groups – objectivism, social systems theory, and pluralism'.

Since then, Burrell and Morgan's categories have been extended or revised in other ways within the literature. For instance, Macintosh (1994) distinguishes five theories or paradigms used by current researchers and thus five possible ways of approaching the study of organisations: structural functionalism; interpretivism; radical structuralism; radical humanism; and postmodernism. They cannot all be adopted simultaneously; yet one may not wish to adopt any one of them exclusively. Taking an overall view, Covaleski and Dirsmith (1990:559) have argued that one can 'profitably use multi-theoretical perspectives to understand differing facets of accounting and to question the presumptions of both the traditional and emergent schools of thought'.

Perhaps the most important outcome from this theoretical development is that there is now a much deeper, more reflective debate about the assumptions that underpin the area of accounting, and the way in which MAS work and what they do. No longer is what Chua (1986) defines as 'mainstream accounting thought' able to proceed unchallenged, as if there is no alternative way of seeing. We now have sets of assumptions for what she calls two alternative world-views – the interpretive and the critical (see Table 3.1).

For the purpose of this study, it is important to note first that there is no total agreement on the typologies of research approaches. At the same time, there is a general recognition that there is an established research approach or tradition, variously defined by its supporters and opponents as functionalist/scientific/quantitative/scientistic, but that this is not the only possible approach or tradition. The literature review in Chapter Two arguably makes the case for such a conclusion with respect to the ABC research field. Within this

Table 3.1 – Classification of assumptions

	Mainstream Accounting	Interpretive Perspective	Critical Perspective
Beliefs about knowledge	• Theory is separate from observations that may be used to verify or falsify a theory. Hypothetico-deductive account of scientific explanation accepted. • Quantitative methods of data analysis and collection, which allow generalization, favoured.	• Scientific explanations of human intention sought. Their adequacy is assessed via the criteria of logical consistency, subjective interpretation, and agreement with actors' common-sense interpretation. • Ethnographic work, case studies, and participant observation encouraged. Actors studied in their everyday world.	• Criteria for judging theories are temporal and context-bound. Historical, ethnographic research and case studies more commonly used.
Beliefs about physical and social reality	• Empirical reality is objective and external to the subject. Human beings are also characterized as passive objects; not seen as makers of social reality. • Single goal of utility-maximization assumed for individuals and firms. Means-end rationality assumed. • Societies and organizations are essentially stable; "dysfunctional" conflict may be managed through the design of appropriate accounting control.	• Social reality is emergent, subjectively created, and objectified through human interaction. • All actions have meaning and intention that are retrospectively endowed and that are grounded in social and historical practices. • Social order assumed. Conflict mediated through common schemes of social meanings.	• Human beings have inner potentialities which are alienated (prevent from full emergence) through restrictive mechanisms. Objects can only be understood through a study of their historical development and change within the totality of relations. • Empirical reality is characterized by objective, real relations, which are transformed and reproduced through subjective interpretation. • Human intention, rationality, and agency are accepted, but this is critically analyzed given a belief in false consciousness and ideology. • Fundamental conflict is endemic to society. Conflict arises because of injustice and ideology in the social, economic, and political domains, which obscure the creative dimension in people.
Relationship Between theory and practice	• Accounting specifies means, not ends. Acceptance of extant institutional structures.	• Theory seeks only to explain action and to understand how social order is produced and reproduced.	• Theory has a critical imperative: the identification and removal of domination and ideological practices.

Source: Chua (1986:611,615,622)

context, this project adopts an approach that draws upon work undertaken in those other traditions, in particular interpretive and critical forms of work.

In drawing upon interpretivist work, it is adopting an ontological position in which 'social reality is regarded as the product of processes by which social actors together negotiate the meanings for actions and situations; it is a complex of socially constructed meanings' (Blaikie, 1993:96). It assumes that reality is produced and reproduced by social actors through meaning-making activities (which may be more or less consciously undertaken by different individuals and groups). Consequently, in any social situation there may be multiple realities. Blaikie's position is therefore that reality 'is a preinterpreted, intersubjective world of cultural objects, meanings and social institutions' (p. 203). Epistemologically, knowledge is seen to be derived from everyday concepts and meanings from the point of views of people within the system. Therefore, social researchers enter sites to re-work and 're-word' socially constructed meanings and so reconstruct these meanings in social scientific language. In this way a redescription of the everyday social world is developed into a theoretical understanding and discourse.

In drawing upon work coming from within a critical framework, this ontological position is not necessarily modified in any significant way, for as Blaikie (1993) observes, work from within critical theoretical frameworks can often share a similar ontology. In his characterisation, reality is again seen to be socially constructed, but '[c]ognitive interests – strategies for interpreting life experiences – determine the objects of reality. The world is not a universe of facts which exist independently of the observer; theoretical assumptions are embedded in theoretical constructs and common-sense thinking' (p.97).

As noted in Chapter Two, certain work in the accounting field which has been undertaken from Foucauldian and Habermasian perspectives may be seen as not dissimilar in terms of their ontological and epistemological approaches. Foucault-inspired work is typically more 'critical', Habermasian as more 'interpretive'. But the kind of approach undertaken by Hoskin and Macve (cf. Hoskin, 1994) is centrally concerned with issues of interpretation in its commitment to analysis of 'discursive regularities and changes' and the ways in which both are the product of different ways of engaging with practices. At the same time, work from within a Habermasian perspective, like that of Broadbent and Laughlin is concerned with making visible different meanings not as a purely acontextual hermeneutic exercise. Instead, as with Habermas's own agenda, the objective is to promote via understanding the adoption of more rational ways of seeing, thus enabling more enlightened change.

The present research sees itself as being located at this kind of point, where interpretive and critical approaches meet and overlap. It aims to trace the development of MAS in a Portuguese bank where an ABC system is being trialled, ostensibly as a means to improve the economy, efficiency and effectiveness of employee activity. The focus of this research is to explain the bank's actions and reactions in a context of wider change in the economic environment of banking, with specific commitments to matching both global and local cost efficiency challenges, leading to a new significance and visibility for MAS in the organisational context. In this approach, accounting is necessarily seen as a set of technologies with their own technical coherence and rationality, but whose implementation is socially constructed, not independent of social, organisational and political actors. The social activity that is tracked here is the result of an interplay

between social and technical structures and practices and human agency (Roberts and Scapens, 1985; Hopper *et al.*, 1987; Neimark, 1990; Hoskin, 1994).

At the same time, it is recognised that 'social reality is always framed through values, interests, and perspectives, and an open and continuous appraisal of these is necessary for empirical observation' (Smith *et al.*, 1988:117). The study is therefore concerned to see how practices, particularly older and newer accounting practices, have effects on shaping values, interests and perspectives, exploring change through three lenses – the impact on changing structures, on changing discourses, and on the interplays between new structures and discourses and new kinds of power relations.

In this way, the study hopes to indicate how far management accounting practices influence strategic decision-making and enable the legitimation of action. Accounting is therefore understood not as a neutral (if powerful) discourse, and even less as a simple aid to technical problem solving, but instead as a knowledge-based means of exercising power (Macintosh, 1994; Hoskin, 1994). Thus it clearly engages with the problems that Lauglin has defined (1999) as central to critical accounting research[21].

[21] Laughlin (1999:73) defines critical accounting as '[a] critical understanding of the role of accounting processes and practices and the accounting profession in the functioning of society and organisations with an intention to use that understanding to engage (where appropriate) in changing these processes, practices and the profession'. He recognises this definition is debatable, however four key elements in critical accounting can be identified. First, critical accounting is always contextual. Second, the ultimate aim of accounting is not to understand. Furthermore, it is evaluate, engage, and change. [Opinions diverge on this. Some researchers critically expose and leave it to others to engage, evaluate and change, while others are heavily involved in the change project]. Third, 'critical accounting is concerned with the functioning of the accounting profession, practices and processes at both a "macro" societal, government, regulatory, professional level as well as "micro" level of institutions and organisations' (p. 74). Fourth, it requires 'intellectual borrowings' from other disciplines to guide how to address the complex agendas.

Such a study can be seen as being aligned with both postmodernist and post-structuralist ways of seeing. It is close to postmodernism insofar as it focuses, as Creswell (1998:79) puts it, its critiques on 'changing ways of thinking rather than on calling for action based on these changes'. It is close to post-structuralism insofar as it contributes to moving away from seeing reason purely as an atemporal value and instead sees its dominant forms, at any given moment, as contested and questionable, as in the case of the modern scientific approaches to understanding the human world.

Again postmodernism and post-structuralism, rather than being seen as allied to a particular theory, may be considered a family of perspectives that have some commonalties. Creswell (1998:79) claims that some of the interrelated characteristics that define postmodernism include:

> 'knowledge claims must be set within the conditions of the world today and in the multiple perspectives of class, race, gender, and other group affiliations. These conditions are well articulated by individuals such as Foucault, Derrida, Lyotard, Giroux, and Freire (Bloland, 1995). These are negative conditions, and they show themselves in the presence of hierarchies, power and control by individuals in these hierarchies, and the multiple meanings of language. Also included in the conditions are the importance of different discourses, the importance of marginalized people and groups (the "other"), the presence of "meta-narratives" or universals that hold true regardless of the social conditions, and the need to "deconstruct" texts in terms of both reading and writing, examining and bringing to the surface concealed hierarchies as well as dominations, oppositions, inconsistencies, and contradictions (Bloland, 1995; Stringer, 1993)'.

Just as it is not necessary to postulate a firm boundary between interpretive and critical perspectives, so it can be helpful not to make the postmodern/post-structural divide too

absolute[22]. The most important thing is arguably to have a clear and internally coherent ontological and epistemological position, within which a particular critical-interpretive position can be articulated. So, as we have seen, an interpretive framework can be extended to issues such as power, legitimation, domination (Chua, 1988) or discourse (Covaleski and Dirsmith, 1990). The 'social' and the 'political' can be considered jointly in the realm of accounting knowledge. As Humphrey and Scapens (1996:101) have put it: 'in a world in which reality is socially constructed and knowledge is temporal, the task for those seeking to enhance understanding and explanation is continuous, and the emphasis must remain on criticism and not justification and verification'. Finally, and above all, accounting researchers need 'to argue the merits of their chosen perspectives, to defend their position and be equally prepared to be contradicted' (Laughlin, 1995:77).

3.3 Towards a theoretical framework for bank sector research

As just argued, this research consciously draws on a range of theoretical approaches in order to understand the relations between MAS and organisational change. Within the critical and interpretive frame of reference it wishes to adopt, it has found of particular help two approaches which at first sight may appear rather different, but which have both been used to apply research into management and accounting change to the banking sector. The first is a largely Foucault-derived approach into the relations between management practices and discourses developed by Morgan and Sturdy (2000), and applied by them to the financial services sector. The second is the institution-theory approach developed by Fligstein and applied, as noted in the last chapter, by Euske and

[22] In this respect, one does not want to make too much of the fact that neither Foucault nor Derrida would necessarily accept the 'postmodernist' label, and that each had major quarrels with the work of the other. What Creswell summarises is how there is a shared set of concerns at work. It is perhaps not surprising that

Riccaboni to understand change in the Italian banking sector. In line with the philosophy sketched out in the previous section, this study draws on what it sees as valuable insights from each of these approaches. The Morgan and Sturdy approach provides a way of ensuring that a focus on practices can be developed and maintained in undertaking and analysing the fieldwork. The Fligstein approach helps to ensure that wider factors, e.g. the roles of organisational fields and the state, are kept in view in understanding why certain forms of control are dominant in the management world, and how change comes about. In the process of moving from data to reflection and back, these approaches were felt to offer particular benefits in attempting to develop a fruitful and distinctive new way of analysing the significance of MAS in the context of organisational change.

3.3.1 Practices, Discourses and Organisational change

The recent work by Morgan and Sturdy (2000) claims that organisational change can be studied from at least three different perspectives: managerialist, political and social (though for 'the social', one could perhaps read 'the critical'). The managerialist approach offers prescriptions and techniques to help managers engineer change and control. In this way, the change process is reduced to a technical task that can only fail because of a lack of ability or persistence on the part of managers. This approach has long been criticised, however, for its weak analytical framework for understanding how and why organisations change (Pettigrew, 1995; Molinsky, 1999; Morgan and Sturdy, 2000). In response, the political approach attempts to understand the change process rather than simply prescribe how to achieve change, with Pettigrew's work providing a significant advance in the study of organisational change. He criticises the 'acontextual, atheoretical and

---

some have found ways of drawing on their different approaches to develop new theorisations of accounting

aprocessual' nature of mainstream organisational change literature (Pettigrew, 1987:655) and proposes that 'theoretically sound and practically useful research on change should explore the contexts, content, and processes of change together with their interconnectedness through time' (1990, p. 268). More specifically, Pettigrew argues that in order to understand the complexity and resistance found in organisational change situations, one should combine a processual and historical view of organisations, thereby developing a richer and better contextualised viewpoint which links the inner and outer contexts of change. As he sees it, managers operate within a social context with some scope for choice. At the same time, opportunities for action are limited by prior historical circumstances, including previous internal organisational structures and decisions, and external events and processes.

This is clearly a richer analytical approach than that adopted by managerialists. However, some critics have suggested that the political approach is not sufficient in practice. Here Morgan and Sturdy (2000:18) observe that even authors who adopt the political approach often 'find themselves drawn into an uncritical managerialist framework, whereby the politics of the change process is examined using essentially the same categories of understanding as the actors themselves (which are invariably managerial)'. They therefore propose a 'social' or 'critical' approach which examines the 'languages, concepts, categories and their associated practices which actors adopt to make sense of, construct and act in the world' (p. 18). This approach can be termed 'critical' since it is based in contemporary European critical theorising, and in particular, the work of Michel Foucault. The term *discourse* is used here in the pioneering sense used by Foucault, with a focus on the 'range of things said' at any given time in a particular 'discursive field',

---

and management problematics (e.g. Ezzamel and Hoskin, 2002).

and on the ways in which such 'things said' are the product of particular practices of communicating, learning, coordinating, controlling and so on – practices of inclusion and exclusion[23].

The approach that Morgan and Sturdy articulate follows on from Foucault and the work just cited (see footnote 23) as arguing that we are, as historically situated beings, always already within discourse, as we begin as actors to explain ourselves, our actions and organisations to ourselves and others. In the third person,

> '[b]odies of knowledge are constructed which are often transmitted and translated by organizational participants into routines and procedures which, in turn, constitute or contribute towards the construction of new or adapted knowledges and practices. These bodies of knowledge become languages through which people speak about and understand organizational processes' (Morgan and Sturdy, 2000:18-19).

[23] Foucault suggests that discourse refers to what is said at a particular time in a particular context out of all that might be said (cf. Hoskin, 1994). 'Discourse is based on the principle that everything is never said. ... On the basis of the grammar and of the wealth of vocabulary available at a given period, there are, in total, relatively few things that are said' (Foucault, 1972:119-120). He describes the nature of discourse most extensively in 'The Order of Discourse' (1981), characterising it as the 'order' that comes before each of the supposedly prior categories of language defined by Saussure – 'langue' (the given 'language' of a particular place and time) and 'parole' (the word one speaks) – as the condition of the existence of both. 'Ever since the sophists' tricks and influence were excluded....Western thought seems to have made sure that the act of discoursing should appear to be no more than a certain bridging between thinking and speaking – a thought dressed in its signs and made visible by means of words (i.e. parole) or conversely the very structures of language (i.e. langue) put into action and producing a meaning-effect' (Foucault, 1981:65). However, the reality of discourse is to be already there as the means through which we learn to speak and then extrapolate such super-categories as 'a language' or even 'language as such'. Discourse in this sense is only producible from non-discursive practices and apparatuses (practices of exclusion and inclusion, reward and sanction, institutional apparatus such as universities or 'societies of discourse'). Discourse has therefore been widely appropriated as a tool for understanding organisations in ways that more or less faithfully reflect this distinctive approach. Thus, for Miller (1997:32), Foucault uses discourse 'to analyse diverse configurations of assumptions, categories, logics, claims and modes of articulation'. Alternatively, discourse is seen more as a 'framework and a logic of reasoning that, through its penetration of social practice, systematically forms its objects than as any use of language in a social context' (Alvesson and Sköldberg, 2000:224). The attempt here is to retain Foucault's sense of the way in which discourse is not purely social, since it is what shapes the differences of individual idiosyncratic statement, and is not purely linguistic, being always a product of practices.

In this process, there are always principles of exclusion, reducing almost to zero the likelihood that certain things will be said – the principle of prohibition – the view of certain things as 'mad', but also as Foucault observes (1981:55), a 'will to truth' resting on institutional supports, pedagogy, libraries, learned societies and laboratories. This excludes certain possibilities as unlikely or implausible, leaving only certain other possibilities as 'acceptable understandings of the world'. This critical approach can arguably offer a new range of insights into how dominant forms of 'true organisational discourse' (e.g., concerning strategy and change) are constructed, insights that can complement and yet extend those offered by such approaches as institutional theory, psychodynamic theory or Marxism (see, for a positive take on how Foucauldian work can complement Marx, Hoskin, 1994).

Here the objective is to apply the Morgan and Sturdy approach not just to the financial services sector but to the roles of accounting in banking specifically. Here the study draws on Hoskin and Macve's identification of certain secondary practices as being at the heart of accounting and management (sc. writing, examining and grading) and looks to see how far such practices do shape the discursive field of modern management (cf. Hoskin and Macve, 1994). However, it is felt crucial to recognise that such practices only operate in a wider institutional framework, where a range of expert (disciplinary) knowledges are at work. It is here that the insights that have been developed through institutional theory can be particularly valuable in order to understand the particular role played by MAS in organisational change.

3.3.2 The focus on practices and institutional theory

In recent years, institutional theory has proven to be a valuable way of analysing the importance of MAS in managing internal and external interdependencies (Otley, 1994; Euske and Riccaboni, 1999). To ensure growth and profitability, owners and managers must ensure that organisational processes are performed smoothly and predictably. Internal interdependencies are typically seen in the institutional approach as constructed primarily through processes of hierarchy and motivation. Typically, three types of internal control problems are identified: the relationship between management and workers, the separation of ownership and control, and the division of labour between different levels of management. External interdependencies are largely seen as constructed through interactions with competitors, suppliers, capital markets and the state (Fligstein and Freeland, 1995).

In this approach, there has been a dynamic view of organisations as forming a system tending towards some kind of equilibrium until or unless external shocks force change. DiMaggio and Powell (1983) had argued that managers usually attempt to make an organisation isomorphic with the prevailing institutional logic of the organisational field[24] since there are powerful forces that lead organisations to become more similar to one another. Isomorphism is a 'constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions' (p. 149). This institutional perspective helps to explain the apparent homogeneity of organisational forms and practices. However, it also needs to address how and why organisations and organisational fields change.

In response to the problem thus posed, Fligstein (1991) has developed an institutionally-based approach that argues that the ability to change the course of an organisation depends on a complex set of actions, both internal and external to it. He claims that there are three relevant institutional contexts in which 'rules are created, meaningful actions occur, power relations are formed, and concrete forms of social organization are set in place' (Fligstein, 1991:312). These are: the set of organisations in the organisational field, the state, and the existing strategy and structure of the organisation. Change is to be understood in terms of the interplay across these contexts.

The approach therefore usefully operationalises Pettigrew's insights about the importance of the relationship between inner and outer contexts. First, as noted above, organisations are embedded in larger groups of organisations, thereby defining an organisational field. The other organisations are most often competitors but can also be suppliers or distributors. Organisational fields can therefore be thought of as the result of mutual recognition by actors in different firms of their interdependence. Second, the state sets the rules for any given organisational field that define what organisations can do and the limits of legal behaviour. Third, at any given time, individual organisations will have in place a set of strategies, structures, technologies, and physical limits that shape and constrain their actions.

This helps to explain how stability may be more common but never guaranteed. Looking at each of these contexts more closely, Fligstein (1990) argues that the function of **organisational fields** is, above all, to promote stability. They are set to benefit their most

[24] DiMaggio and Powell (1983:148) define the organisational field as 'those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products'.

powerful members. The relative size of organisations gives their actors differential power to dictate the actions of others, but from the point of view of actors in less powerful organisations, the reason to support the dominant organisations revolves around survival. 'Being a member of the field, albeit a dependent one, is one way to survive. While competition continues to exist, it is no longer predatory' (Fligstein, 1990:6). For these reasons, once a set of relationships and rules are established (as a stable organisational field), it is in the interest of all organisations in the field to maintain that situation, preserving some distribution of power and resources. However, if a shock is perceived, actors will need to adapt. Such action will affect the field, possibly in a transformative manner. However, such effects will not take place without interaction within and across the other two defined contexts.

The second sphere, the **state**, is also made up of organisations, institutions and practices. Each organisation has agenda settled by the political actors who also control them, and by economic and social forces that influence the political process. The state is an important force in the economy because it defines the rules by which actions in the economy are carried out. It regulates industries, sets taxes and employment laws, and so forth. It also affects the economy by consuming products/services, influencing the business cycle, and redistributing income through its taxation and social expenditure policies. Although the relationship between the state and large organisations often ends up serving the interests of the companies, the state also acts in its own interests and as a mediator of interests. At a moment of shock, the state may seize an opportunity to impose new regulations or exploit the disruption in the normal equilibrium of the organisational field.

Third, actors who are in control in organisations base that control on existing **organisational strategy and structure**. Organisations therefore frequently experience internal power struggles over their objectives and resources. Those who control the resources use them to impose their view. At the same time, change in an organisation requires taking risks. Fligstein (1991) claims that because environments are always murky, actors have to *interpret* their environment, both within and beyond the organisation. Access to the truth of things cannot be guaranteed. Authors therefore have to propose a solution that is bounded by the internal logic of the organisation, their knowledge, how they perceive the world, and what they conceive as appropriate organisational behaviour. To carry out the solution, the actors must thus have the power to act (*ibid.*). The author also argues that actors have their own view of the world, and unless some shock occurs that changes their world, they will continue to act in a certain fashion. However, this means that the source of ideas for change can emerge from the position an actor has within the organisation. This might provide arguments or interpretations that would alter the organisation's course by offering a particular construction of, and a new kind of solution to, that crisis. The individual who leads the organisation is therefore extremely important from the institutional perspective.

This framework is highly valuable, since it constrains a Foucauldian approach from simply seeing change as socially determined, or the role of the individual as trivial. It also stresses the integral importance of practices of exclusion and constraint (e.g. through the role of state regulation) in the development of any organisational change. This is one major reason for drawing on the institutional body of work here. At the same time, it does leave certain questions somewhat unresolved. A theory of inherent equilibrium, disturbed only by external shocks, does not in itself where 'equilibrium' comes from and how it is

maintained. In the approach followed here, the role of practices is seen at work in shaping both dominant ways of acting and speaking and forms of resistance. This means that equilibrium is always provisional, maintained in 'normal' circumstances through being more *visible and audible*, and so ensuring that discursively that forms of resistance have little right to speak. When circumstances for whatever reason change, the shock event is however not 'causal'. It is instead the occasion for the resistance that is already there to become visible and audible. From this perspective, no special privilege is given to a state of equilibrium, nor is there a need to see shocks as external. They may instead be considered as predictable and endemic, as integral aspects of what gets said and done by actors in engaging with the practices of management, just as much as the apparently more normal and dependable moments and actions of equilibrium.

Further, we can look at particular kinds of contemporary managerialist discourse for manifestations of a need to gain control and maintain equilibrium in a world where both are provisional and have the potential to be lost.

3.3.3 Understanding the role of practices in a world of new managerialist discourses

Organisational and economic contexts are increasingly seen by key managerial actors as complex and uncertain. The days of management as a science that imposes order through the exercise of certain essential truths have gone. One development has been the articulation of new and sophisticated discourses that are perceived to re-establish a sense of stability and control. Insofar as they succeed in constructing the business world's complexity in their own image, they establish the truth of their presuppositions. Such new managerialist discourses include strategy and marketing, and, while their significance

needs to be recognised, their strengths and weaknesses also need to be comprehended in developing a critical-interpretive understanding. Here Morgan and Sturdy again offer some initial steps towards such an understanding.

Strategy has emerged over the past two generations as a dominant top-management discourse for looking at the world, making sense of complex futures and offering a form of rational control over contexts. 'Strategy has become the main language through which actors make sense of, respond to and thereby help realize changes. It has become an over-arching framework for actors and organizations, providing a language of 'truth' to make sense of the world' (Morgan and Sturdy, 2000:122). Strategy typically generates a set of neatly co-ordinated (and often picturable) frameworks[25] that assist the process of deciding and implementing specific strategic plans. Strategy complements these closed systems of planning-based control with a series of objective techniques to measure performance, tracking it against strategic goals and providing feedback. Management consultants now play a key role as the carriers and interpreters of strategy discourse, offering 'tailored' and 'practical' solutions, 'self-reliance', and the development of political skills to draw upon when conditions of stability are being undermined (Morgan and Sturdy, 2000).

Strategy thus establishes a crucial link with marketing discourse, which has emerged as a key way of connecting the coordinated and managed inner context of the organisation with the less manageable, fluctuating outer context. Competitive pressures have increasingly forced companies to address better the needs of consumers. Marketing provides mechanisms for understanding consumer needs, for segmenting them, and

designing products and offers that exploit the relative efficacy and efficiency of particular distribution channels. This last step is crucial because meeting the needs of customers is only relevant and valuable so long as it can be done profitably. This creates tensions within marketing. At the same time, it drives marketing into the arms of strategy as it is forced to focus on identifying potentially profitable consumers and/or selecting profitable products or services. Much marketing activity concerns the avoidance of competition and the dominance of markets, that is, 'marketing benefits the firm not by satisfying customers but by establishing quasi-monopolistic power over them' (cf. Whittington and Whipp, 1992:54).

This work ensures that the significance of such discourses can be recognised and appreciated when tracking the dynamics of change in the fieldwork process. At the same time, a Foucault-based approach does not look to privilege these discourses uncritically. In a sense the emergence of these new discourses is not new. It is purely a modern, formalised way of ensuring that the basic financial ratio between revenues and costs is maximised far as possible at any given time and over time. The discourses say new things, but within a disciplinary frame of knowledge. Disciplinary expertise is required to enable maximisation, not least within the organisational field in which all players find themselves that is populated by strategy and marketing experts and their knowledge. Any initial competitive advantage is 'competed away'. Meanwhile there is no departure from the distinctive focus of banking on the underlying revenue-cost ratio.

[25] There are several examples of this set of frameworks. The SWOT model helps to identify the environmental strengths, weaknesses, opportunities and threats. The STEP model focus attention in the social, technological, economic and political aspects of the environment that influence an organisation. Boston Consulting Group matrix illustrates the need for a balanced portfolio of businesses. Porter's (1980) five-forces model assists to understand how profitable an industry can be.

It is here that a new approach to understanding the role of MAS has something to offer. Even as strategy and marketing reach a mutually supportive position of *discursive* dominance, they continue to incorporate features of resistance. The critical literature on strategy indicates the extent to which strategy is a rhetoric of rationalisation, and even a logical contradiction in espousing rational planning (based on analysis of past events and trends) as a basis for succeeding in a future which will differ from the past both on probabilistic and logical grounds[26]. In addition, what emerges when one considers what strategy and marketing focus on – revenue streams, profitability, return on investment, economic value added – is the centrality of accounting practices and numbers to the articulation and maintenance of these apparently dominant discourses.

The theoretical framework for this research into the banking sector has hopefully now been clarified. It draws on the Foucauldian kind of approach articulated in Hoskin and Macve and applied in this sector by Morgan and Sturdy. It attempts to ensure that wider institutional dynamics affecting change are captured through reference to the Fligstein approach developed in this sector by Euske and Riccaboni. Finally it wishes to recognise the key importance of new discourses such as strategy and marketing, without overprivileging their role in the implementation and operation of organisational change.

I now turn to issues raised in the implementation of this theoretical approach. Case study research is an appropriate research strategy for questions related to 'why' and 'how' where the researcher has no control over events (Yin, 1989; Spicer, 1992). The kind of longitudinal case study undertaken here has been considered in the literature as appropriate where one is attempting to identify how large change visions are implemented

[26] Probabilistically, events do not repeat themselves. Logically, even if they do, that repetition is different to those in the past, in that it represents a supplement to them.

operationally on the ground, in what is an increasingly familiar phenomenon in contemporary real-life contexts (Yin, 1994; Scapens, 1990).

3.4 Research method: case study

'A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial question of a study' (Yin, 1994:18). It is concerned with defining the appropriate processes for collecting, analysing, and interpreting data. Its main purpose is to help avoid a situation in which the evidence does not effectively address the initial research question. After defining the research questions and sub-questions, the research design for this study selected to respond to these concerns will be discussed.

3.4.1 Research questions

The key research question that underpins this study is: **how and why has management accounting practice changed in the organisation under study, and what were the dynamics around the ABC proposal as its implementation proceeded?** Sub-questions include:

- What conditions led to the change in MAS?
- How do MAS and other change initiatives depend on each other?
- Why has the organisation adopted ABC?
- What were the stated objectives when the new system was designed and how did the actual design and implementation conform to them?
- What were the roles of the consultants?

- How did the organisation design and implement the new system? What were the obstacles to change?
- Who were the important participants? How did they participate in the process?
- What were the organisational and behavioural difficulties of the process?
- What were the outcomes? What roles do (and can) MAS play in the organisation?

Adequate answers to these questions require a critical discussion of organisational and behavioural consequences, and thus will hopefully enable the identification of similarities and differences with studies, which have focused on the relations between MAS and organisational change in the financial services sector. Significant studies, as noted in Chapter Two, include the research of Soin (1996) into the change process in an UK clearing bank drawing on Laughlin's (1991) theoretical framework. There is also Euske and Riccaboni's (1999) longitudinal study of change in an Italian bank, using institutional theory (Fligstein, 1991). One may now add the Morgan and Sturdy (2000) study of change in the UK financial sector, for the help it offers in the development of the theoretical framework used in this research.

The research adopts a design that provides an opportunity to gather contextual data at multiple analytical levels whilst maintaining a focus on the main unit of analysis (Eisenhardt and Bourgeois, 1988; Yin, 1994). The ABC system was implemented across the whole bank but the main unit of analysis is the implementation team, which comprised consultants and staff from the organisational and accounting departments. The research thus focuses on the interaction between these departments and the implementation team.

Given the research questions, the primary aim of this study is to understand the sense-making and interpretative schema of the implementation team, for example, to study how 'they construe, construct and interpret their own behaviour' (Schwandt, 1994:120) embedded in particular social, temporal, and cultural situations.

3.4.2 The Qualitative Nature of the Inquiry

The study is predominantly qualitative in approach. Qualitative methods permit the evaluator to study selected issues in depth and detail, thus providing rich information about the research phenomenon although it often requires a relatively long data collection period and a robust means of recording, collating and analysing that data.

Jennifer Mason (1996:5-6), in reviewing qualitative research, makes the apposite observation that the distinction between qualitative and quantitative research is not clear and that qualitative research is not therefore necessarily subordinate to a dominant quantitative paradigm. At the same time, there are important differences. The two strands 'should not be seen as a unified body of philosophy and practice, whose methods can simply be combined unproblematically'. He then offers six key procedural features that qualitative research should have. First, it should be 'systematically and rigorously conducted'. This involves the preparation of a plan to use as a guide in the research process. Second, it should be 'strategically conducted, yet flexible and contextual'. This means that it is not only guided by research strategy but is also sensitive to changing situations. Third, it should 'involve critical self-scrutiny by the researcher, or active reflexivity'. As discussed above, this is based on the belief that a researcher cannot be neutral or objective. Fourth, it should 'produce social explanations to intellectual puzzles'. This involves recognition that selection and interpretation of data cannot be

neutral. Fifth, it should 'produce social explanations which are generalizable in some way, or which have a wider resonance'. Finally, qualitative research should be 'conducted as an ethical practice, and with regard to its political context'.

Looking at qualitative research in a slightly different way, Erickson (1986) claims that the most distinctive characteristic of qualitative inquiry is its emphasis on interpretation. But this then needs a careful specification of what interpretations should come through. Erickson argues that the key interpretations to be pursued are not those of the researcher but those of the study participants. At the same time, however, the narrative that is produced inevitably carries the interpretive framing of the researcher. So one must recognise the importance of the observation, but arguably recognise that the question of whose interpretations are presented and emphasised is an ambiguity present in case study research.

More recently, Creswell (1998) has suggested that there are five traditions of qualitative inquiry: biography, phenomenology, grounded theory, ethnography, and case study research. Given this typology, the case study approach seemed the most appropriate here, given the research questions. For instance, Scapens (1990:264) argues that 'case studies offer us the possibility of understanding the nature of management accounting in practice; both in terms of the techniques, procedures, systems, etc. which are used and the way in which they are used'. Furthermore, case study research emphasises the importance of getting close to people and situations to understand the reality of daily life (Yin, 1994; Miles and Huberman, 1994). An important reason is that the case study has the ability to facilitate the development of theory (Yin, 1994; Eisenhardt, 1989, 1995). Humphrey and Scapens (1996:101) not only defend the role of case studies in researching the day-to-day

functioning of accounting in organisations, but also they assert that they help 'to enhance understanding of the many paradoxes inherent in the growing resort to accounting'. Another strength of the case study is that it is a logical and systematic mode of investigation (Yin, 1994). Accordingly, the case study has been used within several types of research paradigms, ranging from positivism to interpretivism or critical research. It can provide rich detail about a social phenomenon and can handle several types of evidence – interviews, documents, observations and questionnaires. This is important when exploring the complexity of social life.

If this explains why the case study option has been chosen from within the qualitative research field, there remains the question of what kind of case study this is. In one of the major methodological works on this approach, Yin (1994:13) defines the scope of a case study as follows:

> '1. A case study is an empirical inquiry that
>
> - investigates a contemporary phenomenon within its real-life context, especially when
> - the boundaries between phenomenon and context are not clearly evident.
>
> 2. The case study inquiry
>
> - copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
> - relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result
> - benefits from the prior development of theoretical propositions to guide data collection and analysis'.

Spicer (1992) divides up the case study 'field' in a rather different way, proposing two major categories of case study research[27]. The first, *descriptive and/or exploratory*, includes case studies whose objective is to describe and/or explore reasons for accounting practices. These practices may be existing or new and innovative practices. This kind of case study research can have two objectives. The first is to describe how and/or explore why practice has changed. The second is to develop a taxonomy of successful and unsuccessful practices and the conditions under which they occur. The main purpose of this research is to develop theories for practice. The second category of case research, *informing and/or explanatory*, includes cases 'which are used indirectly to inform other forms of non-empirical research or directly to explain the reasons for observed practices' (p. 24). Case study research can be structured and informed by both theory and prior empirical research. The study of management accounting practice can then feed back to theory to inform or enrich it, help to shape future empirical research designs, or reconfigure practice.

The recent spate of work on case study method is one indication of how much things have changed over the past two generations. Two decades ago there were major calls for case study research in management accounting. Hopwood (1983:302) argued that 'there is a very real need for theoretically informed studies of both the use and design of accounting systems'. Similarly Kaplan (1984a: 415) called for 'management accounting researchers to leave their offices and study the practices of innovating organisations'[28]. Not all such

[27] Other typologies of case study research methods have been suggested (Smith *et al.*, 1988; Scapens, 1990; Otley and Berry, 1994; Yin, 1994). For example, Scapens proposes five categories, according to the way in which cases can be used: descriptive, illustrative, experimental, exploratory and explanatory. However, he recognises that the distinctions between them can be ambiguous. An exploratory study, for example, may be concerned with initial ideas forming the basis for explaining management accounting practices.

[28] The reasoning beneath Kaplan's advocacy of case studies was discussed and an attempt to explain was made by Smith *et al.* (1988).

calls, obviously, were for purely empirical research. Indeed calls for case studies of accounting in practice have come from a range of accounting researchers who want to develop better theoretical explanations of accounting practices (e.g. Burchell *et al.*, 1980; Hopwood, 1983; Hopper and Powell, 1985; Hopwood, 1987; Smith *et al.*, 1988; Scapens, 1990; Otley and Berry, 1994).

This particular study involves longitudinal case study work of the kind that Yin (1994) has recommended. It hopefully meets the objective set by Scapens (1990:264) that 'case studies offer us the possibility of understanding the nature of management accounting in practice; both in terms of techniques, procedures, systems, etc. which are used and the way in which they are used'. It hopefully also meets the processual concern expressed by Pettigrew (1987: 655) that studies of change should be longitudinal in nature as processual models of change must be historical, studying change through time. Pettigrew observed that 'There are remarkably few studies that actually allow the change process to reveal itself in any kind of substantially temporal or contextual manner'. Instead, to that time, he claimed that 'research on change continues to this day to focus on change episodes, and more likely *a* change episode, rather than the processual dynamics of changing' (Pettigrew, 1985:10, original emphasis).

Studies such as that of Soin show that this is no longer the case, even in the banking sector. In that emergent tradition, this study consists of a single longitudinal case study that investigates the antecedents for changes in a Portuguese bank and how those changes emerge, develop and terminate over time. In particular, it focuses on the implementation of an ABC system. Although the case study is singular, it has several levels of analysis and is a complex entity operating within a number of contexts. It can be classified as an

intrinsic case study (Stake, 1994:236), undertaken to get a better understanding of this particular case or 'to optimize understanding of the case rather than generalization beyond'. Dyer and Wilkins (1991:614) also stress the usefulness of a single case study, maintaining that the essence of case-study research is 'the careful study of a single case that leads researchers to see new theoretical relationships and question old ones'. They claim that building theory from multiple cases can harm the visibility of the interrelations with the context of a particular setting. A single case study can give more attention to distinctive and typical characteristics of a particular context, and reveal the deep structure of social behaviour.

It is clear that there is still a debate over the single case study, and that some within the field feel that there is a 'danger' in not looking to generalise. In this tradition, one may note the work of Eisenhardt (1989, 1991, 1995), who has agonised over the single versus multiple issue. Eisenhardt ultimately argues in favour of using several case studies, but recognises that this is not an easy decision. In the last analysis, however, given the tension between the richness of a single case and the insights produced from several cases, she advises the researcher to decide in favour of the contribution of the incremental improvement of the theory by adding more cases. At the same time she points out (1991:622) that 'the appropriate number of cases depends upon how much is known and how much new information is likely to be learned from incremental cases'. She also notes that case studies may focus on a single setting but they can rely 'on the comparative multiple-case logic of replication and extension for their theoretical insights'.

If one is looking to justify the choice made here in the terms that Eisenstardt adopts (which are after all widely accepted as reasonable), one could argue that a single case

study was favoured here for two main reasons. First there is the complexity involved in understanding all the differences posed by the context in which the changes occur[29]. Second there is the issue of just how much additional *theoretical* contribution additional cases would make, in the context of developing the new kind of theoretical approach articulated here. Not only would such research be time-consuming, it would arguably at this point not be time well spent. But in the last analysis, perhaps all these attempts to justify what is being done in a single longitudinal case study simply manifest a residual attachment to the old style of scientistic approach that believes that research seeks for generalisations. Or as Mintzberg (1979:583) observes, then, 'What, for example, is wrong with samples of one? Why should researchers have to apologise for them?'

3.5 Research procedures

Although the culture of banking in Portugal has changed significantly over the last 25 years, some traditions remain in force. An important contribution of this research, then, is its examination of how an imported MAS like ABC is developed and disseminated within a Portuguese banking context.

[29] Here one might note the kind of complexity that Pettigrew notes as being embedded in any large business entity where change is taking place. 'The analytical cornerstone ... is the view that theoretically sound and practically useful research on change should explore the contexts, content, and process of change together with their interconnections through time. The focus is on changing, catching reality in flight; and in studying long-term process in their contexts, a return to embeddedness as a principal of method. Context refers to the social, political, and sectoral environment in which the firm is located. Inner context refers to features of the structural, cultural, and political environment through which ideas for change proceed. The overall research challenge ... is to link the content, context, and processes of change over time to explain the differential achievement of change objectives'.

3.5.1 Choice of case study site

Choosing the appropriate case study and establishing a relationship with its participants is important in case study research. Pettigrew (1995:102-105) suggests four key decision rules to be considered when choosing a research site. First, he suggests that researchers 'go for extreme situations, critical incidents and social dramas' (see also McWilliams and Siegel, 1997). He defends a choice of 'cases where the progress is *transparently observable'* (original emphasis). The second suggested rule is to 'go to polar types'. He claims that in order to study the link between the capability of firms to manage change and their performance, 'one needs to select sites which illustrate high and low performance'. His third suggestion is for the investigator 'go for high experience levels of the phenomena under study'. Creswell (1998) proposes the selection of a case study if it provides different perspectives on the problem, process, or event that need to be portrayed. Pettigrew's final and the most pragmatic suggestion is to 'go for more informed choice of sites and increase the probabilities of negotiating access'. This is important in longitudinal research, as one needs intensive access to key data sources.

The decision to conduct the research in Banco Lusitano relates to Pettigrew's suggestions and can be summarised in three main reasons. First, the financial services sector and the culture of banking in Portugal have changed significantly over the last 25 years. Few academic studies of the Portuguese financial services sector exist, and none concern management accounting. Second, this particular bank[30] has achieved high-performance and rejuvenated itself in terms of profitability, capability and customer satisfaction since its re-privatisation. Several change initiatives have occurred in the bank and it was the

[30] Banco Lusitano is an 'old' family-owned bank, nationalised after 1974 and transformed into a state-owned company, and then re-privatised at the beginning of the 1990s.

first Portuguese bank to implement ABC. Third, the bank was selected because of facility of access. It was possible to obtain the bank's permission to carry out a detailed research investigation. The main aim was to maximise what can be learnt with respect to the research questions, given limited time and fieldwork access. Stake (1994:246) claims that the emphasis is on 'learning the most about both the individual case and the phenomenon, especially the latter if the special circumstances may yield unusual insight into an issue'.

3.5.2 Data access

In-depth case studies involve certain risks because they require high quality access to managers, and the preservation of data confidentiality over time. In this research, the risks involved were indeed high because the bank was not familiar with case study research for a doctoral degree in Accounting, nor the requirements involved. Interviews with key people were planned and scheduled with the help of the personnel department. They were held with managers of several central departments, regional offices and branch offices. During the implementation of the ABC system, interviews were held with managers and staff of the departments directly involved in the process. Contact with external consultants and free access to their reports was also established.

Questions of confidentiality imposed significant constraints on the study. It was agreed with the personnel and accounting departments that the bank would remain anonymous. Protecting the confidentiality, and by extension the welfare of the people interviewed, was a major concern. It was especially important to make this clear from the start of the research that interviewees would remain anonymous. The researcher assured study participants that only he would have access to interview tapes and transcripts, and that

quotations from the interviews would be attributed in a way that would protect their source.

It is important to stress that data collection did not only rely on consent from 'high-ranking' people in the bank. It also depended considerably on the willingness of people at various sites to speak with the researcher. However, the majority seemed genuinely interested in talking about their work and their view in respect MAS.

3.5.3 Triangulated data collection

The research drew on a variety of sources of evidence. However, the two main data types were documentary and archive data, and in-depth, semi-structured interviews. Data triangulation was used for two main reasons. First, it represents an attempt to moderate or neutralise any potential bias from a single data source, especially in terms of retrospective analysis; bias may occur because interviewees may deliberately mislead the researcher (Van Maanen, 1979). They also may be unaware, misled or wrong about certain aspects of their own activities (*ibid.*), or make errors of recall about past events (Glick *et al.*, 1995; Golden, 1992). Another source of bias can relate to the situated nature of the researcher which affects both the context and the researcher's impressions (Barley, 1995). Second, the data was triangulated to gain a holistic view of the change initiatives occurring in the bank. Multiple data sources highlight convergencies or discrepancies within the findings.

Yin (1994) overviews the strengths and weaknesses of the major sources of evidence (see Table 3.2). He strongly recommends the use of multiple sources of evidence – triangulation – as they are highly complementary. Finally, Patton (1990) points out that

Table 3.2 – Sources of evidence: strengths and weaknesses

Sources of Evidence	Strengths	Weaknesses
Documentation	• stable – can be reviewed repeatedly • unobtrusive – not created as a result of the case study • exact – contains exact names, references, and details of an event • broad coverage – long span of time, many events, and many settings	• retrievability – can be low • biased selectivity, if collection is incomplete • reporting bias – reflects (unknown) bias of author • access – may be deliberately blocked
Archival records	[*Same as above for documentation*] • precise and quantitative	[*Same as above for documentation*] • accessibility due to privacy reasons
Interviews	• targeted – focuses directly on case study topic • insightful – provides perceived causal inferences	• bias due to poorly constructed questions • response bias • inaccuracies due to poor recall • reflexivity – interviewee gives what interviewer wants to hear

Source: Yin (1994:80)

one important way to strengthen a study is by triangulation – or by combining of different methodologies to study one phenomenon. He distinguishes between triangulation of data (the use of a variety of data sources), theory triangulation (the use of multiple perspectives), investigator triangulation (the use of different researchers) and methodological triangulation (the use of several methods). Since no observations or interpretations are perfectly repeatable, triangulation also helps to clarify meaning by identifying the different ways in which the phenomenon is being considered (Flick, 1992). Flick (1998:230) claims that triangulation 'is less a strategy for validating results and procedures than an alternative to validation ... which increases scope, depth and consistency in methodological proceedings'. Perhaps one may say that case study research has itself become a subject of triangulation, given the rich variety of viewpoints on it outlined earlier. Nonetheless, it is an established means of helping us to understand the complexity and unpredictability of life, even within well-ordered organisational contexts, by examining and recording and then reflecting on what people do *in practice*.

3.5.3.1 Documentary and archive data

The main documentary sources were annual reports and financial statements, consultant and internal reports. Data was also gathered by examining minutes of meetings, advertising material, internet WebPages, company magazines, state regulations concerning the sector, operating statements relating to accounting and control systems, newspapers, social balances, and other administrative documents. Documents were carefully used to provide specific detail, assist preparation for interviews, and corroborate evidence from other sources. Particular attention was paid to understanding the purpose and audience of the documents. The documents were useful in four ways:

(1) they established familiarity with not only the changes that occurred in the bank after re-privatisation but also the structure of the organisation and review practices;

(2) they provided a provisional list of key people to interview;

(3) they enabled the construction of a preliminary chronology of changes that occurred in the bank and raised issues to talk about during the interviews; and

(4) they provided corroboratory evidence about the phenomena being studied which confirmed and replicated data collected from the interviews.

The research questions of this research could not be adequately investigated without analysis of documentary data. However, they were used with caution. As Atkinson and Coffey (1997:47) observe,

> '[i]n paying due attention to such materials, however, one must be quite clear about what they can and cannot be used for. They are 'social facts', in that they are produced, shared and used in socially organized ways. They are not, however, transparent representations of organizational routines, decision-making processes or professional diagnoses. They construct particular kinds of representations with their own conventions. We should not use documentary sources as surrogates for other kinds of data'.

The implications of this are that it is important to treat documentary sources adequately:

> 'We have to approach them for what they are and what they are used to accomplish. We should examine their place in organizational settings, the cultural values attached to them, their distinctive types and forms'.

3.5.3.2 Semi-structured interviews

In-depth, face-to-face, semi-structured interviews with key people in the bank formed an important source of information. Interviewees were selected on the basis of their position in key areas of the organisation or their involvement in the change initiatives that have

occurred since re-privatisation, specifically, the ABC project. Interview material was seen as a way of accessing various stories that people tell to describe their world. The interviews were tape-recorded (except in one case) and then transcribed. Interviews were helpful in three key ways: (1) gaining insights into the change initiatives reported and interpreted by interviewees; (2) acquiring insights into the history, context, content, and culture of the bank; and (3) hearing about certain organisational issues – the unwritten knowledge of the bank. However, it was recognised that interviews present problems of bias, poor recall, and poor or inaccurate articulation (Yin, 1994). Emphasis was thus given to corroborating interview data with information from other sources.

One issue about recording interviews concerns the use of a tape recorder. Tapes provide a more accurate version of interviews than any other method. Silverman (2000:149) argues that tapes and transcripts

> 'are a public record, available to the scientific community ..., can be replayed and transcriptions can be improved and analyses taken off on a different tack unlimited by the original transcript ..., if you want to, you can inspect sequences of utterances without being limited to the extracts chosen by the first researcher'.

However, the presence of a tape recorder can prejudice or adversely influence discussion. In this study, some interviewees were not completely comfortable in its presence (e.g., they gave extra information once the tape-recorder was switched off) and issues of social desirability were raised – interviewees gave what they believed to be the 'correct' answer. Gillham (2000b:94) claims that '[t]he relationship between beliefs, opinions, knowledge and actual *behaviour* is not a straightforward one. What people say in a interview is not the whole picture; adequate research and, in particular, adequate *theorizing*, needs to take account of that'. Interview material was supplemented with data collected from

documents, reports, and so forth, in order to check what the accuracy of what the researcher was being told and also to replicate it.

3.5.4 Data gathering process – the stages of the research

The fieldwork was conducted over three years. It involved preparatory fieldwork and two main empirical research stages. The first studied the bank context; identified and analysed change initiatives since re-privatisation, understood what kind of accounting information was produced as well as about its role and usage; and identified information needs for different levels of the organisation. The second stage focused on the design and implementation of the ABC system. This focus was on technical issues (e.g. design complexity, activities and the definition of cost drivers, volume of output), and more importantly, on behavioural issues both at individual and organisational level.

3.5.4.1 Preparation and research protocol

Before conducting the main research, it was necessary to become acquainted with the history of the banking sector and the bank itself. Several external sources of information on the Portuguese financial services sector evolution were used. Several visits were also made to the bank's accounting department to conduct archival and historical research before interviewing took place, in order to gain familiarity with historical events and developments. During these initial contacts, a case study protocol written in non-academic language was presented to the bank. A formal protocol can provide reliability and forces the researcher to anticipate several problems that may arise. In this way it avoids disastrous outcomes in the long run (Yin, 1994). The protocol developed for this

study contained an overview of the research project and guaranteed confidentiality. It listed the main objectives, field procedures and sources of information.

3.5.4.2 The first stage – research in Banco Lusitano

The first stage of the main research was conducted during July and August 1999. The research involved 22 open-ended interviews with members of the bank's central departments, and of regional and branch offices. Since the study aimed to obtain multiple views from various people, interviews were scheduled by the personnel department according to the selection of interviewees following the preparation stage in order to gain a wide range of different perspectives.

The format of each interview was basically the same. Appendix I includes the guidelines used to shape interviews, with open questions. These questions were supplemented with others developed during the course of the interviews, reflecting respondents' differences and unanticipated developments. Interviews were divided into three main parts. In the first part, the project and the researcher were introduced, confidentiality was promised, and the conditions of the interview were explained. Questions about the career and work experience of the interviewee were used to open the interviews for three reasons. First, this prevented the researcher from assuming that the job title was an accurate portrayal of what the interviewee did. The second reason was to understand what range of questions the interviewee was able to give an answer. The final reason was to help the interviewee disengage from what he or she was doing immediately before the interview, relax, and focus on the interview. In the second part of the interviews, following questions about the department and incentive systems, interviewees were asked to talk about the information provided by the accounting department and changes in the management information

system. Interviewees' descriptions and reflections on these major issues were noted and followed up with supplementary questions where possible. In the third part, the interviews concluded with questions about change projects that had occurred in the bank since re-privatisation.

In addition to their recollections, perspectives, and opinions, the participants provided an avenue to gathering accounting reports, system of objectives and incentives reports, and descriptive documents. These helped the researcher to understand the change initiatives that had occurred in the bank since the re-privatisation. Several interviewees were key informants. They not only provided relevant feedback to specific questions, but also facilitated progress to different research directions or provided insightful comments on other evidence.

3.5.4.3 The second stage – focusing on the ABC system

The second stage of the fieldwork was conducted between July 2000 and April 2001. The main data sources for studying the implementation of the ABC system were 19 open-ended interviews (13 in July and August 2000, 4 in January 2001 and 2 in April 2001) with people involved in the development of ABC. These were contacts from the organisation department, accounting department, and externally, the Consultant Company and the Information Technology Company. Although the interview format varied from participant to participant, guidelines were used (see Appendix I). Three broad areas were covered by the questions. These related to changes in the management information system, changes in the Information Technology Company and its role in the change initiatives, and the implementation of ABC. Another important data source was consultant reports. These reports, prepared for regular meetings between consultants and

managers of the departments involved in the implementation team, provide data from the consultants' perspective. However, since the reports were an important component of the communication process between consultants and the bank, the analysis was relatively cautious. The structure of the reports includes a review of the situation, problems solved, new problems identified, and next steps.

Interviews were held in managers' offices. On several occasions, a separate meeting-room in the bank was used. All interviews were conducted in Portuguese and most of the questions were asked in an open-ended fashion to enable interviewees to respond in their own words. Interviews lasted on average 75 minutes and were tape-recorded. In one case, the interviewee did not give permission for the interview to be taped so notes were taken. However, even in tape-recorded interviews, some note-taking was undertaken to help formulate new questions as the interview progressed and create a database of the main issues raised in the interviews. Rules about how to create a case study database and maintain notes were followed (see Yin, 1994, 1998; Gillham, 2000a, 2000b). All data were included, regardless of their apparent importance. Interview notes and impressions were completed within a day of each interview.

Whenever possible, an effort was made to talk to managers informally about the bank, its control systems, and change initiatives in order 'to better capture feelings, attitudes and beliefs' (Hoque and Hopper, 1994:8). Secondary sources were also examined (e.g. internal documents, industry reports, Banco de Portugal reports, newspapers articles).

3.5.5 Data analysis

The process of qualitative data analysis has been described by several authors (e.g., Miles and Huberman, 1994; Denzin and Lincoln, 1994; Silverman, 2001). Data analysis is an interactive process that occurs before, during, and after data collection. In this study, the main data analysis process was conducted in three stages (cf. Miles and Huberman, 1994). In the first stage, a narrative that described changes in the bank was written. In the second stage, according to the framework developed in the literature review, the initiatives, and in particular issues regarding the implementation of ABC, were analysed. Data was organised and displayed in charts, graphs and other compact formats to help further analysis. In the third stage, conclusions were drawn and verified.

3.6 Reliability and validity

For judging the quality of a research design, Denzin and Lincoln (1994:100) propose four criteria for all empirical social science research, including case study methods:

> '*internal validity*, the degree to which findings correctly map the phenomenon in question; *external validity*, the degree to which findings can be generalized to other settings similar to the one in which the study occurred; *reliability*, the extent to which findings can be replicated, or reproduced, by another inquirer; and *objectivity*, the extent to which findings are free from bias'.

Yin (1994:33) cites similar criteria in a more 'pragmatic' way:

> '• *Construct validity*: establishing correct operational measures for the concepts being studied
> • *Internal validity*: establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships
> • *External validity*: establishing the domain to which a study's findings can be generalised
> • *Reliability*: demonstrating that the operations of a study – such as the data collection procedures can be repeated, with the same results'.

One does not necessarily have to accept this whole package (e.g., the belief that 'causal relationships' can be established in human relations is itself deeply embedded in a particular world-view that not all would share). At the same time, these lists are methodologically helpful, preventing us from falling into avoidable research traps. For instance, Yin's first criterion reminds us that it is important to develop an operational set of measures to avoid 'subjective' judgements in the collection of data. The second addresses the problem of making inferences. The third criterion, analytic generalisation[31], is a process for testing existing theory against case study findings, and generating new theory, for instance, where discrepancies are shown. Alternatively, Alasuutari (1995:157) suggests that *generalisation* is the wrong word to describe what qualitative research attempts to achieve. He argues that '*extrapolation* better captures the typical procedure in qualitative research'. The last criterion reminds us that it is important to ensure the possibility of at least partially replicating a case study and checking or testing findings.

To establish construct validity and the reliability of the case study, three principles of data collection proposed by Yin (1994, 1998) were followed. First, multiple sources of evidence were used. Second, a case study database was created. Finally, a 'chain of evidence' was maintained. Stake's (1995) suggestions were also followed: information was triangulated and bank's members checked rough drafts of writing. Furthermore, during data collection the researcher sought feedback from the same and new participants.

Beyond this, Bruns and Kaplan (1987) and Yin (1989) provide guidance on what forms an exemplary case study. Although Bruns and Kaplan focus on case studies in accounting and Yin focuses on case studies in general, their views overlap to a certain extent (see

[31] The role of theory for this research is characterised as 'analytic generalisation' in contrast to another way of generalising results, 'statistical generalisation' (Ryan *et al.*, 1992).

Table 3.3). The present research may not be an exemplary case study; however it does have many of the features highlighted by Bruns and Kaplan (1987) and Yin (1989). First, the case topic is clearly important to managers and involves issues significant in terms of empirical and conceptual development (e.g., understanding the changes in the Portuguese financial services and the role of accounting in that process of change. At a more theoretical level, it seeks to understand the roles of accounting in modern management). Second, the site selection although justifiable (see Section 3.5) was also chosen opportunistically since the aim was to gain good access, and to maximise what can be learned regarding innovative practices in the Portuguese context. Third, the case is described in detail and careful attention is given to the bank context. Fourth, the case analysis considers alternative perspectives and provides links to established literature and previous research. Finally, efforts to write in an engaging manner and provide useful findings are made. The reader will ultimately decide if that was achieved.

3.7 Limitations of case study

It would be improper to conclude without referring to the limitations that case study research, like all methods, have. Scapens (1990) identifies three particular problems. First, there are difficulties relating to drawing boundaries around the subject matter of the case. Second, there is no such thing as an '*objective*' case study. Social systems are not natural phenomena, they 'must be *interpreted* by the researcher and, thus, case studies represent interpretations of the social reality' (p. 277). The last problem relates to confidentiality. Access or subjects' views can often only be gained if confidentiality is assured. This situation may prevent the researcher from presenting a full picture of what

Table 3.3 – Views on characteristics of an exemplary case study

Yin (1989)	Bruns and Kaplan (1987)
1. Case topic is significant ➢ Of unusual or wide interest ➢ Underlying issues are important in theoretical or practical terms	1. Subject matter is important ➢ Significant to managers ➢ Potential for making advances in conceptual development of a managerially relevant phenomena
2. Case is complete ➢ Distinction between phenomena studied is given explicit attention ➢ Demonstration of an exhaustive attempt to collect relevant data	2. Site and research method appropriate to the topic ➢ Careful site selection ➢ Appropriate sequence given inquiry ➢ Good interview questions
3. Case analysis considers alternative perspectives ➢ *Descriptive or exploratory* cases consider alternative perspectives ➢ *Informing or explanatory* cases consider rival hypotheses or propositions	3. Good data presentation and interpretation ➢ Researcher understood topic and was careful with interpretation ➢ Linked to established literature
4. Case displays sufficient evidence ➢ Critical pieces of evidence are in the case study report	4. Findings are useful ➢ Implications for practice are clear ➢ Appropriate qualifications are made ➢ Implications for future study are stated
5. Case is composed in an engaging manner	

Source: Spicer (1992:13)

has been found, as well as sometimes make it difficult to check the validity of evidence (e.g., when access to relevant material held in confidence is denied).

Nonetheless, case study research 'provides a vehicle by which theories can be generated and modified in the light of data' (Otley and Berry, 1994:47). However, 'it is important to give considerable care and attention to the collection and evaluation of evidence which is used in developing and generalising theory' (Scapens, 1990:276). Case studies are 'fundamental to the development of explanatory theories of management accounting practice' (p. 279), when they are 'informed by social theory' (p. 267).

3.8 Ethical issues

Social researchers face a tension between giving full information to interviewees 'contaminating' their research by informing them about the research questions under investigation. When asking questions, not only the values of the researcher, but his or her responsibilities to those studied have to be considered (Silverman, 2000).

Regarding the interviews undertaken for this study, ethical concerns related to the consent given by interviewees after they were carefully and truthfully informed about the research (i.e. informed consent, renegotiated throughout the development of the research), protecting the identity of the interviewees (i.e. confidentiality), and their protection from negative consequences (Fontana and Frey, 1994; Kvale, 1996).

These concerns also relate to J. Mason's (1996) two main sets of ethical issues in social research. First, qualitative methods for gathering data involve the development of a relationship characterised by trust and confidence. The researcher has to decide what to do with the data. Although there is a friendly relationship with informants he or she is

also a professional who intends to use information for a formal purpose. However, privacy and confidentiality are not only about disclosing private data but also involve the interests of the interviewees and other affected parties. Political questions about whose interests are served or damaged by the analysis also need to be addressed. Second, during the research process, new and unexpected ethical dilemmas may develop. Initial consent may not be adequate in the light of such, and often is proper to obtain additional consent as to how data may be used.

In the methodological research literature, the relationship between researcher and the researched has received extensive interest (Burrell and Morgan, 1979; Hopper and Powell, 1985; Chua, 1988; Covaleski and Dirsmith, 1990; Scapens, 1990; Llewellyn, 1992; Kvale, 1996). The case study approach taken here bore in mind that the researcher was a 'guest' in a private organisation. His code of ethics was thus very strict. Since personal views and circumstances were particularly important for the study, issues regarding exposure of participants and reportage were discussed with them in advance of the interviews.

3.9 Conclusion

This chapter has attempted to explain how the research dialogue between theory and practice was undertaken in the process of developing this investigation into accounting and change in Banco Lusitano. It has attempted to indicate why and how research was conducted in a certain way. The main methodological contribution of the study is the construction of a longitudinal case study approach, based on a critical-interpretive model, for investigating the factors that influence accounting change in a bank that was not familiar with this kind of research and where confidentiality was an important issue.

In summary, the research forms a qualitative inquiry using the case study method to critically report on how the imported MAS of ABC was developed and disseminated within a Portuguese banking context. The research method is divisible into two phases. The aim of the first phase is to understand the bank context and its recent evolution via a range of change initiatives. In the second phase, the development and implementation of an ABC system has been followed across time. To understand organisational or accounting change, a longitudinal qualitative approach is appropriate. It is based on an empirical case study in the interpretive tradition since it is concerned with actors' perceptions, interpretations and beliefs. At the same time, the research draws on a Foucault-inspired critical framework of the kind developed in the work of Hoskin and Macve, and in the research into the financial sector undertaken by Morgan and Sturdy (2000). The particular model developed here is designed to enable the exploration of the effect of accounting practices on change from three perspectives – changing structures, changing discourses and the effect of both of these processes on power relations. It also draws on Fligstein's (1991) institutional framework to understand change in terms of the interplay across three relevant institutional contexts – the organisational field, the state, and the existing strategy and structure of the bank.

The Portuguese economy, especially since 1974, has focused on striking a balance between the state and the market; this process has had significant consequences on the banking sector. Therefore, the next chapter describes the Portuguese economy and provides the bank context and its recent evolution. Institutions in the organisational field and the role of the state, being both 'arbiter and interested party', are outlined throughout.

4 The Portuguese Economy

4.1 Introduction

This chapter describes the context of the organisation under investigation in which change initiatives have occurred. This contextual examination includes an analysis of the Portuguese economy and banking sector, thereby developing a conceptualisation of this particular organisational field. This setting is explored historically in terms of the role institutions and the state played within a dynamic sector which pioneered the process of liberalisation, deregulation, and privatisation that transformed a state-dominated economy into a modern European economy.

The so-called Carnation Revolution (25 April 1974) fundamentally altered the Portuguese society. During the authoritarian regime of Salazar (1932-68) and his successor, Marcello Caetano (1968-74), Portugal stood "proudly alone" with its vast African empire (Angola, Cape Verde, Guinea-Bissau, Mozambique, and São Tomé e Príncipe), "turning its back on Europe". The regime fell victim to growing pressure for change, spearheaded by the Armed Forces Movement (MFA – *Movimento das Forças Armadas*) that was unhappy with the government's African policy, and backed by massive popular support. Some of the new political and economic objectives included a move towards democracy and decolonisation that was accompanied by major investment in economic development. Political instability led to economic crisis, exacerbated by successive oil shocks[32]. Measures to resolve problems were often hesitant and contradictory. Consequently,

[32] Increases in the price of oil and other imported goods led to deterioration in the balance of payments and an increase in inflation.

governments twice sought assistance from the International Monetary Fund (IMF). European integration and political stability proved essential to the introducing of change to the economy and employment laws to increase competitiveness and foreign investment. European funds were used to improve economic infrastructures and train the workforce. Portugal is now a modern democracy, no longer separate from the rest of Europe. Nonetheless, Portugal still falls below the European average and faces the major challenge of balancing economic efficiency with social cohesion within an European framework. However, the country is stable, equipped with a modern infrastructure and more qualified workforce, and strongly committed to involvement in Europe. In this context, the Portuguese financial sector has changed from a state-owned and market regulated sector with countless direct controls to a well-capitalised and relatively efficient one, where most of the institutions are privately owned.

This chapter is divided into six sections. Section 4.2 discusses the institutional and economic legacy of the 'New State'. Section 4.3 explains how the country went from political to economic crisis. In Section 4.4, membership of the European Community and political stability are cited as used to justify the modernisation and convergence of the Portuguese economy. Section 4.5 portrays the banking sector and highlights growing competitive pressure within it. Finally, Section 4.6 summarises the main features that characterise the Portuguese economy and more particularly, the banking sector over the past 25 years.

4.2 The 'New State' (pre-1974)

A key feature of Portuguese government policy before 1974 was Portugal's retention of colonies. However, maintaining control of the colonies became an increasing burden in

the 1960s, with wars in Angola, Mozambique and Guinea-Bissau. Colonial policy became increasingly unpopular in Portugal, and it antagonised the international community. However, during the 1960s, the Portuguese economy grew at a fairly rapid pace though it was perceived to primarily benefit a small group of powerful industrialists and landholders who had close ties to the regime. The growth can be largely explained as a consequence of Western Europe development which provided an expanding market for Portuguese goods, a steady stream of tourists to Portugal, and most important, employment for nearly one million Portuguese emigrant workers by 1973. A key motivation for retaining the colonies was the link economic groups had with them as markets and sources of raw materials (World Bank, 1977).

4.2.1 Economic and political basis – the institutional legacy of the 1930s

The 'New State' (*Estado Novo*) established an economic and political framework for its longevity through a set of economic policies that operated within a corporatist structure (Nataf and Sammis, 1990; Corkill, 1993; Neves, 1996). Portugal's political Constitution, voted in 1933, and many fundamental laws date from the 1930s. First, the wheat campaign aimed to revitalise the stagnating agricultural sector and relieve pressure on the balance-of-payments. It limited the importation of wheat, guaranteed wheat prices, and provided subsidies for machinery and fertilisers. Second, the Colonial Act (1930) brought the colonies under tighter control from Lisbon. The aim was for colonies to provide raw materials in exchange for manufactured goods. Corkill (1993:5-6) claims that '[i]nstead of providing expanded markets for metropolitan products and stimulating domestic industry, the colonies increased rather than reduced external dominance and subordination to foreign and, especially British, economic interests'. Third, protectionism

and industrial regulation controlled the pace, direction and impact of economic development through a system of protective tariffs. The 1931 Industrial Regulation Law (*Lei do Condicionamento Industrial*) required government approval before an enterprise could be formed, the introduction of new technology and the transfer of ownership. 'The aim of this institutionalised intervention by the state was to establish an 'equilibrium of production' in the domestic market and to limit competition among small, medium and large enterprises' (*ibid.*: 7). Fourth, planning actively involved the state in the provision of infrastructure. The 1935 Economic Reconstruction Law (*Lei de Reconstituição Económica*) provided assistance to the private sector, generating employment and encouraging propaganda about the regime's accomplishments. The government used 'Plans' (*Planos de Fomento*) to define investments in every sector, with special emphasis on infrastructures (e.g. transport and communications). Fifth, the state consolidated the position of the dominant classes through the control, discipline and exploitation of the workforce. Labour organisations were tightly restricted by the state, workers had no right to constitute independent trade unions, and strikes were outlawed.

Corkill (1999:53) quotes an OECD report to claim that the pre-1974 regime was built

> 'on hierarchical principles in which 'operational units existed to serve the state rather than the citizens' (OECD, 1996, p.119), and were oriented primarily towards internal control. Staff was expected to carry out orders and instructions delivered from the top and consequently 'their image was closely associated with the image of the state' (Ibid.). The inertia-bound system was elitist and shunned meritocratic employment and promotion systems'.

The regime adopted the doctrine of 'corporatism'. Social and professional groups were incorporated into official organisations that were supposed to represent their interests (Neves, 1994). These organisations of workers and employers were supposed to lobby the government, thereby avoiding 'class struggle'. In this way, they were controlled and used

as instruments of state policy. Collective negotiations under the corporatist institutions served as a mechanism for holding down wages. The most important role of these institutions was under the Industrial Regulation Law. They were consulted when a company needed government authorisation to enter a market or change installed capacity.

The impact of this system was low levels of innovation and economic flexibility. It helped to concentrate the economy by creating a few large economic groups. At the same time, it contributed to financial stability through wage control.

4.2.2 The 'Golden Age'

According to Lopes (1996), in 1960, Portugal was about to enter a phase of unprecedented economic growth but from an underdeveloped base. For instance, per capita income was approximately a third of that in developed European countries. Agricultural work was undertaken by approximately 45 per cent of the workforce. Industry included a significant percentage of factories with underdeveloped technologies. Their activity centred on low-value-added transformation of raw materials or primary products. Unemployment and under-employment were high (the latter particularly so in the agricultural sector). Average life expectancy was low, infant mortality rates were high, and a relatively small percentage of the population had access to facilities such as electricity, health services, formal education.

The main characteristics of a developing Portugal from 1960 to 1973 were an acceleration in economic development, with an increase in foreign trade, and the avoidance of major macro-economic imbalances. Corkill (1993:18) points out that

> '[t]he industrial sector performed very strongly, averaging yearly growth rates around nine per cent, followed closely by the service sector buoyed by the tourist boom. Only agriculture, the perennial economic millstone, registered a disappointingly low 1.5 per cent increase in average annual output'.

Institutional structures were kept more or less the same during this period. Although 'industrialists' and 'free-traders' dominated, the presence of 'ruralist', protectionist and colonial lobbies was clearly evident (Neves, 1996). The economic plans applied from 1959 to 1973 privileged industry and the (regulated) private sector, and promoted foreign capital and co-operation with foreign companies. Agriculture was seen mainly as a means of support to industry (*ibid.*).

Gross Domestic Product (GDP) grew at an average annual rate of 6.9 per cent from 1960 to 1973 (Lopes, 1996), reflecting a number of new factors: an intensification in the industrial investment with a considerable degree of modernisation of plants and processes, the integration of Portugal into the European Free Trade Association (EFTA), the colonial war, and the first wave of growth in tourism and immigration from the then Portuguese colonies.

4.2.2.1 Intensification of the industrialisation process

Lopes (1996) notes that, over the period 1960-73, agriculture shed about 600,000 workers and its share in GDP shrank from 24 per cent to 15 per cent. This change corresponded with what has been seen elsewhere as the normal pattern of modern economic development, with a shift away from the land (although there was a small shift towards intensive agri-business farming in the agricultural sector). However, the secondary sectors (i.e. industry and services) started to play a more significant role in the economy. Industry grew from 30 per cent of GDP in 1960 to 36 per cent in 1973. It became more diversified,

with higher productivity, thereby contributing to a growth in exports. Modern high-added-value factories expanded while older traditional industries (i.e. food and textiles) stagnated. The service sector, which has always been a major part of the Portuguese economy, grew only slightly in relative terms from approximately 45 per cent of GDP in 1960 to 49 per cent in 1973. However, this masked a considerable change in the make-up of services, with a retreat from traditional activities towards those with significant potential for growth (e.g. financial services, transport, tourism and communications) in line with economic modernisation.

Foreign investment began to flow into these sectors, as there was a range of favourable conditions for such. Oliveira *et al.* (1998) point out that wages were low, unions were weak or non-existent, and the Salazar regime was politically stable. These conditions provided good opportunities to investors to offer competitive local salaries to attract skilled professionals and others in demand whilst repatriating a healthy stream of profits. At the same time, despite the speed and depth of the economic transformation, there were no significant problems in respect of economic imbalances. Unemployment fell[33], agricultural under-employment was practically eliminated, inflation fell while budgets were generally balanced or in surplus, and the balance-of-payments remained healthy. As a consequence, gold reserves rose to a level where they were, among the highest in the world, by 1973 (Lopes, 1996). However, international competitiveness was based on low-cost labour, which disregarded the negative effects of low productivity, an unskilled workforce, low levels of technology and an "indulged" private sector (Robinson, 1979). One dark cloud on the horizon was the beginning of colonial wars (or wars of independence) in Angola, Guinea-Bissau and Mozambique from 1961. However,

although they proved a significant drain on the public purse, the balance of public finance remained healthy.

4.2.2.2 The colonial wars

The wars in African colonies, particularly Angola and Mozambique, had a major effect on Portugal's disposable resources. Thousands of extra soldiers had to be recruited, and the prosecution of campaigns for over a decade entailed the application of substantial resources for non-productive ends. As a result, many social and economic development programmes were cancelled or cut back (e.g. in housing, health, education). To ensure that growth was sustained, Portugal tried to attract foreign investment to compensate for the drain of funds due to the considerable defence budget. Notwithstanding this, the gearing-up of a war economy had some positive effects. For example, it stimulated war-related industrial production and boosted consumption by increasing the wages paid to the armed forces and workers in boom industries.

4.2.2.3 The integration of Portugal into EFTA

Despite the economic growth of the 'New State', the Salazar regime continued to hold out against the kind of political-economic changes such as decolonisation and democratisation that were taking place outside the Iberian Peninsula. Nonetheless, the effect of economic change was considerable over the longer term. From 1948, Portugal participated in the Organisation for European Economic Co-operation (OEEC)[34], and in 1960, it joined the World Bank and the International Monetary Fund. The creation of

[33] This was illusory since it was a consequence of massive emigration.
[34] Canada and the United States joined with the European countries in 1961 to transform the OEEC into the OECD, the Organisation for Economic Co-operation and Development.

EFTA in 1960 encouraged the reduction of obstacles to the importation of non-agricultural products. Portugal's membership meant that it gained considerably from the lowering of trade barriers. However, under Annexe G of the Stockholm Convention, Portugal benefited from a special statute that allowed the protection of some sectors in terms of preserving some of their old "vices". EFTA membership also led the state to prioritise trade within Europe rather than overseas in the national economic plan. In 1961, the establishment of the General Agreement on Tariffs and Trade (GATT) helped to reduce trade barriers with countries outside EFTA.

4.2.2.4 Immigration and tourism

A number of positive effects also flowed from a growth in immigration (used as a policy instrument for the maintenance of political and social stability) and the first wave of growth in tourism. Emigration impacted positively on employment, balance-of-payments, saving rates, and private consumption. Tourism benefited the balance-of-payments and, over time, led to a rise in the average family income. At the same time, however, inflation began to increase and the first adverse effects of the shift to technologically-advanced, labour-efficient industrialisation began to be felt. These effects came through more strongly in recent decades. At first, Portugal had enjoyed a competitive advantage from its relatively low labour costs, but the ability of companies to relocate production to countries with lower labour costs and an adequate skill base saw the erosion of this form of competitive advantage. Growing realisation of this led to a shift in Portuguese development strategy towards a more service-oriented and diversified economic pattern.

4.2.3 New Industrial Policy

In 1968, due to health problems, Salazar stepped down and was replaced by Marcelo Caetano. Although it had initially embarked on a policy of limited political liberalisation, there were no signs of change in the regime's attitude towards Africa. A new development model, based on the co-operation between the state and economic groups, failed to gain support for its 'renovation in continuity'. However, some results of the modernisation programme were achieved (Corkill, 1993). First, the 1972 Industrial Development Law (*Lei de Fomento Industrial*) made funds available for modernisation proposals. Second, the promotion of growth was stimulated through development planning (e.g. the Sines industrial project). Third, there was a reduction in the economic importance attached to the empire. 'Taxes on exports to the colonies encouraged colonial industrialisation and forced metropolitan firms to relocate overseas or to seek alternative export markets' (*ibid.*:33).

Caetano's regime missed the opportunity to end the wars and obtain the trust of a small group of opposition liberal deputies. Social problems – relating to education, health, social security and the general protection of the lower classes – were significant, and the economic situation was rapidly deteriorating. The army was discontent with the colonial policy and its peaceful revolution led to the downfall of the 48-year-old regime.

In sum, the combination of an internal shock (the revolution) and external shocks from rising oil prices and imported inflation impacted negatively on an ill-prepared economy.

4.3 The period 1974-1985

In April 1974, the revolution replaced the 'New State' with a democratic regime, leading to an overhaul of major features of the political and economic system. The revolution had three broad objectives: first, to establish a democratic society and restore civil liberties; second, to cease the colonial wars and give independence to the colonies, and third, to pull economic power away from the economic groups created during the dictatorship and improve the standard of living for workers and small farmers (World Bank, 1977). A new constitution was formulated in 1976. It embodied many collectivist principles and strong communist influences. A period of considerable confusion followed as a result. Serious problems built up in the economy and in Portuguese society over these years despite economic growth. There were serious structural constraints, and a relative lack of investment in sectors such as health, education, social security and transport. The post-revolutionary economy required structural reform and a more efficient use of resources.

4.3.1 Economic legacy

The fairly impressive economic growth rates achieved in the 1960s masked, but did not remove a series of structural weaknesses (World Bank, 1977; Corkill, 1993; Lopes, 1996). First, in a dualistic industrial structure, a modern sector comprising a few private economic groups co-existed with a traditional sector made up of a large number of small firms. These economic groups, under the control of families, were involved in a range of areas including manufacturing, banking, agriculture and the media. Second, agriculture was characterised by low productivity and a dualistic landholding structure that was urgently in need of reform. 'Large agricultural estates in the south of the country were often farmed by absentee landlords, and land was fragmented in the north' (World Bank,

1977:7). The state never had political will to tack the problems, preferring to regulate the sector through institutions 'set up to administer costly subsidies to privileged wheat, dairy and olive farmers' (Corkill, 1993:25). Third, the economy was highly sensitive to changes in the international context. The situation was 'exacerbated by the high level of defence expenditure and a burgeoning commercial deficit caused by industrial development (oil imports, capital equipment) and agricultural shortfalls (wheat and other foodstuffs). In this context, tourism receipts and emigrants' remittances, both highly sensitive to recession, became doubly important' (*ibid.*: 27). Fourth, an inept bureaucratic and centralised machine, created to administer and regulate in detail the corporatist structures, remained in place. Fifth, much protected and uncompetitive industry was still dependent on the African market and unprepared to face international competition. The colonies were used 'as a safety valve to provide an outlet for the excess population and minimise social disruption at home, and as a source of cheap raw materials and a captive market for metropolitan industrial production' (*ibid.*: 19). Sixth, Portugal adopted an ambiguous attitude towards Europe, which reflected a political dilemma involving a choice of isolationism or stronger links with Europe. EFTA membership was an important step, but as long as the political regime remained a dictatorship, Portugal could never accomplish full membership of the European Community (EC).

4.3.2 Economic and political change

Political instability characterised the early years of Portuguese democracy. Agents of the revolution met little resistance and won support due to a popular desire for economic and political change. Political transition up to 1976 involved three phases: first, a moderate-conservative phase (May 1974 – March 1975), second, a middle-leftist phase (March –

late November 1975), and third, a final moderate reaction (late November 1975 – June 1976). This contributed to six changes in government within two years, attempted coups, and frequent strikes and demonstrations. However, the country witnessed the formation of political parties and trade unions, and freedom of the press (World Bank, 1977). Although, the attempt to create a socialist economy failed, the consequences of the structure inherited from the 1960s were quite damaging (Neves, 1996).

Political instability had economic consequences as the rates of growth in GDP decreased, while inflation and unemployment increased rapidly, and public debt increased as greater social provision occurred[35]. Given the coincidence of this with the global effects of the first oil crisis, in 1973, the government had recourse to the IMF, and had to accept stringent terms for stabilising the economy. This led, as in other countries, to the state having to impose highly contentious measures to cut government expenditure and eliminate budgetary deficits. The stabilisation plan included strong monetary and budget control and devaluation of the currency to face expenditures (Neves, 1994; Oliveira *et al.*, 1998). Although successful, the reduction occurred mainly in the private sector as public deficit remained around 10 per cent of GDP (Neves, 1994). The political decision to expand the economy after the second oil shock had fatal effects for the fragile external equilibrium. An external payments crisis forced another agreement with the IMF in 1982,

[35] More specific external factors also played their part, in particular, certain unanticipated effects of the independence of the colonies. First, there was the loss of favourable trading relationships, with a consequent major drop in exports to former colonial markets like Angola and Mozambique. In 1973 such exports formed about 15 per cent of total Portuguese exports, but this percentage fell by half over the next few years (Lopes, 1996). Second, there was an influx of about 800,000 Portuguese who had settled in the colonies before the revolution, with predictable effects on the state budget (World Bank, 1977). The labour market suffered not only from the *retornados* (returning migrants from the former colonies), but also from demobilised soldiers, and thousands of *regressados* (returning migrants displaced from their jobs in Europe facing a recession). Unemployment was a new phenomenon which required intervention to moderate its impact. For instance, agriculture functioned as an absorber of labour and, according to the World Bank (1978), during the period 1973-78, employment in public administration grew at an average annual rate of almost 16 per cent.

leading to the imposition of a stabilisation programme from 1983 to 1985. Nataf and Sammis (1990:114) stress that externally-imposed shock treatment had short-term effects:

> '[t]he governments were singularly ineffectual in reversing the deficiencies in Portugal's productive capacities, but they were quite successful in convincing austerity-oriented international lenders, budget-minded tourists, and high interest-seeking, stability-minded emigrants that the Portuguese economy was being corrected of its "excesses"'.

4.3.3 The nationalisation of the main economic groups

The economic problems outlined in the preceding section were exacerbated when moves were made to establish a more socialist, centralised economy in Portugal. Direct measures were adopted to increase wages and protect the rights of the workers, while prices were controlled. The World Bank (1977) claims that the new rulers promised a widespread nationalisation of key economic sectors, job creation, the raising of the minimum wage, the imposition of price controls, and the implementation of agrarian reform with a shift to communal farming.

Large, often uncultivated track of lands were transformed into cooperatives. 'The landless workers of the south did not parcel out the land and thereby transform themselves into smallholders. They acted collectively and organized collective worker-controlled farms' (Bermeo, 1986:100). The World Bank (1977) maintains that this change in ownership did not improve efficiency since the workforce lacked management skills and administrative experience. Bermeo asserts that worker-controlled farms were at least as productive as the units they replaced. She suggests another explanation of why agrarian reform faced severe problems, while the occupation and nationalisation of industries did not – 'worker-controlled factories and service firms were not perceived as bastions of the communist party' (p. 214). Collective farms did not manage to be economically successful; even

those with a positive experience were submerged by the process operating against agrarian reform (Lopes, 1996). According to Bermeo (1986), some 569,000 hectares reverted to private ownership and over 100 cooperatives were dissolved by January 1981. However, the policy of returning lands that had been taken over by agricultural workers to 'old' owners also failed and did little to improve agricultural productivity (Nataf and Sammis, 1990).

A large portion of the productive sector was nationalised, in a process that involved several stages. Initially, banks and insurance companies were nationalised in September 1974[36]. Since banks had share-holdings in many private companies, the effect was indirect ownership of hundreds of small – and medium – sized companies. Subsequently, other industries came under state control: petroleum, steel, cement, tobacco, brewing, water, paper paste and transport. Corkill (1993) cites several consequences of this process. First, Portugal had one of the largest public sectors in Western Europe. Furthermore, it comprised what were among the most modern and technologically advanced industries to come under state control. Second, human capital changes weakened the already precarious economy. On the one hand, "purges" [in the form of political oustings] included in the anti-fascist campaign aggravated the shortage of trained and experienced staff. On the other hand, there was strong political pressure to increase staffing levels to absorb surplus labour, especially refugees from the former colonies. Third, the foundation of state monopolies relegated market forces to an accessory role.

[36] On 13 September 1974, the issuing banks were nationalised: *Banco de Portugal* (issue bank in Portugal, Decree-law no. 452/74), *Banco de Angola* (issue bank in the ex-colony of Angola, Decree-law no. 450/74) and *Banco Nacional Ultramarino* (issue bank in the other ex-colonies, Decree-law no. 451/74). Decree-law no. 132-A/75, of 14 March 1975, nationalised all credit institutions with head offices in mainland Portugal and the autonomous regions of Madeira and Azores, with the exception of the Saving Banks, Agricultural Mutual Credit Co-operatives, the *Crédit Franco-Portugais* and the Portuguese branches of the Bank of London & South America and the *Banco do Brasil*.

For example, the nationalised banks, although in competition between each other, encountered significant state interference. They were closely supervised by the Bank of Portugal, suffered from political interference and excessive bureaucracy, and supplied the majority of the available credit:

> 'As a consequence, the banking system, already weakened by capital outflows during 1974-5, lost any semblance of independence and financial discipline. Government interference ensured that interest rates bore little relation to inflation, preferential credit was extended to insolvent public enterprises well beyond the boundaries of financial prudence and the government itself became a major borrower' (*ibid.*: 39).

Many state-owned companies had also a social function. They were compelled to accept excess labour, as did the banks that hired many *retornados* who had held banking positions in the former colonies (Nataf and Sammis, 1990). Fourth, the dramatically increased public expenditure generated by revolution commitments and current account deficits had to be financed from external resources: borrowing from international capital markets and emigrant remittances. The fast rates of growth in long-term indebtedness meant that a large proportion of government revenue (approximately 11 per cent) went to servicing debt.

4.4 1985 on: renewal of economic growth and subsequent reform

The fact that the large public sector in Portugal was often not managed according to economic criteria was synonymous with resource misallocation and bureaucracy. Corkill (1999:53) points out that even today '[t]he public bureaucracy remains 'a highly centralized and hierarchical apparatus based on an ethos of order, deference and legalism' (Graham, 1992:2) and until the late 1980s efforts at administrative reform were half-hearted'.

From around the end of 1985, the Portuguese economy entered a new phase. The balance-of-payments problem finally receded, and Portugal joined the EC in January 1986. At the same time, a centre-right government was elected with a significant majority of seats in the Assembly of the Republic, and the exchange rate strengthened, following a fall in oil prices and the exchange rate of the dollar. This promoted savings on the cost of many imports, and a reduction in the inflation rate. Meanwhile, membership of the EC accelerated the growth of both exports and imports, and the level of foreign capital investment; there were also considerable transfers from the EC's structural funds to support investment, employment policies, infrastructural development and so on. The new political stability allowed expansionist policies to be pursued in a sustained way. Initially, priority was given to stimulating economic growth, and after 1990, to reducing inflation over the long term. Inflation fell from 13.7 per cent in 1990 to around 5.5 per cent by 1994. However, GDP growth reduced from 5.5 per cent in 1989 to around one per cent in 1994. Unemployment, which was 4.1 per cent in 1991, grew to 7 per cent in 1994.

Under exceptionally favourable circumstances – low oil prices and declining interest rates, combined with funds from EC – the government's main objectives were: high and sustainable rates of GDP growth, a lower unemployment rate, controlled inflation, the correction of the disequilibrium in the balance-of-payments, stimulation of investment, and a reduced public-sector deficit (Corkill, 1993). To obtain these objectives, several structural reforms were necessary: liberalisation of the financial sector, modernisation of the tax system, legislation to promote flexible labour markets, and a privatisation programme.

As a result, there was considerable expansion in private sector activity, with a sustained boom in tourism and infrastructural development as well as continuing neo-liberal reform in labour relations and industrial activity. Overall economic indicators were generally favourable as this process unfolded, both in terms of GDP growth and the balance-of-payments. 'The eighties were a period of consolidation of the institutional changes of the democratic regime and of stabilization of the society' (Neves, 1994:90). Consequently, Portugal has been able to achieve the criteria for participating in the third phase of European Monetary Union (EMU) – the creation of a single currency. Table 4.1 shows the main economic indicators of the Portuguese economy.

4.4.1 Liberalisation of the financial sector

The state-owned banking system had had a very important function: 'to fund the government's huge deficit by providing low (non-market) interest rates and loans to public enterprises' (Corkill, 1993:135). Significant resources had been made available to public companies that buried large subsidies and continued to make large operating losses. These companies were characterised by high labour costs, overstaffing, outdated technology and poor customer services (*ibid.*).

The first stage of liberalisation involved the restructuring of the banking system. This was followed by development of the capital markets. Gradually, the financial sector was opened to more competition via new domestic and foreign private-sector banks (permitted since 1984) and privatisation (since 1989). According to the Bank of Portugal (1997), the liberalisation involved three main aspects:

Table 4.1 – Portuguese main economic indicators

	Units	1996	1997	1998	1999	2000
Expenditure, income and saving						
Gross Domestic Product (GDP)	r.g.r., %	3.7	3.8	4.0	3.1	3.3
Private consumption	r.g.r., %	3.1	3.1	5.7	4.6	3.0
Public consumption	r.g.r., %	3.4	2.2	3.2	3.4	2.8
Gross fixed capital formation	r.g.r., %	6.3	14.4	9.8	6.3	5.0
Exports of goods and services	r.g.r., %	7.1	7.2	8.7	3.9	7.9
Imports of goods and services	r.g.r., %	4.9	10.0	13.8	8.5	6.9
Domestic demand	r.g.r., %	3.2	5.0	6.2	4.9	3.4
Households disposable income (DI)	r.g.r., %	2.0	1.6	3.8	3.8	3.5
Households domestic saving rate	% of DI	11.3	10.0	8.3	7.5	7.9
Employment						
Total employment	% change	0.6	1.9	2.3	1.8	1.7
Employment rate	%	66.1	67.9	70.2	71.2	72.2
Unemployment rate	%	7.3	6.7	5.0	4.4	4.0
Prices, wages and unit labour costs						
Harmonised index of consumer prices	% change	2.9	1.9	2.2	2.2	2.8
Consumer prices index	% change	3.1	2.2	2.8	2.3	2.9
GDP deflator	% change	3.0	3.7	3.7	3.5	3.3
Private consumption deflator	% change	3.6	2.9	2.8	2.4	2.9
Goods export deflator	% change	-3.1	2.2	-0.4	-1.7	5.2
Goods import deflator	% change	1.2	2.3	-2.1	-1.1	8.2
Nominal wages	% change	6.4	5.0	4.8	4.1	5.8
Unit labour costs	% change	3.8	2.3	1.4	1.7	3.4
Current and capital account						
Current account + Capital account	% of GDP	-2.1	-3.2	-4.7	-6.2	-8.5
Current account	% of GDP	-4.2	-5.7	-6.9	-8.3	-9.9
Capital account	% of GDP	2.1	2.5	2.2	2.1	1.4
Public finances						
General Government overall balance	% of GDP	-3.9	-2.7	-2.2	-2.0	-1.4
Public debt	% of GDP	62.7	59.1	55.3	55.0	53.8
Current receipts	% of GDP	39.6	39.4	40.2	40.5	41.7
Current expenditure	% of GDP	39.7	38.4	38.4	38.3	39.4
Primary current expenditure	% of GDP	34.4	34.2	34.9	35.1	36.3
Credit aggregates, interest rates and capital markets						
Credit to non-financial corporations	% change	6.4	20.7	22.8	24.1	25.8
Credit to households	% change	25.0	26.0	31.4	27.9	20.4
3-month Lisbor	%, Dec.	6.3	5.0	3.3	3.4	4.9
10-year fixed rate Treasury bond yields	%, Dec.	6.8	5.6	4.1	5.6	5.2
Stock price index (BVL 30)	% change	34.7	74.6	26.7	10.1	-11.0

r.g.r. – real growth rate

Source: Ministry of Finance (2001:*ix*)

1. The structure of banking business – Restrictions to the composition of assets and to banks' activity were lifted. The compulsive investment in public debt securities was suppressed. The legally enforced segmentation of credit institutions' activities was gradually removed.

1. Competitive conditions – Competition in the banking sector ceased being controlled directly by the state through limits to credit granting, administrative regulation of interest rates, and restrictions to new banks or expansion of branch networks.

2. Banks' international activity – Free establishment and supply of financial services in the EU was accomplished alongside the harmonisation of supervision instruments.

Although they initially had a small share of total lending, the new private banks impacted on the nationalised sector through their competition for customers and stricter accounting procedures. At the end of 1996, the presence of the state in the financial sector was confined to the group *Caixa Geral de Depósitos*. New instruments and the gradual removal of capital controls accompanied deregulation of the financial sector (European Commission, 1997). Capital markets were modernised, and trade in new money market instruments was sanctioned. Corkill (1993:136) claims that the liberalisation and the privatisation programme provided improvements that involved 'a new stock-market law (1991), continuous computerised trading, an independent securities exchange commission and a new daily index in accordance with EC rules'.

4.4.2 Tax system reform and legislation to promote flexible labour markets

The Portuguese tax system encouraged tax evasion and produced only limited revenue. From 1986, with the introduction of VAT, efforts were made to widen the tax base and

improve equity and efficiency. In 1988, the whole tax system was simplified via the introduction of two taxes for income and property, one personal (IRS) and the other corporate (IRC).

Labour laws, seen as an obstacle to modernisation, become more flexible. Corkill (1993:138) notes that 'employees, who in the past could only be dismissed for disciplinary reasons, could now be made redundant if the economic and commercial situation warranted it'. Although these changes faced strong opposition from left wing parties and trade unions, for some, the new laws did not go far enough. For example, '[t]he Portuguese Industrial Association objected on the grounds that they remained inflexible and would encourage short-term fixed employment contracts, which grant workers fewer rights than permanent contracts, to be the norm rather than the exception' (*ibid.*: 138).

4.4.3 The privatisation programme

The maintenance of a large and largely unreformed public sector preserved some of the social achievements of the revolution. However, this proved prejudicial to modernisation and economic growth. It also meant that the public sector was seen as one of the reasons why overall productivity was low, outside the country as well as inside. 'Many of these companies were operating at large losses and high indebtedness was pervasive; efficiency was often mediocre and many companies were sheltered from competition' (European Commission, 1997:75). Fundamental structural reforms became urgent to respond positively to the challenges presented by European integration.

Nevertheless, the process suffered several delays. Corkill (1994:218) explains those delays 'by the constitutional constraints, by the lack of experienced administrators to steer the sales through, the negative impact of the 1987 stock market crash and the uncertainty as to future growth prospects generated by the Gulf War'. Political stability and EC competition policy directives to limit state aid to industry facilitated the government's initiation of the process. After a constitutional change and the Privatisation Framework Law (*Lei-Quadro das Reprivatizações*) that allowed selling more than the previous 49 per cent maximum, the legal framework was established.

Corkill (1994:219) points out that the Prime Minister, when announcing the programme, clarified three categories within the state sector:

> 'The first group, public services such as the railways, the national airline, and the postal services would remain in the public domain. The second group, problem companies such as EDAP, Quimigal and Siderugia would require restructuring before any sale. The third, corporations in healthy condition, would be early candidates for the return to the private sector'.

Corkill (1993, 1994) claims that there were three main objectives regarding privatisation. First, obtain best value for public assets to reduce the level of public debt and to restructure state industries to prepare them to the private sector. Second, improve efficiency and competitiveness through an efficient private-sector management. The involvement of foreign capital would help improving productivity and transference of technology. Third, spread shares ownership and provide the basis for the development of capital market.

One controversial issue was possible foreign control of key economic sectors. Foreign ownership was generally restricted while the first phase of privatisation was in process.

According to the IMF (1998), direct foreign ownership of share capital was limited to 10 per cent and this could be raised to 25 per cent only with specific regulatory approval. The rationale for these restrictions was that 'emerging domestic entrepreneurial groups had to be encouraged and former (pre-1975) owners had to be assisted in regaining control of the enterprises via reduced competition during the bidding process' (European Commission, 1997:77).

However, in 1995, the Portuguese government decided to abandon its foreign capital policy. The financial sector was the most attractive sector for both foreign and national economic groups. Most of the companies that were sold were in the banking and insurance, telecommunications, electricity, oil, and cement sectors (see Table 4.2). The privatisation programme 'enhanced the diffusion of share ownership, contributed to the increase of the stock market capitalization and liquidity, the diversification of saving options and the improvement of companies financing' (Ministry of Finance, 2001:34). From 1989, the public sector share of the economy continuously decreased:

> In 1988, the Portuguese public sector accounted for 19.7 per cent of GDP and for 5.5 per cent of total employment. State owned enterprises were dominant in sectors such as finance, transport, energy, communications, steel, cement, brewing, shipbuilding, wood pulp and tobacco. At the end of 1999, the share of value added by public owned enterprises amounted to 7.5 per cent of GDP and their employment amounted to 2.6 per cent of total Portuguese employment' (*ibid.*: 34).

4.5 The banking sector

In this general context of development, the Portuguese banking sector was both a major beneficiary, and driver, of economic growth. At the beginning of this period, it still played a very traditional and inward-looking role, when compared to the expansionist role

Table 4.2 – Major privatisations 1989-2000

Company	Sector	Proceeds (billion PTE)	Privatised share	Year(s)
Banks				
Banco Português do Atlântico		223.3	100.0	1990-95
Banco de Fomento e Exterior		161.0	88.0	1994-97
Banco Espírito Santo e Comercial de Lisboa		149.9	100.0	1991-92
Banco Totta & Açores		71.5	93.3	1989-96
Banco Fonsecas & Burnay		45.1	100.0	1991-92
Banco Pinto & Sotto Mayor		44.1	100.0	1994-95
Crédito Perdial Português		40.8	100.0	1992
União de Bancos Portugueses		39.4	100.0	1993-96
Insurance companies				
Tranquilidade		44.7	100.0	1989-90
Mundial Confiança		33.4	100.0	1992
Bonança		29.7	100.0	1991-94
Império		25.5	100.0	1992
Aliança Seguradora		13.9	100.0	1989-91
Other				
EDP	Electrical utility	1,228.1	68.2	1997-2000
Portugal Telecom	Telecommunications	1,033.6	97.2	1995-2000
Brisa	Motorways	348.3	84.9	1997-2000
Cimpor	Cement	286.3	89.5	1994-1998
Petrogal	Oil	80.8	45.0	1992-95
Cimentos de Maceira e Pataias	Cement	39.6	100.0	1994-95
Portucel Industrial	Pulp and paper	39.5	44.3	1995
SECIL	Cement	35.9	58.9	1994-95
Centralcer	Brewery	34.6	100.0	1990
Unicer	Brewery	22.7	100.0	1989-90

Source: Ministry of Finance (2001:A35-A36)

it has adopted under the liberal economic regime. In the last 25 years, the sector has undergone substantial changes, including the introduction of a new legal framework, liberalisation, the privatisation programme, and the EMU membership. It has evolved from a strongly regulated, state-owned system to a modern and competitive market. According to the OECD (1996:63), the changes have been successful and may be used as a point of reference to other countries since Portugal 'was able to enjoy the fruits of liberalisation – such as increased efficiency of financial intermediation – without experiencing some of the post-liberalisation problems that occurred in several other countries, including the failure of financial institutions'.

4.5.1 The changeover

Before the 1960s, Portugal's banking sector was, like the economy in general, relatively under-developed. Under the Salazar regime, there was some expansion in banking activity but it was largely the large private groups that dominated the economy who benefited. The banking sector, like most of the economy, was closed to foreign markets. Almost all of the banks were private, with only *Caixa Geral de Depósitos* owned by the state.

After the revolution in 1974, all domestic banking institutions were nationalised. However, unlike other nationalised sectors where private firms were typically consolidated into state monopolies, the commercial banking system and the insurance industry were both left with a degree of competition. A few foreign banks held a very small share of the market. The banking sector was highly regulated, with interest rates for both deposit and lending operations set administratively, credit ceilings, legal entry barriers, and strict international capital movement. Furthermore, banks were required by

law to extend preferential credit to nationalised non-financial companies, as well as to finance the public debt at below market rates. Political interference affected bank solvency, leading to an increase in non-performing loans and an insufficient capitalisation of banks. In such a setting, banks also accumulated involuntary excess liquidity which was then invested with the Central Bank at below market rates (Ministry of Finance, 1998). Affected by heavy regulation, a lack of competition and limited exposure to innovative foreign influence, the banking system remained under-developed and inefficient (OECD, 1999).

Portugal's accession to the EU made the liberalisation of its financial sector imperative. An OECD (1999:65) economic survey claims that this liberalisation has many dimensions:

> 'Beyond ensuring that savings were efficiently directed to investments, an efficient financial system was also expected to have in-built incentives for innovation and least-cost provision of services, while offering a large choice of financial instruments and hence allowing a better match of preferences for risk, return, liquidity and cash flow. In addition, reforms were expected to improve macroeconomic management by enhancing the conduct of monetary policy'.

From 1983, new private financial institutions were allowed to operate. However, they were subject to administrative discretion until the adoption of the EU Second Banking directive at the end of 1992. Barriers to entry protected the highly under-capitalised state-owned bank sector (Table 4.3). Nevertheless, new banks market share, although small, steadily increased (see Table 4.4). The pace of reform accelerated in the early 1990s. The banking sector was opened fully to competition, external capital flows were liberalised,

Table 4.3 – Profitability of the banking sector

	1984	1987	1989
Profitability (Gross income* / Assets) (%)			
Banking sector	0.97	2.02	2.69
State-owned banks	0.92	1.96	2.62
Private Domestic Banks	-	2.43	2.97
Foreign banks	4.84	2.77	3.32
Capital / Credit (%)			
Banking sector	3.7	6.4	8.9
State-owned banks	3.6	5.8	7.9
Private Domestic Banks	-	11.5	13.1
Foreign banks	12.5	12.8	17.6

* Profits before depreciation, provisions and income taxes.

Source: Ministry of Finance (1999:52)

Table 4.4 – Market shares in banking markets

	1984	1987	1989
Credit			
State-owned banks	95.9	89.8	83.9
Private Domestic Banks	3.1	6.2	11.1
Foreign banks	1.0	4.0	4.7
Deposits			
State-owned banks	96.2	93.6	88.7
Private Domestic Banks	2.5	4.3	8.6
Foreign banks	1.3	2.1	2.7

Source: Ministry of Finance (1999:52)

remaining interest controls were abolished, monetary policy instruments were modernised, and most of the public financial institutions were privatised (OECD, 1999)[37].

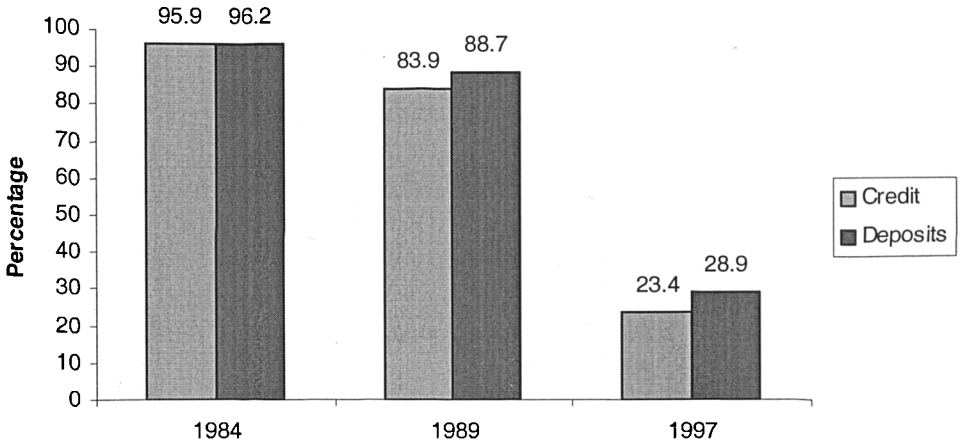
The privatisation process led to the decline of state-owned banks' market share. In 1984, the market share of these banks was more than 95 per cent. The privatisation process started in 1989, gradually transferring directly state-owned banks to private administration. Their market share felt to about 45 per cent in 1993 and remained below 30 per cent by the end of 1997 (see Figure 4.1). The financial sector again became a major source of investment and interest for leading private groups, many of them continuations of old groupings. In the initial phase of liberalisation, the activity and profitability of the financial sector increased significantly. In the early 1990s, the banking sector was contributing 8.5 per cent to the GDP, a comparatively high percentage in international terms. However, profit margins fell back, even though activity remains high, as the market has been filled with participants who compete in both domestic and foreign markets, chasing lower costs and higher market share.

4.5.2 The current state of affairs

In recent years, the Portuguese banking system has increasingly concentrated on expanding in other markets, notably insurance. This has enabled it to explore synergies and develop new sources of income to compensate the fall of financial margins. The Portuguese Banking Association (Associação Portuguesa de Bancos, 2001) overviews the banking sector in 2000 (see Table 4.5). In 2000, the banking sector's assets grew by nine per cent representing an increase on that of the previous year (the growth rate was 13.5

[37] A more detailed description of the financial sector reform process is given in Annex 1 of the OECD (1999) Economic Survey of Portugal; see also Pinto (1996).

Figure 4.1 - Market share of state-owned banks



per cent in 1999). Behind this trend was high growth (22.7 per cent in 2000 and 25.9 per cent in 1999) in credit to customers, accounting for 53.5 per cent of total assets. The growth rate of credit to households declined to 20 per cent, having reached a peak in previous years (Table 4.6).

Three factors explain the dynamism of mortgage credit. First, declining interest rates promoted demand for housing and mortgage credit. Second, tax incentives encouraged the purchase of a first home among the young. Third, after the restrictions on the granting of mortgages, an adjustment was to be expected (Ministry of Finance, 1999). Recently, more rigorous eligibility requirements may explain the reduction in the growth rate. As a consequence of the restructuring of banks following mergers and acquisitions, there was a significant reduction in employee numbers (-3,594) during 2000.

Table 4.5 –The Portuguese banking sector

	Dec. 2000	Dec. 1999	Change Absolute	Change %
1. Financial data (EUR millions)				
Net total assets	276,833	253,882	22,951	9.0
Credit to customers	148,070	120,721	27,349	22.7
Deposits and other clients' resources	151,170	135,829	15,341	11.3
Cash flow	5,492	4,473	1,019	22.8
Net income for the year	2,398	1,552	846	54.5
Number of branches	5,550	5,487	63	1.1
Number of employees	59,056	62,668	-3,612	-5.8
2. Ratios (%)				
Solvency ratio	10.67	9.66	1.01	
Administrative costs / Financial Assets	1.67	1.73	-0.06	
Net return on equity (ROE)	14.68	11.20	3.48	

Source: Associação Portuguesa de Bancos (2001:9)

Table 4.6 – Customer loan portfolio

Customer loan portfolio	2000	1999	Change Absolute	Change %
Loans to individuals	68,550	56,935	11,615	20.4
Mortgage	50,562	42,128	8,434	20.0
Consumer credit	8,310	6,793	1,517	22.3
Other	9,678	8,014	1,664	20.8
Loans to companies	61,763	49,444	12,319	24.9
TOTAL	130,313	106,379	23,934	22.5

EUR millions

Source: Associação Portuguesa de Bancos (2001:11)

4.5.2.1 Market structure and concentration

Deregulation, together with privatisation, increased competition and triggered a drop in financial margins, thereby stimulating an accelerated concentration process. The rationale for the level of concentration, beginning after privatisation and intensified since 1994, was to reduce costs and increase efficiency through the reorganisation of services and the distribution system, the sharing of operating structures and managerial capabilities, and taking advantage of potential economies-of-scale. In addition, banks had to search for new sources of income, intensify housing and consumer lending, and expand into investment banking and cross-sell financial products (such as insurance policies) through their branch networks (IMF, 1998; European Central Bank, 2000).

The number of banking institutions in December 2000 was 62, of which 33 were non-domestic banks. Following a wave of mergers and acquisitions, the market share of the major five banking groups converged to EU standards (see Table 4.7). In 2000, the sale of the Champalimaud group explains the significant rise in business concentration. The top-ranking Portuguese banks include two groups, *Banco Comercial Português* (BCP) and *Caixa Geral de Depósitos* (CGD). Between them, they accounted for almost 60 per cent of the market, leaving *Banco Espírito Santo* (BES), *Banco Português do Investimento* (BPI), and Spain's *Banco Santander Central Hispano* (BSCH) as strong second-tier players.

Despite the rise in the number of foreign banks in the Portuguese market, the direct participation of foreign capital remains small. Both restrictions on foreign ownership, during the privatisation process, and competitive forces explain this situation. Nevertheless, one fifth of BCP and BES holdings and nearly one third of the BPI group

Table 4.7 – Market share of the five major banking groups

	1996	1997	1998	1999	2000
Credit to customers	79.6	77.3	76.9	75.0	83.3
Resources from customers	84.9	82.8	81.7	80.3	85.1
Assets	83.0	78.1	77.1	75.1	83.4
Branches	78.3	76.0	76.5	75.9	81.8

Note: Banks having their head office in Madeira's offshore are taken into account in the calculation.

Source: Bank of Portugal (2000:214)

Table 4.8 – Market share of non-domestic banks

	1996	1997	1998	1999	2000
Credit to customers (gross)	7.6	8.3	8.8	11.2	17.9
Resources from customers	4.9	6.2	6.2	6.8	16.6
Assets	7.6	11.7	11.6	12.8	20.6
Branches	7.2	7.2	7.1	6.7	15.8

Note: Banks having their head office in Madeira's offshore are taken into account in the calculation.

Source: Bank of Portugal (2000:215)

are foreign-owned (Ministry of Finance, 1999). Foreign investors have preferred to establish strategic alliances through mergers and acquisitions rather than seek direct entry. However, the economic importance of foreign banks increased significantly in 2000 (see Table 4.8), as their market share increased significantly, due not least to the acquisition of part of the Champalimaud empire by Spain's BSCH[38].

The most recent round of consolidation has involved two groups. First, BCP acquired *Banco Mello,* BPSM and the insurance company *Império.* Their integration into the BCP group was then launched:

> 'The aim was to exploit the potential synergies, both through the rationalisation and optimisation of structures and operating procedures and through maximising the economies of scale and experience. Within the scope of the three-year synergy programme, it proved possible to implement the target of downsizing the staff, leading to a reduction of 2,965 employees during the year. This process also involved, in parallel, the various operational support areas, leading to the reorganisation of the Group's banking and insurance distribution platforms' (Banco Comercial Português, 2000:2).

Second, BSCH acquired BTA and CPP, enabling to increase its market share from two per cent to 10 per cent. After acquiring these companies, the focus was on:

> 'restructuring of the banks, ending the year with a new and clearer structure in which *Totta* heads the Group and under which are *Predial, Santander Portugal* and *Banco Santander de Negócios Portugal*; a profound change in image (campaigns in the media and a new external look for branches during the fourth quarter); and integration of central services, with common first and second levels in the organization chart. The process of merging systems was also started, which will create within a year a common platform of applications for the three retail banks (Banco Santander Central Hispano, 2000:96).

[38] The BSCH had negotiated to acquire Champalimaud group banks, *Banco Pinto e Sottomayor* (BPSM), *Banco Totta e Açores* (BTA) and *Crédito Perdial Português* (CPP) against strong opposition from the Portuguese government. The conflict was resolved by an agreement under which BSCH acquired BTA and CPP. BPSM, previously the Champalimaud group's main bank, has gone to CGD which, as expected, later sold it to BCP.

4.5.2.2 The behaviour and performance of banks

The elimination of credit ceilings and the liberalisation of interest rates predictably contributed to an increase in competition, with the price of banking operations assuming strategic importance. As a result, the financial margin of banks decreased substantially from 4.6 per cent of average assets in 1991 to around two per cent by the end of the decade (Bank of Portugal, 1997, 2000). However, extraordinary gains explain the rise in return on equity (ROE) from 11.20 per cent in 1999 to 14.68 per cent by 2000. Return on assets (ROA) also improved from 0.67 per cent to 0.91 per cent. Concern with solvency and the two return figures are reflected in the trend ratios shown during the 1990s (see Table 4.9).

The structure of bank profits also changed – with profits derived from traditional 'financial margin' activity decreasing in importance compared with the profit from other activities. In 1991, traditional intermediation activities predominated in terms of total banking product (82.8 per cent) while earnings from other current activities (sc. commissions and earnings from other financial operations) amounted to only 17.2 per cent. However, the strategic trend was away from a focus on traditional financial margin activities and towards increasing the importance of activities not directly related to intermediation (see Figure 4.2).

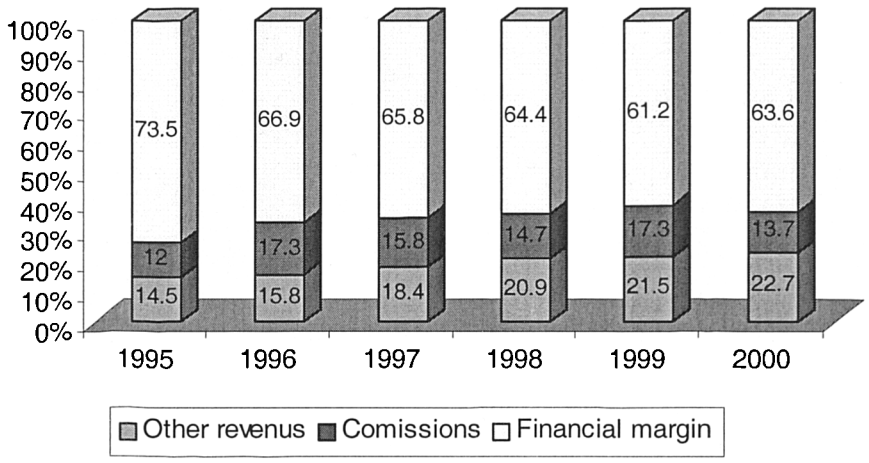
A rise in non-interest income and a fall in the importance of the financial margin are symptomatic of product differentiation. At the same time, a focus on commissions and other earnings means that local bank managers and employees are expected to become active sellers of services (e.g. the loan insurance that was for a while sold passively with

Table 4.9 – Bank sector performance in Portugal

	1995	1996	1997	1998	1999	2000
Number of employees	62,022	61,311	60,911	59,912	60,453	56,859
Number of branches	4,221	4,311	4,645	4,876	5,258	5,328
Employees per branch	15	14	13	12	11	11
Cash-flow (EUR millions)	2,529	2,872	3,605	3,982	4,473	5,492
Ratios (in percentage terms):						
Difficult loans / Customer loans	6.8	5.9	4.5	3.6	2.6	2.2
Financial margin	2.67	2.45	2.40	2.19	2.05	2.04
Banking product / Financial assets	3.64	3.67	3.67	3.40	3.36	3.21
Other financial results / Financial assets	0.97	1.22	1.27	1.21	1.30	1.17
Administrative costs / Financial assets	2.06	2.09	1.95	1.76	1.73	1.67

Source: Associação Portuguesa de Bancos (2001:12-21)

Figure 4.2 - The banking product



Source: Associação Portuguesa de Bancos (2001:14)

loans). Therefore, it potentially creates a new need for an accounting for product/service lines.

4.5.3 The outlook: prospects and challenges

The OECD (1999) Economic Survey includes a special report about financial sector reform in which several challenges that relate to the EMU are identified[39].

First, the introduction of the Euro has implied start-up costs (e.g., for training staff and adapting information technology). However, since efforts to incorporate new technology are recent in Portugal, the cost of the introduction of the Euro in terms of IT replacement and retraining should be relatively lower. The single currency is likely to be a catalyst for accelerating technological change and increasing the use of securities in the intermediation of finance. The use of new delivery channels such as electronic means of payments, phone banking and the Internet is widespread. However, the use of securities is still incipient (OECD, 1999).

Second, pressure to change the structure of the banking system may grow. As there is no excess capacity in the Portuguese banking system – both branch density and employment levels are lower than the EU average – pressure to consolidate may be weaker than elsewhere in the EU. The large European banks have shown little interest in the Portuguese market apart from a low level of interest in several financial institutions and some supporting consultative work. Cultural differences, geographic distance, and the relatively small dimension of the market may act as inhibitors. Spanish banks, on the other hand, have a more aggressive strategy to gain a foothold in a small but accessible and dynamic market, and to support their clients in Spain.

Third, further internationalisation and geographical diversification can be expected under EMU. Portuguese and Spanish banks may provide synergies in their respective Latin American markets of Brazil and Spanish-speaking countries. It is important that Spanish banks enhance their presence in Brazil and the most logical step would be to move in with the support of a Portuguese partner. Most likely, restructuring will gradually continue. Mergers, strategic alliances and co-operation agreements may be undertaken slowly in order to obtain cost and efficiency improvements (economies-of-scale and scope), product diversification, new distribution channels and geographical expansion (European Central Bank, 1999a).

Fourth, pressure on profitability may be expected to grow as increasing competition leads to a further decline in financial margins. Furthermore, the transition from national currencies to the single currency is likely to reduce foreign exchange operations, and lead to a fall in the profits from money market trading and decline in banks' share of financial intermediation. In previously high-inflation countries like Portugal, where convergence implied a decline in inflation and interest rates, capital gains and "float" profits may continue to shrink (OECD, 1999). However, Portuguese banks seem to have a competitive advantage in terms of operational costs – even if labour productivity is below the EU average – due mostly to lower staff costs, and operational costs below the EU average. This may prove valuable in the initial stages of EMU. Nevertheless, productivity and wage levels are expected to converge. Portugal's exposure to emerging markets is generally less than for other EU countries, despite recent investment by some banks in Brazil.

[39] See also reports from the IMF (1998) and the European Central Bank (1999a).

A separate if related issue that concerns the European Central Bank (1999b) is the effect of technological development in banking systems. IT development contributes to the reduction of costs associated with the management of information. In addition, it provides new ways for customers to access to bank services and products, mainly through automated channels. However, challenges relate to customers' easier access to information since they will make comparisons, and arguably barriers to entry for new competitors are lowered as a large branch network is no longer necessary. At the same time, with the collapse of the headier predictions made at the height of the IT and telecoms sector bubble, it is apparent that change has not involved a wholesale switch to an IT-based banking culture. Customers continue to show a considerable inertia, remaining with their existing banks, and IT access is typically seen by banks as more of a necessary add-on than a substitute.

To respond to the major challenges just noted, the OECD (1999) Economic Survey lists recommendations for authorities concerning the financial services (see Table 4.10). These policy issues mainly concern prudential regulation and supervision issues, and challenges relating to the restructuring of the banking system. The OECD (2001) Economic Survey recognises that several measures have been taken to improve co-ordination between supervisory agencies, and prudential regulation was adopted in respect of the recent rapid expansion of domestic credit and adequate control of the remaining risks – both on and off balance sheet. However, the survey claims that little progress was made in terms of further privatisation and labour market flexibility. The *Caixa Geral de Depósitos* group, which accounts for about 25 per cent of banking assets, remains state-owned.

Table 4.10 – Recommendations relating to the financial sector

Prudential regulation and supervision issues

Improve co-ordination between financial sector regulatory and supervisory agencies. Formal links between the three agencies (CMVM*, Bank of Portugal and the Insurance Institute) should be reinforced.

Adapt regulatory and other legal frameworks to keep pace with technological change in financial markets. At the international level, disclosure requirements need to be tightened and contract enforcement mechanisms reinforced, especially those related to Internet transactions. In addition, national authorities should introduce education and awareness programmes to prepare consumers for a rapidly changing market.

Introduce a more market-based assessment of risk for prudential purposes. Present prudential arrangements are under revision, both at the EU and multilateral (Basle Committee) level. Portuguese authorities should implement revised guidelines once they are adopted.

Create an appropriate legal framework for the development of mortgage-backed securities. This "securitisation" of mortgages would facilitate banks' liquidity management, while allowing for the removal of some mortgages from banks' balance sheets. Banks would then have the option of limiting (or eliminating) their exposure to credit risk in mortgage lending.

The restructuring of the banking industry

Ensure that ownership structure of financial institutions is conducive to competition. Further privatisation in the banking system should be considered over the longer term.

Make pension rights of banking sector employees portable. Easing transferability rules of the separate banking sector pension scheme would further enhance labour market flexibility and facilitate the restructuring of the banking system.

Monitor private arrangements to ensure they do not limit competition. Private arrangements especially those that prevent hostile take-overs, should be closely monitored to ensure they do not constitute barriers to entry.

* CMVM – Securities and Exchange Commission for Banks (*Comissão do Mercado de Valores Mobiliários*)

Source: OECD Economic Survey (1999:101)

4.6 Conclusion

The Portuguese economy has changed dramatically over the last three decades. This chapter has analysed those changes and discussed the effects of the changing context on the role and business of banking. It has emphasised the important role that institutions and the state play in economic development.

During the half-century of corporatist dictatorship, the state played a custodial role and gradually influenced every aspect of economic, political and social life. It ensured a stable economic context but considerably reduced flexibility and innovation. The change to a democratic regime was not accompanied by a transformation in terms of the state apparatus. The large state sector became associated with the 'conquest of the revolution', and the 1976 Constitution assumed a highly interventionist role of the state and approved the 'irreversibility' of the large nationalised sector. Corkill (1999:56-57) maintains that

> '[u]nder state control, the public enterprise sector performed poorly, turning in large operating losses, voraciously devouring public subsidies and ensuring that productivity increases remained stubbornly low. A large public sector did serve to preserve the infant democracy's social achievements but, by placing political and social priorities before commercial considerations, great stains were imposed on the productive structure and on the public finances'.

Portugal's accession to the EC, favourable external factors (e.g., falling oil and raw material prices, declining interest rates, and economic aid from Brussels), and the political stability provided by the first single-party majority government, provided the opportunity to change the country's public institutions and structures. Privatisation began to reduce the size of the public sector, starting with the financial sector – 80 per cent of the financial sector was state-owned in 1989 compared to just 15 per cent in the

manufacturing sector (Corkill, 1999). However, either directly or indirectly, the state still controlled the 'strategic' economical sectors. For instance, it kept control of *Caixa Geral de Depósitos* (and indirectly, *Banco Nacional Ultramarino* and the insurer *Fidelidade*).

The banking sector changed significantly over this period. From nationalisation and tight regulation, liberalisation gradually took place, with the allowance of the entry of private capital. Not burdened with high overheads and accumulated debts, new entrants established themselves as market leaders and innovators (*ibid.*). The privatisation process and entry of foreign capital deregulated the state-owned sector and made it more competitive. Spanish banks established a foothold in Portugal despite residual customer loyalty to national banks and problems with the Portuguese government.

The prospects and challenges facing the banking sector relate to EMU participation. Portuguese banks face the prospect of turning into smaller players in a much larger financial market. A key challenge for them therefore is to increase revenue from fees and commissions, while raising productivity and reducing costs (IMF, 1998).

5 Case Study

5.1 Introduction

The previous chapter explained the external context, in particular the situation in the banking sector in Portugal. It highlighted the growing competitive pressure within the banking industry after Portugal joined the European Community and following a period of financial deregulation. Economies of scale encouraged concentration, as did the general belief that larger units would better withstand the impact of growing competition. Additionally, the chapter characterised the role of the regulator and the current state of affairs in the banking sector. Competition is likely to accelerate further in the near future under EMU and as a result of the growth of foreign competitors, in particular Spanish banks.

This chapter sets the organisational context within which the ABC system was developed and implemented. The study was undertaken in a Portuguese bank facing strong competitive conditions and reshaped by new discourses, particularly those concerned with 'strategy', 'marketing' and 'change'. It is a large family-owned Portuguese bank, whose foundation dates back to the last century. Banco Lusitano[40] was nationalised following the fall of the Salazar regime in the 1970s, but was re-privatised in the early 1990s, at which point the original family regained control. This was part of a general privatisation of financial houses, and this economic shift led, as in other countries, to a greater focus on profitability, cost control and efficiency, and the effectiveness of customer services. In

[40] As mentioned in the introduction, the name of the bank has been anonymised to preserve confidentiality.

this respect, an old business culture (dating back to before nationalisation, but artificially prolonged by it) was suddenly confronted with new economic demands.

This empirical part of the thesis traces the change initiatives that occurred in Banco Lusitano following its re-privatisation, focusing in particular on the design and implementation of ABC. Initial contact was made with the bank in early January 1998 through the accounting department. The initial purpose was to negotiate access. It was clear that access would be possible only if confidentiality were assured, especially since the intention was to explore the complexities involved not just in developing innovations but also in negotiating their implementation, handling conflict and differences of opinion. The bank was willing to give generous access, with a full range of materials being made available (under the usual terms of confidentiality where appropriate) and with interviews being granted with a wide range of relevant bank employees. The research was carried out during the period from April 1998 to April 2001, primarily within the accounting and organisation departments. Interviews were also conducted with senior managers of other central departments, regional directorates and branches.

The objective of this chapter is to describe how an ABC initiative has developed in a non-US/UK business environment. The account includes the characterisation of the internal context, involving such aspects as the firm, its history and structure. Additionally, several change initiatives that were implemented by the bank, the reasoning behind the decision to implement ABC, and the organisational efforts to co-ordinate and to develop the project are described. The chapter is divided into six sections. Section 5.2 looks inside the bank to focus on its history, in particular since privatisation, and provides a profile of Banco Lusitano. Section 5.3 presents a series of change initiatives undertaken by the bank

since its privatisation. Section 5.4 introduces the bank's management information tools. In Section 5.5, the ABC project is presented. The reasoning behind the implementation of ABC and its subsequent delays are also discussed. Finally, Section 5.6 summarises the main issues raised during the implementation of ABC.

5.2 Banco Lusitano

Banco Lusitano is a long-established private bank, dating back in one manifestation to the last century. As such it has a considerable tradition of banking behind it, and many traditional ways of doing business. These factors are not negligible in attempting to understand how the bank operates today as it considers new forms of cost-effective, accounting-based management. At the same time, the bank has become a beneficiary of the recent financial liberalisation, and it is aware that it needs to gear up to survive in the new competitive culture of banking in Portugal, and of banking in the wider, increasingly globalised, world. Hence it realises that the adoption of an ABC or ABM model may offer it a competitive advantage. In sum, the bank is an institution with, arguably, one foot in the past and one in the present.

5.2.1 Background

In the life of the bank, it is possible to distinguish four main periods. The first covers the prehistory of the bank, beginning in the last quarter of the last century, when a family-owned foreign exchange business was established. It became a bank only in 1920, when it took the name of 'Banco Lusitano'. It then continued as a separate entity, growing in size and wealth over the next decade.

The history of the bank proper begins in 1937, when, with the aim of consolidating resources and widening the customer and service base, the bank merged with another bank, apparently highly regarded in business circles of the day. The first period of the bank's development lasted until the revolution in 1974. Over that period, the bank grew into a successful enterprise in the old tradition of Portuguese banking, becoming a widely recognised player in the national banking sector, so that by the 1970s it operated 100 branches across the country and internationally. Then, in 1974, the revolution was accompanied by the nationalisation of the majority of the productive and service sectors. The bank was nationalised and transformed into a state-owned company, with effects in line with those outlined in the previous chapter, as all significant banking activity was restructured. The banking sector became underdeveloped and inefficient, as it was highly regulated, protected from competition, and limited in exposure to innovative foreign influence (OECD, 1999). Furthermore, banks' solvency was affected, as the banks were required by law to extend preferential credit to nationalised non-financial companies, as well as financing the public debt at below market rates (Ministry of Finance, 1998).

In the 1990s the bank was re-privatised and the Lusitano group (the financial group of the family which had controlled the bank prior to its nationalisation in 1975) obtained a 50 per cent voting control of the bank shares and of the bank board of directors (Pohl and Freitag, 1994). Additionally, the 1990s brought new elements to influence change in the banking sector, particularly because Portugal's accession to the EU made the liberalisation of its financial sector an imperative. First, there was deregulation by the Bank of Portugal, thereby eliminating gradually some administrative constraints and controls. Secondly, new banking law was introduced according to the EU Second Banking Directive. Thirdly, market globalisation, with new competitors and the need to

support customers in their international activities, had a major impact. The redefined environment involved more private and foreign competitors, and financial margins were falling.

5.2.2 New market environment and bank structure

The bank's owners were therefore looking for competitive advantage in the new economic climate for the Portuguese banking sector, and looked to such internationally adopted innovations as diversification of services and growth through merger and acquisition – all designed to maintain a healthy balance sheet and profit and loss account. The pursuit of these goals has continued up to the present, and Banco Lusitano has secured its position as one of the country's leading banks, with a wide range of overseas interests. The bank has set up subsidiaries and representative offices in cities where there is a significant Portuguese community, and has entered the Spanish and Brazilian markets.

After the bank's return to the private sector, the new board of directors began the restructuring of the equity holding portfolio. The bank would act as the co-ordination centre for a global financial group, around which would be assembled operating units specialised along product lines and devoted to the extension of high-quality financial services, aimed at their own specific market and business segments. Prominent in the group are those units more directly dedicated to financial services (e.g. banking, insurance), but also there has been an expansion of those units arising from the bank's restructuring process (e.g. outsourcing units), or whose purpose is the extension of ancillary services in the financial area (ancillary service units and subsidiaries whose purpose is limited to acting as finance vehicles). The financial group covers a range of

business areas ranging from banking to property and equipment leasing, insurance, factoring, investment and pension fund management, credit cards and stock brokerage, among others.

In these respects, the actions of the bank's top management can be seen to be very similar to those of the sector as a whole, as described in Chapter Four. Following re-privatisation, greater attention was directed towards results, i.e. the efficiency and effectiveness of operations. Furthermore, the traditional focus on products has changed to a stronger orientation to the customer, with an emphasis on segmentation. The role of segment manager in each branch for individual customers and for small and medium-sized companies was conceived. In a subsequent phase, the product delivery function was adapted to the segmentation process, enriching it with group company products, made available through a network that was substantially expanded, remodelled and supplemented by alternative channels:

> '[The] Group has evolved from a product-oriented and mass-communication strategy to a commercial strategy that focuses on the client and permits an approach based on the Continuous Relationship Marketing concept' (Report and Accounts, 1999).

In terms of cross-selling efforts, the bank has sought to take advantage of synergies among its operations and the other banking and insurance operations of the group by selling additional products and services to existing customers through its branch network (e.g. property and equipment leasing, insurance, credit cards, stock brokerage). This was accompanied by the expansion of the bank's commercial network, since the bank is aware of the current importance of branches as a privileged channel. On the other hand, the group has developed its multi-channel distribution ability in order to meet the clientele's

preferences in terms of convenience, comfort and fast service, while at the same time increasing operational efficiency, specifically in low added-value operations:

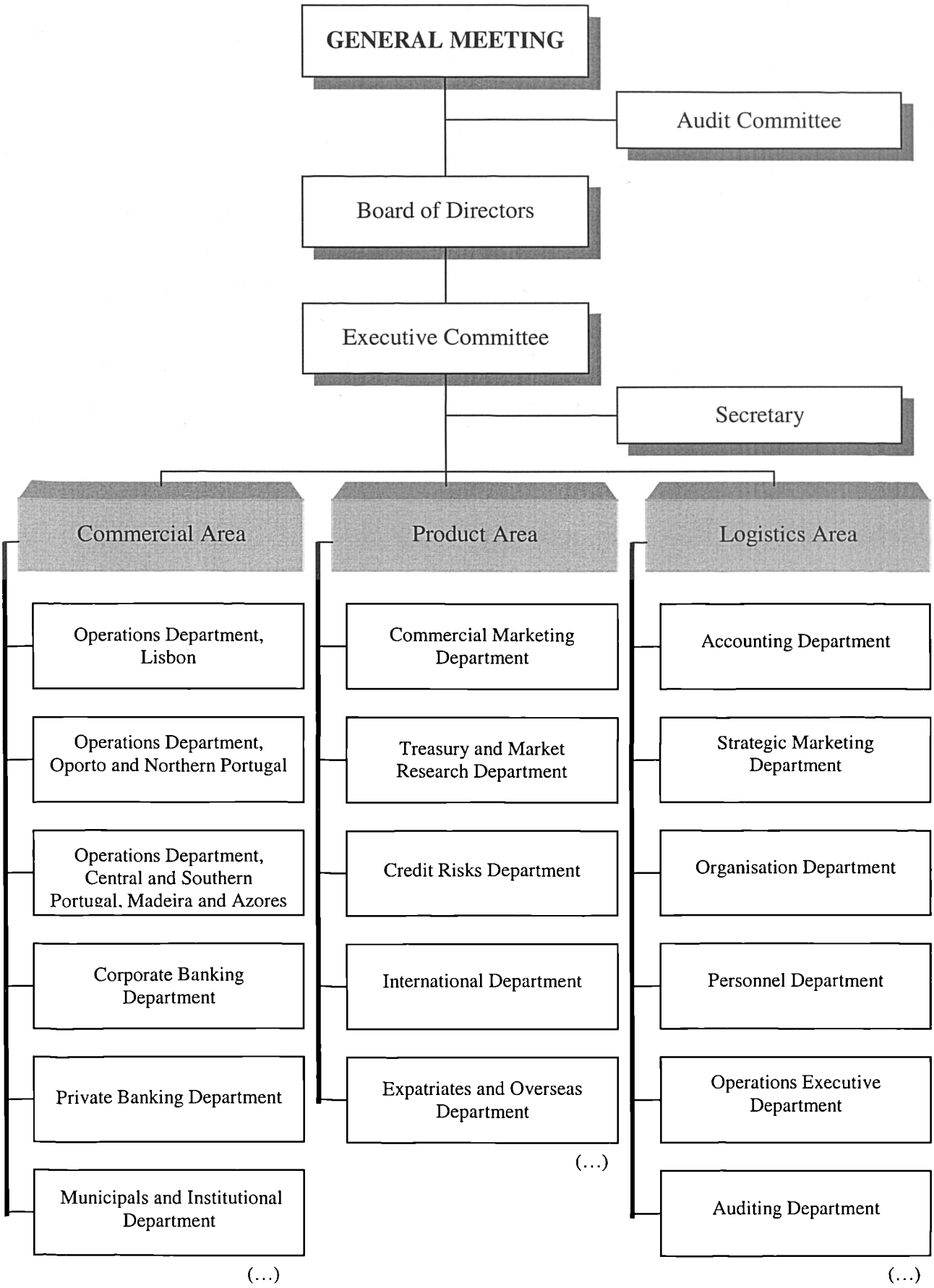
> 'The group's mission is thus to extend to its clientele, both retail and corporate, a high degree of satisfaction appropriate to the market's ever-growing requirements in terms of information and sophistication' (Report and Accounts, 1997).

By 1999, the structure of the bank (see Figure 5.1) had been developed to a point where it potentially mirrored this mission statement. The ways in which initiatives undertaken across the 1990s led up to the establishment of this structure will be considered in more detail below (see particularly Section 5.3). However, in terms of understanding the situation when the ABC initiative began to implemented, it is helpful, as a general orienting device, to have a sense of how the bank was then structured.

As Figure 5.1 shows, in line with the customer focus the bank was now divided, below the top management 'strategic' level, into three areas: commercial, product and logistics. The commercial area was the front line for engaging with customers, and it was here that the key break with the old branch-focussed structure was implemented. So the branches were now subject to regional directorates, with branch managers no longer semi-autonomous rulers of their local 'fiefdoms', but instead very clearly defined as line managers reporting up to the regional directors. The regional directors in turn reported into the three operations departments at Headquarters in Lisbon, each with a geographical remit, but with a separate department for Lisbon, reflecting the demographic significance of the capital city.

Additionally, the commercial area also now included those banking departments which have traditionally seen themselves as distinct from 'regular' branch banking, and are arguably also often differentiated in technical accounting terms.

Figure 5.1 – Banco Lusitano organisation chart (March 1999)



First and most important there was the corporate banking sector, focussing on serving the financial interests of major corporate clients (which inevitably, in the new globalising culture of corporate business, entailed the high-status and high-margin area of merger and acquisition work, and the specialist accounting expertise therein required). Second there was another 'exclusive' area, private banking, with its focus on 'high net worth' individuals, therefore requiring its own distinctive kind of specialist accounting expertise, devoted to optimising the portfolios of such individuals, in order to retain their loyalty and potentially act as a conduit for new business through reputational effects spreading among the network of the moneyed elite. Third there was the distinctive business to be won in the public sector, run through the municipals and institutional department, where there was a distinctive need for public sector accounting expertise.

This re-structuring therefore brought together under the umbrella of the 'commercial area' what had previously been a very disparate set of departments. But this was arguably essential in terms of the customer-focussed strategy, given the overall solution adopted by the bank in order to implement the customer-focussed strategy. That solution, as noted above, entailed the division of other line activities into two management lines: 'product area' and 'logistics area'.

The 'product area', as Figure 5.1 shows, now covered all the customer-focussed back office functions. Hence there was a credit risks department to handle at the detailed level the differentiation of individual customers given the prior segmentation of customer categories. There was a commercial marketing department to handle the customer-focussed 'sharp' end of the marketing effort. There was a 'treasury and market research department' which stood behind these two more front-line customer-focussed

departments, focussing on customer preference trends via market research and linking these market research findings to financial analyses of the bank's economic situation, to generate optimal product mixes and market opportunities. The international department and expatriates and overseas department respectively serviced two distinct but significant customer segments for a Portuguese bank: the new customers won via the globalisation strategy, and those 'old' but still potentially profitable customers inherited from the colonial past or emigrés.

Finally there was the 'logistics area', which in one respect was the 'residual area', having to include all those back-office functions not directly related to customers or products, such as the personnel, auditing and operations executive departments, which had to deal with the essential HR, financial reporting and operations area (including handling the outsourcing of key operations such as IT). These were those 'general' functions whose activities are so difficult to assign to particular products or services, but which are indispensable to the coordination of a large and complex entity such as the Banco Lusitano.

The 'problem' posed by such essential functions to the ABC project is shown by the analysis of 'macro-activities' produced by the consultants for the ABC project (see Figure 5.13), which reveals that only 73.7 per cent of total costs could be accounted for in 'causal activity' terms. That is not to say that all the remaining 26.3 per cent of costs were located in those departments; organisational activity is not so simply divisible. However, as the analysis of bank activities undertaken by the consultants shows (Figure 5.12), a lot of what went on in 'macro-activities', whether as R & D or product management, could not be easily incorporated into the set of costs relevant to sales, or capturable in the

'activity drivers'. At the same time, the 26.3 per cent of costs not accounted for were clearly fundamental to the business. What Cooper and Kaplan describe in their ABM model as 'facilities sustaining' costs may also be seen, in activity terms, as strategically essential for long-term viability. In this way of seeing, there is a 'strategic' value to retaining good staff (the HR function), to optimising the transaction costs involved in outsourcing versus in-house solutions (the operations executive function) and to ensuring effective external and internal accountability (the auditing function).

There is also a strategic aspect to the other three departments making up the logistics area, the accounting, strategic marketing and organisation departments, although in these cases the strategic aspect is arguably more conventional, since these can be seen as key players at the operational strategy level. Strategic marketing can be seen as having been differentiated from commercial marketing in order to ensure that the implementation of the marketing-focussed strategy was assured, while also ensuring that the lower-level marketing directed at customer interests was implemented. But the most interesting departments, in terms of the move towards an ABC approach, were the accounting and organisation departments. The next chapter will consider the interaction between them in more detail, but it is clear that the accounting department had long had the key role, at the operational strategy level, in running the budget-focussed approach to managing the bank system. The organisation department had a complementary role in coordinating management activities across the organisation within that financial control model.

However, once ABC appeared on the horizon, this distribution of responsibilities and power was potentially destabilised. For insofar as one stressed the 'activity' dimension of ABC, it became arguable that the organisation department had the more important role in

rolling out strategy at the operational level. At the same time insofar as this was still, as 'costing', a form of management accounting, surely the accounting department was still the key department. The accounting department was potentially facing a real dilemma. On the one hand, it had the image of being 'the' place in which strategically crucial accounting data accumulated. On the other, it ran the risk of becoming seen as having the 'wrong' kind of accounting, particularly given the consultancy rhetoric around ABC summed up in the 'relevance lost' phrase. At the same time, the organisation department was potentially primed to step in as the new home of relevance, the department most primed to exploit the new kind of accounting approach embodied in the ABC model.

The tensions that ensued between the accounting and organisation departments will be pursued in more detail in the next chapter. But it is hoped that this initial summary gives a sense of how the bank's complex and diverse activities were coordinated into a management structure, and of some of the potential tensions this posed, as the ABC project was about to begin.

5.2.3 Profile of Banco Lusitano

Currently, Banco Lusitano is one of the largest banks in Portugal and one of the most profitable. To show the group's profile, Table 5.1 includes its financial highlights and business indicators. In 2000, total consolidated assets under management reached Euro 42.7 billion, which corresponds to an overall business increase over the previous year of 14 per cent. With regard to the activity more directly involving clients, customer loans were up by 28 per cent, and customer funds, including disintermediation, grew by 16 per cent. The breakdown of consolidated business by the main business areas shows that the

Table 5.1 – Financial highlights and business indicators

Variables	1997	1998	1999	2000
Balance sheet (10^6 *Euros*)				
Total assets (*)	26 768	32 120	37 446	42 658
Total customer funds (*)	18 131	21 673	25 949	30 059
Customer loans	9 861	14 051	16 987	21 789
Shareholders and similar funds	1 791	2 094	2 417	3 060
Income statement (10^6 *Euros*)				
Net interest income	437	482	569	640
(+) *Customer services*	223	274	300	378
(+) *Earnings from market operations*	143	150	161	211
(=) *Operating banking income*	803	906	1 030	1 229
Operating expenses	451	499	547	627
Profitability (%)				
Financial margin	2.58	2.39	2.35	2.33
Return on financial assets	0.89	0.83	0.85	0.83
Return on assets (ROA)	0.80	0.74	0.77	0.76
Return on equity (ROE)	22.75	20.25	21.14	21.94
Efficiency				
Operating costs / Total assets (%)	1.69	1.55	1.46	1.47
Assets per employee (10^3 *Euros*)	3 721	4 390	4 859	5 438
Cost to income (%)	56.2	55.1	53.1	51.0
Branches (n°)	540	574	608	629

(*) Includes disintermediation.

Source: Report and Accounts

group's business is concentrated on commercial banking and supplemented, on the funding side, by investment trusts, and, on the loan-granting side, by specialised consumer credit, factoring and leasing units (Report and Accounts, 2000). Despite the strong pressure on margins, net interest income grew by 12.5 per cent from 1999 to 2000, which explains part of the growth achieved in consolidated banking revenue (19.3 per cent). The capacity to raise earnings from investment banking and trading activities (up by 31.1 per cent) despite the strong turbulence that affected the financial markets[41], and the diversification of income sources, *with services up by 26 per cent, help to explain the* evolution of banking revenue. The 14.6 per cent increase in operating costs was driven by depreciation (up by 17.2 per cent) resulting from continuous investment in the modernisation of information systems and the integration of new technologies. In fact, administrative costs continue to drop relative to net assets, accompanied by improvements in the cost to income and in the number of employees per branch ratios (12.5 in 2000), while assets per employee continued to show considerable growth (up by 12 per cent).

Banco Lusitano preferential shares are quoted on the New York Stock Exchange. In 2000 the bank achieved consolidated results of Euro 228 million. This was a 10.9 per cent increase on the previous year. The group's profitability has been above the sector norm. Profitability stabilised at high levels (ROE was 21.94 per cent in 2000), notwithstanding an environment of declining margins, based on net interest income, commissions and capital markets growth (see Figure 5.2). The cost to income ratio (excluding trading) decreased from 62.9 per cent in 1999 to 61.6 per cent in 2000, whilst the same ratio

[41] In 2001 the consolidated banking revenue did not vary due to a decrease of earnings from investment banking and trading activities of 40 per cent, compensated because the net interest income grew by 12.2 per cent.

(including trading) declined from 53.1 to 51.0 per cent in the same period following a pattern that has continued since re-privatisation (see Figure 5.3).

Figure 5.2 – Group Lusitano's Return on Equity evolution

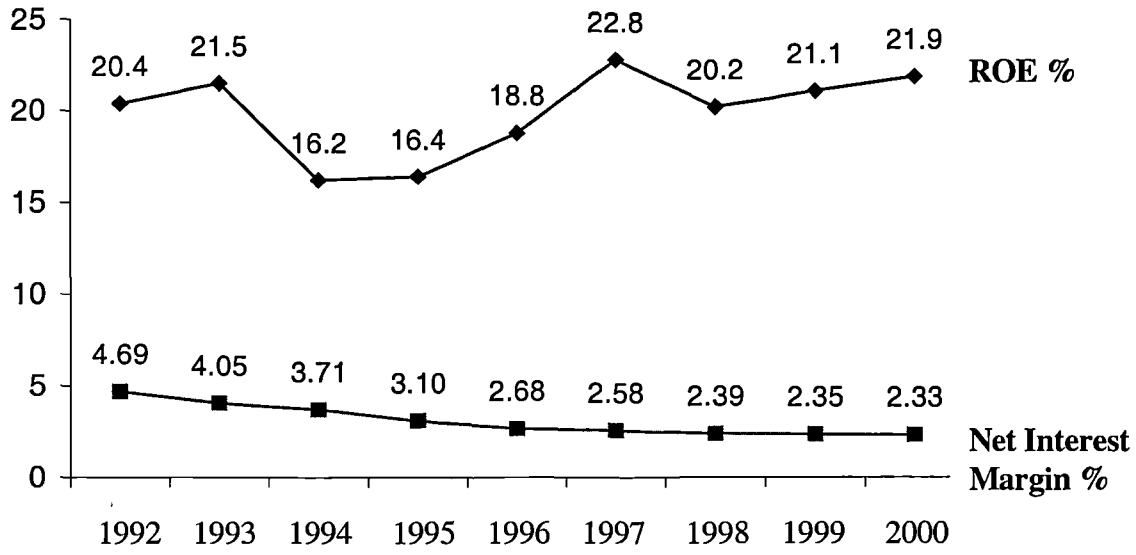
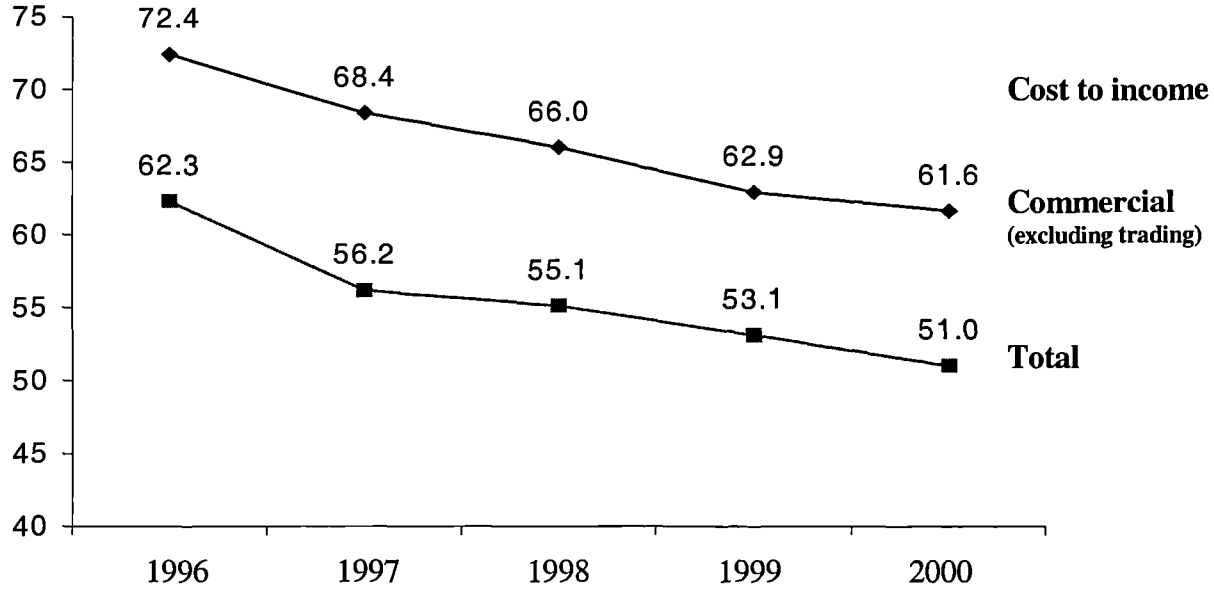


Figure 5.3 – Group Lusitano's *Cost to Income* evolution



5.3 Change initiatives

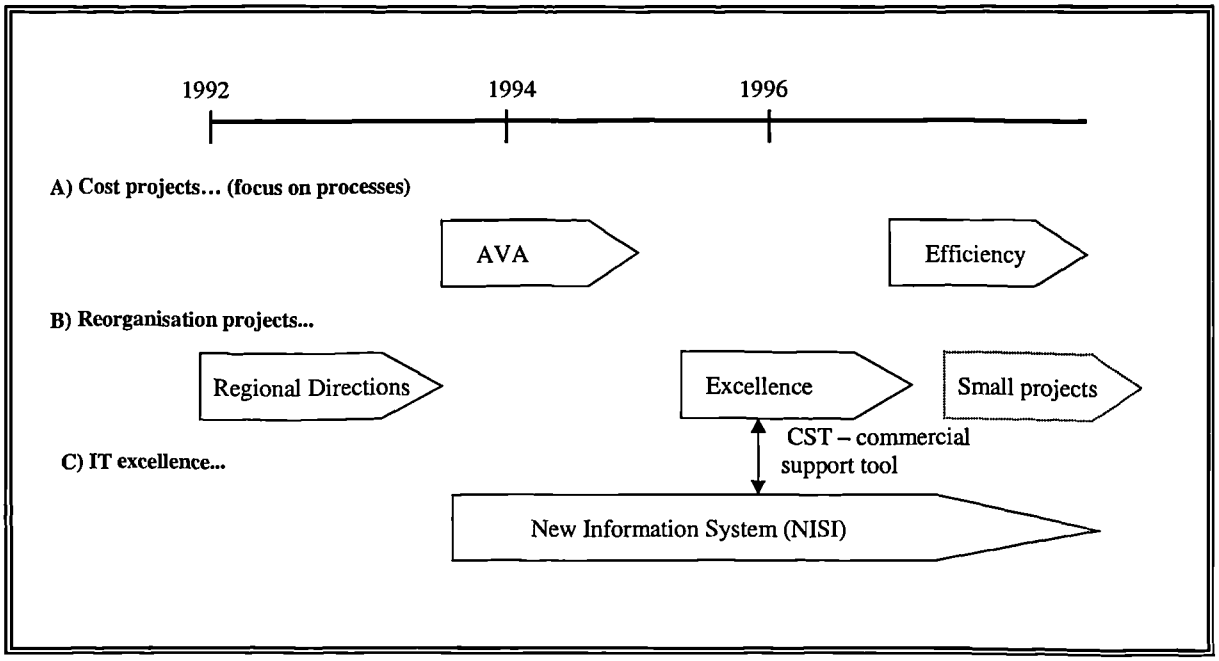
Since the bank was newly committed to profitability and cost control, one major concern that began to emerge, and remained a high priority across the 1990s, was over the head-count. Naturally this was not necessarily something that the bank's top management wanted to broadcast; but from 1992 there were a number of initiatives undertaken, with the help of leading consultancy firms, where in retrospect it can be seen that a major objective was a reduction in the head-count and, associated with that, an improvement in the cost to income ratio (operating expenses/banking earnings)[42]. With the growing adoption of internationally used financial performance measurement systems, this ratio increasingly became a major concern to banks and to financial sector analysts as a proxy for efficient and profitable operations. According to a bank report, in order to increase profitability, market share and productivity,

> 'the Bank has sought to strengthen its position within the Portuguese commercial banking sector by (i) increasing the penetration of its existing client base through enhanced customer service, (ii) substantially expanding its commercial banking network to accommodate increasing demand and ensure adequate marketing capabilities and (iii) consolidating its existing operations in an effort to control expenses and boost productivity' (Annual Report: Form 20-F, 1997).

The bank was determined to increase revenue but simultaneously to cut costs, which would require a leaner structure. Consequently, the bank undertook a series of 'commercial reorganisation' and 'efficiency-focussed' projects (see Figure 5.4). The largest projects were the rationalisation carried out in the branch network (the Excellence Project) and in the central departments (the Efficiency Project):

[42] Operating expenses includes personnel expenses, depreciation, and external supplies and services. Banking earnings includes financial earnings (net interest income), commissions and fees from banking services, and earnings from market operations (trading).

Figure 5.4 – Change initiatives



> On the organizational side, we draw attention to the rationalization carried out in the branch network (the Excellence Project), and in the central departments (the Efficiency Project), as also within internal services (Complementary Grouping of Companies), while at the same time we intensified the process of horizontal and vertical communication between the Group management structures, with particular emphasis on the travelling executive committees and the Group conferences. At the same time, we took some important steps towards modernizing the new information system, with some of its modules now in operation' (Report and Accounts, 1997).

In addition, there were projects reviewing commercial banking, best practice, and the information technology area. Over the same period, the head-count was reduced from approximately 6,325 in 1992 to 4,962 in 1998 (see Table 5.2), while the cost to income ratio improved, from 67.7 per cent in 1995 to 57.5 per cent in 1998. The bank's efficiency also improved substantially over the period, with total assets per employee increasing from PTE 465 million in 1995 to 918 million in 1998.

Table 5.2 – Social audit of Banco Lusitano

	1992		1998	
Permanent staff	6 325		4 962	
By areas				
- *Central departments*	2 331	36.9 %	1 177	23.7 %
- *Commercial network*	3 994	63.1 %	3 785	76.3 %
- *Women*	1 453	23.0 %	1 242	25.0 %
- *Men*	4 872	77.0 %	3 720	75.0 %
Average age (years)	41.1	38.8 Women 43.0 Men	41.6	37.3 Women 43.1 Men
Antiquity (years)	14.8		16.0	12.7 Women 17.1 Men
Education				
- *Basic*	4 113	65.0 %	2 112	42.6 %
- *Secondary*	1 830	28.9 %	1 527	30.8 %
- *University*	382	6.1 %	1 323	* 26.6 %
Absenteeism	5.0 %		3.3 %	
Employees by branch	26		12	

* 38 % were still studying

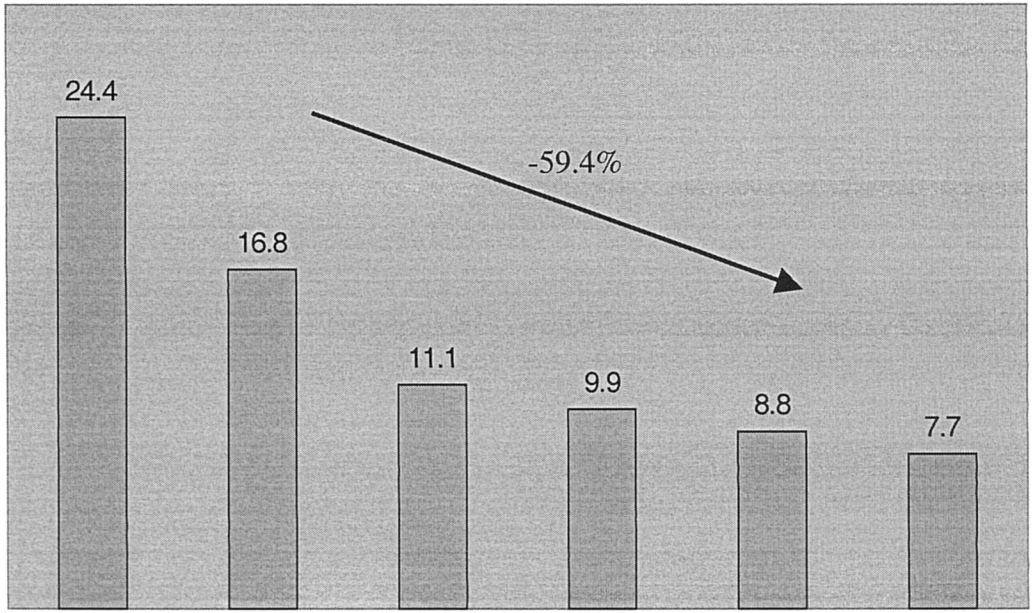
5.3.1 'Commercial reorganisation' projects to increase banking revenues

According to a senior manager from the marketing side, following privatisation the bank 'adopted a strategy aimed at achieving strong growth, enabling it to build a large national retail business, while maintaining high levels of profitability' (Strategy Day 2001: Marketing Presentation). In his opinion, the adoption of the strategic path of organic growth was based decisively on the strength of the bank's brand, as well as on Portugal's low branch density in the early 1990s. In the growth to become a 'leading player' in the Portuguese banking sector – average market share almost doubled from 9 per cent in 1992 to 16.1 per cent in 2000 – it is possible to identify two phases.

Phase I (1992-1996 – prior to the Excellence Project) was characterised by a strong expansion in the network, accompanied by a significant reduction in the average number of employees per branch (see Figure 5.5). A prominent feature of this period was the definition of a client-centric vision (as opposed to the previous product-oriented approach), and the development of information systems and platforms supporting this strategy. This new client-centric vision was attached to structural changes in the commercial area. In terms of central departments, the changes included the creation of regional commercial divisions, responsible for managing their branches, and the creation of two separate marketing departments (strategic and operational), allowing for an increased specialisation of their activities and close support of the branch network. Additionally, there was the creation of the regional directorates, located in close proximity to the branches and customers, and considered as important vehicles to co-ordinate and give commercial support to branches while allowing a reduction in the cost

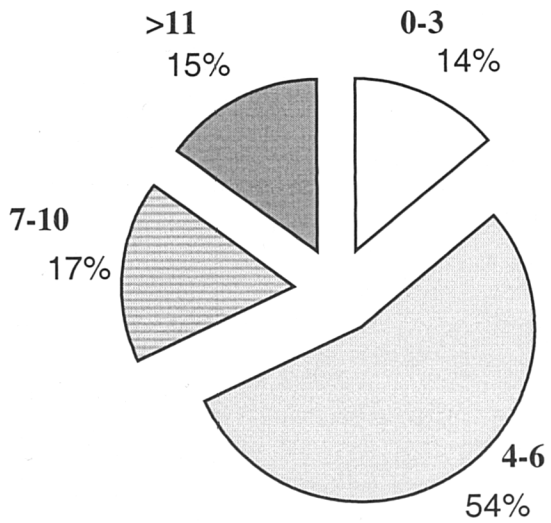
Figure 5.5 – Employees distribution per branch

Employees per branch



1990 1992 1994 1996 1998 2000

Branch distribution per number of employees (2000)



of running the branch network. The expected result was more efficient processing of transactions, while branches would have more resources to devote to service and sales.

There were two significant features in this period that helped the expansion and development of the commercial network. First, there was the implementation of a system of objectives and incentives (SOI) for the entire commercial organisation, including volume, profitability and more recently also service quality objectives, with a direct impact on individual bonuses. Secondly, an integrated offer was made available to retail customers (e.g. including mortgage credit, consumer credit, service accounts, bank insurance products), similar to that available to corporate customers, where the bank provided a range of products tailored to meet individual customer needs.

Phase II (since 1996) started with the Excellence Project and was characterised by the development of a client-segmented approach and multi-channel distribution system. The goal of the Excellence Project was 'to reorganise the bank, through a group of alterations to its organic and functional model, as the best form of serving customers, increasing business and reducing costs' (Consultancy Reports: Excellence Project). Two major objectives were identified: first, to drive and differentiate the commercial activities according to the profitability of different customer segments; secondly, to redefine and rationalise the operational processes in order to reduce costs and increase productivity.

The Project included several programmes to ensure that each customer received a level of service appropriate to their demands and profitability. The idea was to obtain a more personalised service and a better relationship with customers – to be customer-directed rather than product-directed. The central commercial structures for the private segment and corporate banking were required to offer a wide range of solutions and make high-

quality services available. Their goals were to specialise in cementing durable commercial ties of mutual benefit, and to reorganise in a way that raised the level of efficiency. In terms of retail banking, the purpose was to increase the level of involvement through appropriate products, using the traditional network or alternative and less expensive channels such as ATMs or Lusitano Direct[43]. Micro enterprises (at a branch level), and small and medium-sized companies (at a regional directorate level) were provided with an account manager in their own territory, who was specially prepared to offer comprehensive proposals to meet the specific needs of those segments (see Figure 5.6).

To rationalise the operational processes, there were several programmes aimed at simplifying tasks and administrative procedures in order to decrease production costs. This involved a remodelling of administrative processes and the central department structure. The project resulted in 12 per cent of branch staff becoming redundant, with 429 out of 3,649 posts being eliminated. Table 5.3 shows how many positions were cut at different levels. There was a reduction in about 30 per cent of the number of people in back-office and multi-functions while at the same time the number of branches increased.

The change of commercial mentality and the introduction of client-segmented approaches through the restructuring of central departments and regional directorates were seen as the main advantages of the project. As a manager from one of the marketing departments put it, segmentation of clients permits 'the right sale, to the good customer, in the right place

[43] Lusitano Direct is a telephone service that, besides the options available through ATMs, also provides 'information on products and services, and credit simulations. The service can be used by clients to report the loss or theft of checks and credit cards, apply for debit and/or credit cards, request foreign currencies, deposit domestic currency under certain circumstances, and carry out domiciliations, payment orders, and subscriptions to and withdrawals from investment funds' (Report and Accounts, 1997).

Figure 5.6 – Segmentation strategy proposed by the Excellence Project

Central direction	Private	Corporate banking	Central direction
Branches	Special individual customers	SME's	Regional direction
Branches	Ordinary individual customers	Micro entreprise	Branches

Table 5.3 – Number of workers in the branches*

	Before	After
Leaders	790	777
Back-office	953	485
Multifunctions	1,315	1,090
Commercials	591	868
Total	3,649	3,220

* Does not include central departments and the regional departments of Madeira, Azores and Lumiar.

Source: Consultancy Report (Excellence Project)

and in the right time'. He went on to explain that 'the Excellence Project, with this segmentation vision, allowed a restructuring of the work in the branches and in all commercial structures in order to focus commercial action on the segments which provide more value added' (Interview: Marketing Dept. Manager).

However, this change of mentality was not an easy one. There was resistance to change due to job losses, the transfer of staff to new branches, and new ways of working. As one manager explained:

> 'The number of persons that today work in the commercial network has been reduced. Therefore, they are obliged to do more work and they have to be more productive. In this respect, there were some adaptation problems. People who were accustomed to a different regime of work faced cultural problems. They had to have another attitude and dedication to work. Nevertheless, that is inevitable, the market requires it from us. ... Eventually, there were also some expectations created around some automatisation and support systems whose results are not yet significant, namely in terms of IT systems' (Interview: Marketing Dept. Manager).

Another manager saw major factors producing resistance in the retention of old-fashioned branch managers for the new style of regional management role, and the persistence of unionised work patterns:

> 'The first regional directors, appointed during the regional directorates project, were former branch managers who had a limited and obsolete vision of the bank. There was a huge effort to replace them. In the middle of the excellence project none of the regional directors was the same. Some of the new regional directors revealed themselves during this process. ... The most significant reactions against the project were from branch staff. The banking sector was always strongly unionised. Even today, although weakened, unions and commissions of workers still have their force' (Interview: Organisation Dept. Manager).

These comments indicate that there was a major management of change problem in terms of hiring or promoting managers who would understand the new mentality, and in winning over existing staff from the old branch-centred way of doing things. Although

staff from the commercial area did identify with the bank, their primary source of identity was their local branch (or their region), and there was little identification with head office.

Other significant features of the bank's development in this period were: the introduction of an extensive multi-channel distribution system (e.g. ATM, phone banking, internet banking, assurfinance, mobile banking), and the introduction of a portfolio management data warehouse (CST – commercial support tool). This tool provides an instantaneous global picture of the customer (volumes, products, transactions, and remarks), the management of the daily agenda by commercial staff, the systematisation of commercial contacts, and their monitoring based upon centrally managed campaigns:

> '[CST], a module of the new information system, dedicated to the development of commercial support and action, will enable us to increase and consolidate our knowledge of the customers, while affording immediate information on the product that best suits their individual needs'. (Report and Accounts, 1996)

Due to the success of this tool, the bank has recently developed a web-based infrastructure to support the active decision management of customer relationships, allowing direct management control over actions aimed at specific customer groups, thus leveraging the cross-selling potential.

The recent success of IT tools for supporting commercial staff cannot hide the fact that the IT is perceived as a strong limitation in the bank. In order to capture efficiencies, in the mid-1990s the information technology (IT) function was outsourced (although, it is not clear that this has been a total success). Certainly, within the bank, many employees see problems, such as bottlenecks and a lack of timely information, due to the outsourcing of the IT function. There are also claims that commercial staff are facing too many changes:

> 'They should analyse the utility of the IT systems before they install them. What happens is that they install a new tool and later conclude that it still needs to be improved. This creates confusion to the employees of the bank and to customers' (Interview: Branch Manager).

Furthermore, there is a recognition that 'IT innovations are not complete and job cuts have already happened. This adds additional pressure' (Interview: Other Central Dept. Manager[44]).

The situation has certainly not been helped by a changeover in the software used, which has sometimes led to 'black holes' in the provision of data to departments. The bank bought several operational modules from one of its shareholders. Since these new modules run in IBM, first it was necessary to change the hardware from Unisys to IBM. After the functional evolution of the new operational modules, there were still several areas for which there was no module. To deal with this situation, the bank bought new modules in the market. However, there were some areas where there were no modules available to meet the bank's needs. In this case, the bank had to undertake a technical migration of existing modules in the platform Unisys (see Figure 5.7).

It is not clear whether this change has been a total success, in particular when the costs involved are taken into account. As one manager explained:

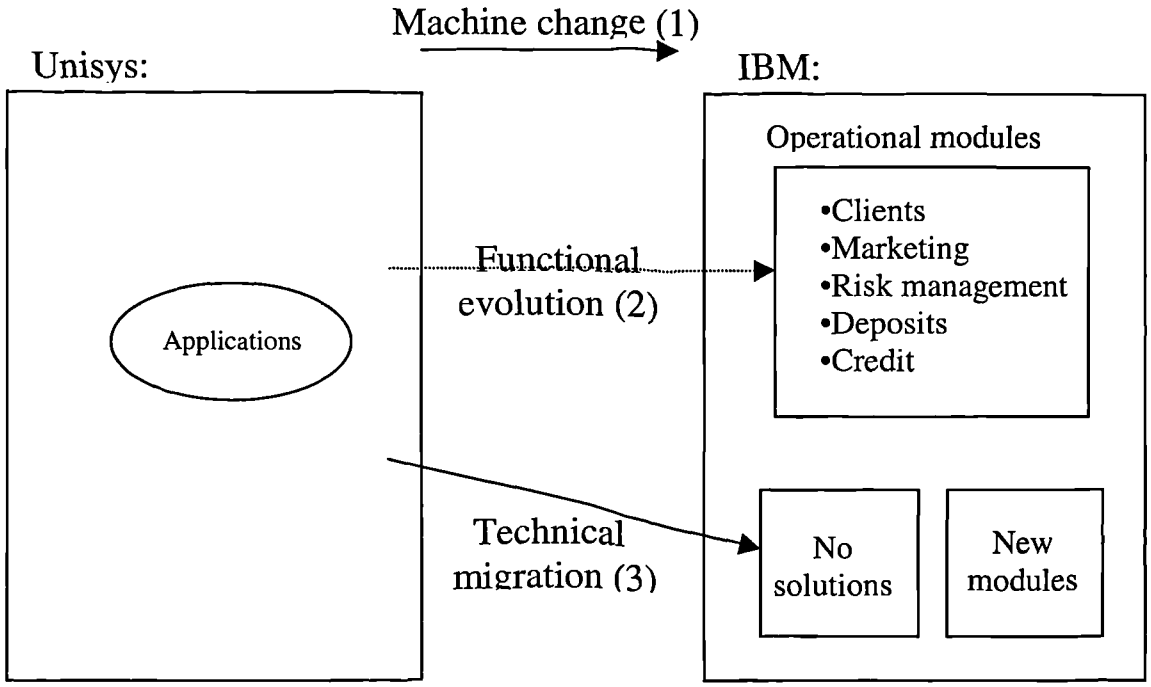
> 'Since the NISI was not linked with the other change initiatives, the modules were adapted to have a similar performance to those existing in Unisys (except for the marketing and commercial tools, which did not exist). The outcome is that the NISI has similar potentialities to the previous one. There are small but not significant improvements' (Interview: Organisation Dept. Manager).

A number of projects of major importance for the bank's activity were developed in the IT area. Despite the high costs, the bank saw investments in technology as an important

component of their overall strategy. It is possible to distinguish between projects carried out to respond to external factors (the Year 2000) and others to improve operational efficiency (Efficiency and New Information System – NIS). As the 1999 Report and Accounts states:

> 'The works undertaken within the scope of preparing ourselves for the year 2000 took into account the strategic decision that was taken to replace the entire information systems. This decision meant that the NIS involved not only replacing the entire hardware technological platform but also the gradual replacement of all the applications software'.

Figure 5.7 – IT changeover



[44] As mentioned in the methodology chapter, the interviews were grouped to ensure anonymity. Nevertheless, this does not have a material detrimental impact on the quality of the information convey.

5.3.2 'Efficiency-focused' projects to reduce operating expenses

The bank has more recently launched a wide-ranging set of restructuring projects, in pursuit of its belief that 'the growing competitive pressures in the sector and the opportunities arising from the introduction of new technologies require banks to reinforce their efficiency levels' (Consultancy Reports: Efficiency Project). These included an Activity Value Analysis (AVA) Project, the Efficiency Project, and two smaller efficiency-focussed projects, which are reviewed in the next section.

5.3.2.1 The Activity Value Analysis Project

The AVA project turned the bank's attention to large-scale processes[45] that crossed functional boundaries and forced a re-examination of the fundamental ways in which the bank operated. The goal of this project was 'to improve the efficiency of the activities accomplished by the bank' (Consultancy Reports: AVA Project). Two major objectives were identified: first, to improve the competitive position of the bank, ensuring that services would be provided at the lowest possible cost; secondly, to guarantee that the cost reductions would be permanent by analysing the need for products and services of different units and eliminating the ones that were unnecessary.

The methodology involved three steps. First, an analysis of activities and procedures used in the bank was conducted, while determining the cost and value of the products and services provided by the different organisational units of the central and outlying services. Secondly, the aim was to promote ideas to improve the cost-benefit relationship of those products and activities. The third step was to transform the approved ideas in action

[45] Process is a series of time-based activities that are linked to complete a specific output. Within the AVA project the main processes of the bank were studied and measured in terms of equivalent labour hours.

programmes to facilitate their implementation and to achieve reductions of 40 per cent in costs. It was proposed to implement a 'bottom-up' focus to take advantage of potential ideas from within the bank. External consultants were retained to work alongside the bank staff and consolidate and implement the opportunities for improvement.

The organisational department was responsible for the implementation of the AVA project, but hierarchical line management was directly involved in the implementation of the approved ideas. The stated objective, according to one manager, was to avoid 'deterioration in the work atmosphere or over-forcing the work rhythm' (Interview: Other Central Dept. Manager), and thus to ensure that cost reduction did not proceed in an arbitrary, traumatic or unplanned way. However, in practice the project proved to have what was seen in retrospect as a 'painful' impact, perhaps because it was the first project of this kind in the bank, but also because it ended up creating significant job redundancies in central departments. A manager summarised these difficulties:

> 'The analysis was too objective, somehow ignoring the human question. It was a painful process. It was painful for those who made the analysis and for managers that have to make the choice about people. Of course, that is part of the leadership role – they have to take both the pleasant and unpleasant measures. It was also painful, because for a long time people were not confronted with this situation. ... The group chose early retirement, but even that was complicated. It was easy if any employee could choose, but it was those whom the managers wanted to go, not those who themselves would like to go. Therefore I believe it was a dreadful process' (Interview: Other Central Dept. Manager).

In July 1993, during a weekend meeting for staff, a senior manager of the accounting department did a slide presentation where he claimed that the project to increase labour productivity had three strengths. First, it was a project implemented by an outside consultant company that demanded the full involvement of those responsible for each area. It was accepted because it was an order from the top management and executed by

an external entity. Secondly, it allowed the emergence of already existing ideas, whose implementation had suffered because of difficulties. Finally, it provided the bank with an opportunity to speak about its own problems. However, the senior manager also identified several weaknesses. He claimed that it was a 'static and limited' project, since it did not take into consideration the dynamic aspects of the operational improvements and the quality of the service. He also questioned the methodology used, since it did not take into account the seasonality of the tasks, and the practical difficulties in measuring time and output volumes that remained unresolved (AVA Project: Internal Weekend Presentation).

Another manager (who was not in the bank at the time) claimed that this project required a lot of alterations in the level of the information systems. Eventually this was one of the reasons why the project did not go further:

> 'I think delays in the IT projects were responsible for some projects (AVA and Excellence) not having the result they could because our IT system has changed completely. The bank bought products that were not developed and there was no experience. It is not enough to buy products ready-made because they have to be tailored for the bank' (Interview: Other Central Dept. Manager).

Nevertheless, one manager, who believes that the project was on the right lines and so had benefit when viewed in the longer term, provides a rather different explanation of why there were 'few practical results' of this project:

> 'We made a basic error. We did not create a commission to follow the project, including members from the executive committee. I would say that this project provided few practical results. Nevertheless, it had a positive aspect: it forced us to think in terms of cost reduction. Therefore, it left a cultural inheritance – to look for process rationalisation' (Interview: Organisation Dept. Manager).

Nevertheless, the consequence of the project was that several people were retired early. Subsequently, in some cases this meant recruiting additional personnel, because there was no change in the processes and the issue of seasonality was not taken into consideration.

5.3.2.2 The Efficiency Project

The goal of this project was 'to reduce the transformation costs of the bank through the reorganisation of central services in order to maximise operative efficiency and improve the service quality to customers and branches' (Consultancy Reports: Efficiency Project). The quantitative objective of the project was to achieve a cost to income ratio of 55 per cent. The project included several programmes. The aim of programme 1 – the rationalisation of the support central units – was to rationalise work methods, final products and organisational structure. The aim of programme 2 – the management of external supplies and services – was to control the costs of external supplies and services and to change the structure of subsidiary companies providing services. Four major objectives were identified: (1) the rationalisation of the use of certain services – e.g. rents, cleaning services; (2) the reduction of non-controllable expenses – e.g. phone calls, travel expenses; (3) to improve purchase management by changing conditions and renegotiating prices; (4) to change the structure of subsidiary companies providing services. The idea was to create a new legal structure to avoid charging VAT between companies of the group (Ancillary Service Company Grouping). In addition to the organisational advantages, this would afford important economies of scale, as well as certain tax advantages. Outsourcing units should work more for external companies, reducing the bank's 'external services'. The management of external supplies and services was expected to save up to 15 to 20 per cent of costs. Programme 3 – operational management

– had two major objectives: first, to rationalise the back-office from central services and branches, maintaining or improving the quality level; and, secondly, to guarantee that operational priorities were compatible with the development of the new information system (NISI) and the redesign of processes. Finally, the aim of programme 4 – the management system of central departments – was to develop and implement a management system to define and control the objectives of the other programmes. This was necessary to define management targets and a 'tableau de bord'.

Operational efficiency and rationalisation, both in central departments and in the commercial network, could be achieved through the automation and elimination of tasks, the centralisation of administrative processes, and the migration of low value-added transactions[46] towards alternative and more efficient channels (e.g. ATMs, internet bank, phone bank). Externalisation would permit the branch network to focus on advice and selling. The reduction of administrative work could release workers to commercial activities.

Overall, the project was expected to reduce the workforce by 1,000 by the end of the year 2000[47] by improving services. The project created 'process owners', whose aim would be to optimise and simplify their processes, taking into account the fact that the departments and branches still spent much of their time on activities that did not add value. However, to reduce costs and increase banking earnings it was necessary to 'rethink organisational structures and some concepts that are given as acquired'. The new customer focus is clearly articulated in the following:

[46] Including withdrawals, deposits, transfers, services payments and cheque requests.
[47] A balance made in January 1999 updated the anticipated reduction to 755 workers.

> 'The branch should be a sales centre and staff there should occupy the majority of the time in selling and advising customers. They cannot, as they do today, occupy most of their time with non-value activities. Certain operative and administrative activities should be automated. There is a bureaucratic activity load that should be externalised from the branches' (Interview: Marketing Dept. Manager).

The fact that this also needed more efficiency at the centre is recognised in the following observation, from a central department manager:

> 'We can not have a financial institution where two-thirds of its resources are allocated to administrative support activities. The project seeks to improve the efficiency of central departments, reduce the number of staff and to automatise all tasks that can be automatised' (Interview: Other Central Dept. Manager).

Nevertheless, it was recognised that job redundancies do not automatically reduce costs in the short term, because 'even if the person is retired there are future incumbencies with the retirement' (Interview: Other Central Dept. Manager).

5.3.2.3 Other projects

By 2000, the bank was involved with two more efficiency projects which took still further the new focus on bringing value-adding activities closer to the customer while capturing optimal cost and efficiency solutions at the back office level. The back-office zero project sought to eliminate administrative tasks currently conducted at branch level, while the integration project aimed to concentrate under a single operational basis the entire logistics and information systems support functions shared by the commercial banking activities. It was envisaged that unified operational units within the group and the zero back-office at branch level should permit a reduction of 670 employees currently working at the branch back-offices and the reallocation of 300 employees to the commercial front.

5.3.3 Changes in the organisational discourse

As these change initiatives were taking place, and the implications of the new structure became increasingly clear to bank employees, one consequence was a 'discursive shift' first in official documents and then in the vocabulary adopted by managers (i.e. the range of things said and those not said began to shift). This can in general be characterised as a move towards a more internationally recognisable kind of 'financial management' phrasing and vocabulary. Terminology stressing profitability, unit cost reduction, quality, rationalisation and radical change became widespread, whereas before this had been rare. Thus, in the Report and Accounts for 1997 we find such observations as the following:

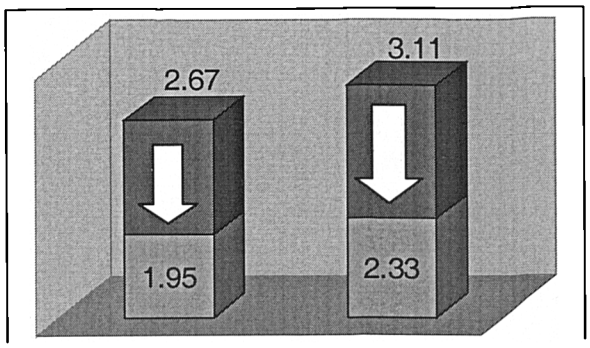
> 'The plans for change are clearly coming together, as on the one hand we increase our ability to generate business and hence earnings, and on the other hand, as we reduce our unit costs of production'.
>
> The Excellence Project was put into operation with the aim of improving the quality and competitiveness of the Group's services, 'directed mainly toward the distribution network, the segmentation of our clientele, and adapting the customer service to that segmentation'.
>
> The Efficiency Project was 'designed to reduce transformation costs through slimming down the logistical support services, to reduce costs and redesign processes, bearing in mind the changes introduced by the NISI'. With the Efficiency Project 'we simplified, rationalized and redesigned the circuits, and automated and centralized processes, while linking Group companies more closely to the process of monitoring customer satisfaction on a continuing basis'.
>
> The NISI was 'designed to make radical changes in hardware and software, in order to respond to the needs of running the organization in an up-to-date way'.

This new discourse was also 'advertised' with the announcement of a share increase (see also Figure 5.8 that includes supporting data):

> 'Despite narrower net interest margin, Portuguese banks were able to diversify their income into no-interest income generating activities as well as to generate significant cost savings and increase global profitability with [the bank] ahead of peer group on all counts'.

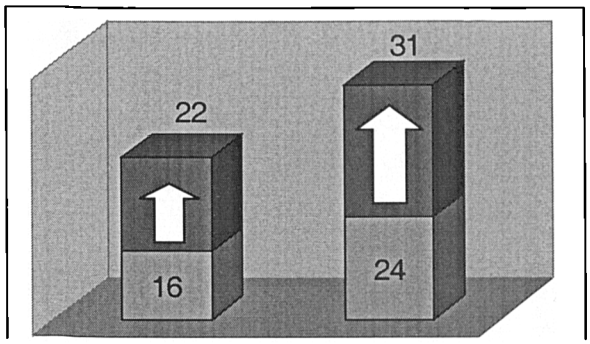
Figure 5.8 – Ratio evolution, 1996-2000

Evolution of the net interest margin 1996-2000 (%)



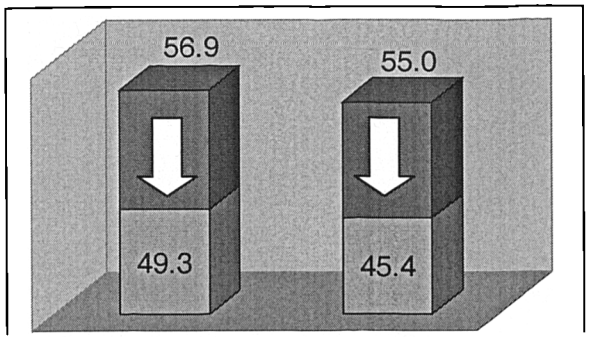
Portuguese banking sector* Group

Weight of fees and commissions within the income structure, 1996-2000 (%)



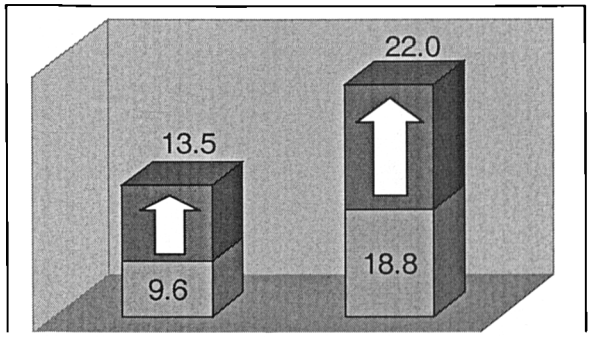
Portuguese banking sector** Group

Administrative expenses in percentage of total Banking income, 1996-2000



Portuguese banking sector* Group

Return on equity, 1996-2000



Portuguese banking sector** Group

* June 2000 figures
** 1999 figures

Source: Strategy Day (2001)

As the process of organisational and discursive change has gathered momentum and been maintained now for the best part of a decade, bank employees have not been slow to realise what has been happening. Some of this has followed as a natural consequence of a change in personnel, with new people entering who buy into the new discourse more automatically. But additionally those who have stayed on have embraced the new kind of discourse and the practices that go with it, while they have also had to accept that there is an increase in job insecurity under the new more 'competitive' regime.

Unsurprisingly, there has been a considerable increase in suspicion of the motives of top management when initiatives promoting 'improvement' have been set up, particularly among older employees. At the same time, a new spirit of competitiveness has begun to be disseminated at the everyday level with the setting of targets, both financial non-financial, e.g. with the framing of new objectives such as increasing the percentage of 'high-value' customers.

In this process, there has been some considerable reorganisation of the bank's structure. In the mid-1990s there was a geographically-based reorganisation of the management structure below top management, with the introduction of regional divisions, and with a related focus on revamping the work patterns in branches, so that branches became more of a 'one-stop shop' for a range of services and the first point of call for most services that the average customer might want or be persuaded to consider. Separate 'corporate banking' and 'private banking' divisions were also set up for high net worth customers. Thus, strategy and marketing discourses became the accepted language through which senior managers articulated their decision-making processes and justified their outcomes.

The following 'key strategic messages' from a presentation during a 'strategy day' organised for all managers, are an example of these discourses:

> 'The creation of shareholder value is increasingly at the heart of [the bank's] business model and decision-making processes:
>
> - [The bank] aims to be a regional leader (top 5) in terms of efficiency (cost/income ratio);
> - Market share growth is "only" an intermediary target to achieve increased levels of profitability;
> - Strategic development – although the emphasis is on organic growth, we have no dogmas regarding M&A, but will only act on opportunities that will add value to our current positioning, notably outside Portugal' (Strategy Day 2001: Strategy Presentation).

Other examples can be taken from the Report and Accounts for 1999:

> '[The Group] ...has outlined its business strategy according to the specific needs and wishes of the different consistent segments that make up the overall financial demand in the various markets where it operates. Based on a diversified and high added-value provision, the Group has sought not only to secure the loyalty of its present customer base, but also to increase its market share through a cross-selling approach and by enhancing the high quality and recognition of products and services associated to the ... brand'.
>
> 'Within the scope of relational banking dynamics and in view of its very extensive and diversified client base, [the Group] has evolved from a product-oriented and mass-communication strategy to a commercial strategy that focuses on the client and permits an approach based on the Continuous Relationship Marketing concept'.

The bank's mission is expressed as follows:

> '[The] Group aims to be the leading Portuguese multi-specialist financial group in terms of innovation, customer service and profitability. While maintaining strict risk management, [the bank's] continuing organic market share growth is fuelled by anticipation of client needs and alliances with premier partners to leverage its strong brand image' (Strategy Day: Strategy Presentation)

This discourse reflects the position held at a general meeting in March 1998, where the shareholders approved the Millennium 3 Programme. This programme sets forth strategic

commitments towards growth, financial strength, profitability and productivity. Table 5.4 includes the quantifiable strategic objectives for 2000.

In the Report and Accounts for 2000 'the strategic mainstays that guide the Group's activity' are described as:

> 'To extend our client base and consequently our market share has at all times been an intermediate goal for the Group; the development of our presence in markets having affinities with Portugal was also a strategic vehicle that we have reinforced in order to meet this goal.
>
> Our commercial performance is therefore guided by the underlying objective of delivering maximum value to our customers, and based on a relational marketing approach and the continuous effort to improve efficiency levels. The increase in value generated is shared with the agents involved (employees, customers and shareholders), thus fostering an increasingly concerned and long-lasting relationship.
>
> At the same time and intimately connected to these guidelines, we note the initiatives taken to fully use the potential afforded by the new technologies, which provide a faster and more efficient means both for the communication between the Group and its customers and for carrying out transactions and business'.

The strategic guidelines may be summed up in four points: (1) leveraging the bank's franchise and trademark for market share gains; (2) developing an international presence in markets having affinities with Portugal; (3) improving relationship marketing to deliver maximum value to customers; (4) developing multi-channel distribution in the financial sector along with full exploitation of New Economy opportunities.

The 'truth' of the free market is reinforced through the statements, publications and actions of the Portuguese public institutions (state) and other institutions such as the World Bank.

Table 5.4 – Strategic objectives for year 2000

Strategic objectives		
Market	market share ≥ 17.5 %	(more than 400.000 customers)
Productivity	cost to income = 60 % (excluding trading)	cost to income = 55 % (with trading)
Solvency	BIS ratio ≥ 12 %	
Profitability	return on equity (ROE) ≥ 15 %	
Staff	growth of profit sharing ≥ 10 %	
Shareholders	growth of dividends ≥ 10 %	pay out ratio ≥ 50 %

5.4 Management control systems: the original MAS

The original MAS, as noted before, was largely budget-driven, supported by a system of objectives and incentives (SOI). The new ABC system was apparently expected to supplement this, through rendering visible the activities that were required to make the new customer-focussed strategy work effectively. However, that assumed that the existing budget-driven MAS was already effective, and that it could be adapted to fit with the ABC approach. Both these issues were problematic.

Anthony and Govindarajan (1998) have noted that even today the budget is an important tool to fine-tune the strategic plan and to help co-ordinate the activities of the several parts of the bank. It informs managers of the amounts they are permitted to spend and the performance that is expected of them. Additionally, it is a basis for evaluating a manager's actual performance, so long as it is linked effectively to an appropriate system of objectives and incentives (SOI). The SOI therefore needs to include a series of measures that best represent the bank's strategy and should be a mechanism for improving the likelihood of the bank successfully implementing a strategy. However, this is easier said than done. In reality there were, within Banco Lusitano, significant limitations to these theoretical aspirations.

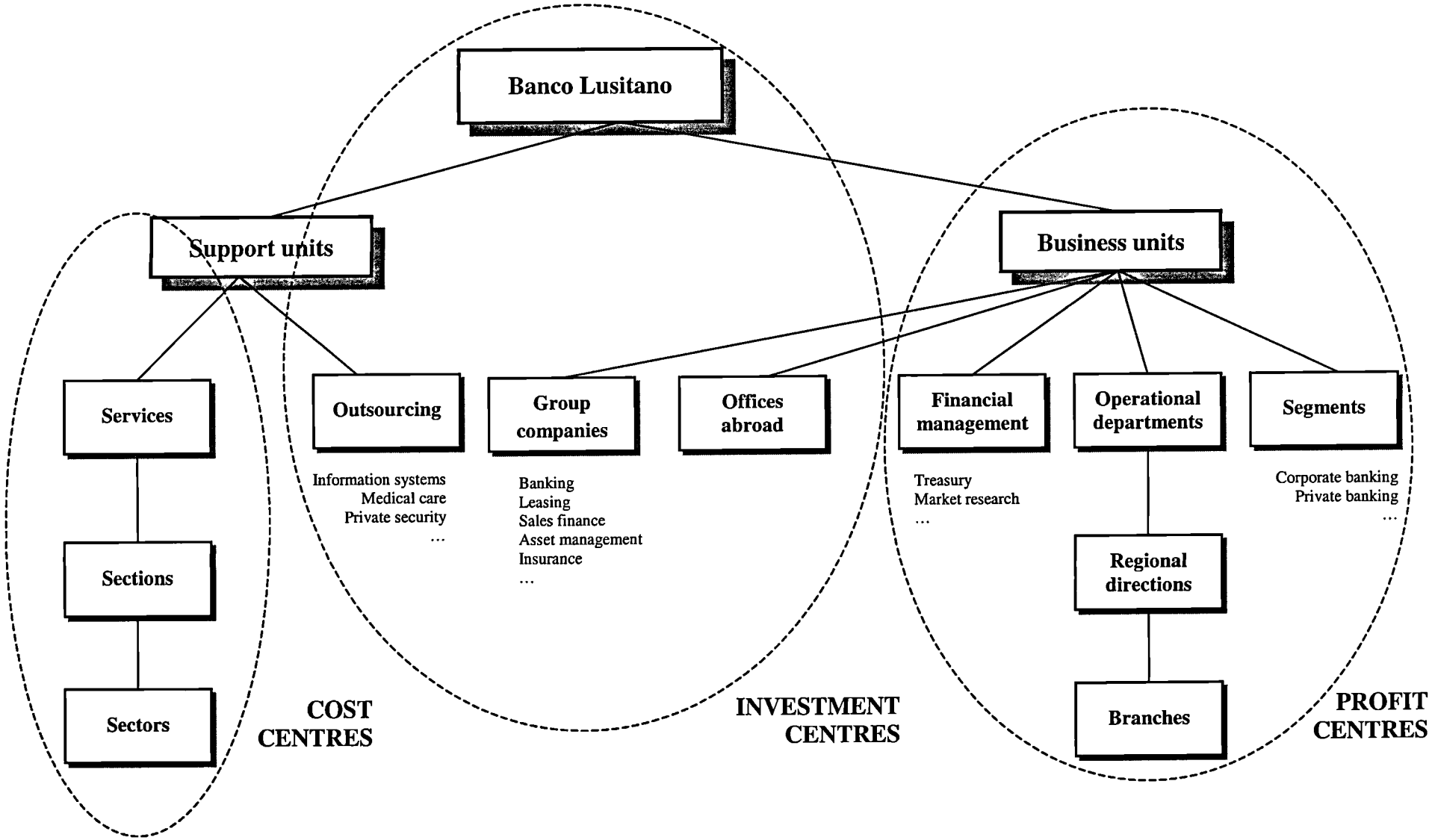
5.4.1 The budgetary control system

The budgetary control system had been in place for some considerable time, and additionally was an evolved version of an older incremental budgeting system, which had been in place before the re-privatisation of the early 1990s. The annual budgeting process operated as follows.

The annual congress of the group management starts the budgeting process and is an important way for the executive committee to communicate the mission and strategic objectives for the forthcoming periods. The objectives for the next year are then handed down from the executive committee to the senior managers in the key central administrative departments involved in the budget-setting process. These include the accounting, strategic marketing, treasury and market research departments. The departments prepare a document containing the main factors in the macro-economic environment (historical/evolution/trends), scenarios for the banking sector, and commercial objectives and by business unit. Then the executive committee prepares a document that establishes the corporate objectives of the bank as a whole and its outsourcing companies. The objectives are broken down by business areas and for the different parts of the organisation. The document also communicates details of budgetary policy and guidelines to those involved in the preparation of budgets. Budget forms are sent to all responsibility centres (see Figure 5.9), including central departments (cost centres), the branch network (profit centres), and outsourcing companies (investment centres). Costs that are not allocated to responsibility centres are budgeted to the managers who are responsible for them as an attempt to control them (e.g. depreciation, phone calls). The principle is that all costs should be controllable in one way or another.

The accounting department co-ordinates this stage of the process. The department receives the forms and ensures that the budgets are in harmony with each other and with the guidelines. The department also promotes meetings with the commercial marketing department with the aim of establishing objectives for the different parts of the bank, e.g. relating to product range or marketing segmentation. There are also meetings with the

Figure 5.9 – Responsibility centres



'process owners' (responsible for the preparation of the budget for their processes) and responsible departments.

Finally the accounting department elaborates the plan and budget under the supervision and collaboration of the 'budget supremo', who reports to the executive committee. The budget includes a 'tableau de bord' (see Table 5.5), where special attention is paid to certain key targets, especially return on equity and the cost to income ratio. This document still requires the revision and approval of the executive committee.

Actual numbers are compared with budgetary figures on a monthly basis, and a management by exception principle is implemented on the basis of the fixed budgetary numbers. This enables the 'process owners' (process costs) and accounting department (direct costs) to identify the items that are meeting plan objectives and to investigate the reasons for differences. Corrective action can be taken to avoid similar inefficiencies occurring in the future. Although the budget is not flexed, seasonal variations may justify variances. Differences may occur because the budget was unrealistic to begin with or because the actual conditions during the budget year were different from those anticipated. Even in this situation the budget is not revised. The budget is not changeable. Seasonal variations or other unexpected events tend to result in additional expenditures being authorised where potential cost overruns are identified.

A comparison of actual numbers with the budget provides a means of informing managers of how well they are performing in meeting the targets that they have been previously set. The existence of a 'budget supremo' is part of an effort to motivate managers to strive to achieve the budget goals. The 'supremo' explains his own role as follows:

Table 5.5 – Tableau de Bord – Group Lusitano

	Symbol	Year n-3	Year n-2	Year n-1	Year n (budget)
Strategic objectives					
Return on equity	ROE				
Cost to income					
Total	OE/BE				
Commercial (excluding trading)	OE/CBE				
Rates of growth					
Operating expenses	OE				
Personnel expenses					
External supplies and services					
Depreciation					
Commercial banking earnings	CBE				
Total banking earnings	BE				
Efficiency of the organisation	OE/TA				
Quality of the network implementation	TA/NB				
Employees per branch	NE/NB				
Assets per employee	TA/NE				
Personnel expenses per employee	PE/NE				
Business earnings	BE/TA				
Financial earnings	FE/FA				
Return on commissions	C/TA				
Return on market operations	ME/TA				
Level of overdue credit					
Other factors					
Tax efficiency					
Net assets to capital employed					
Level of provisions					

NB – Number of branches
NE – Number of employees
TA – Total assets
FA – Financial assets
FE – Financial earnings
BE – Business earnings
ME – Market operations earnings

> 'A department relates itself to other departments on the basis of equality. It can ask for responsibilities but things do not necessarily happen as they should. If there is someone responsible for cost [reporting directly to the executive committee], he can ask whatever he needs to know and he can impose certain behaviour because he has a different role [and position]. The budget supremo together with the accounting department can fortify control of costs' (Interview: Marketing Dept. Manager).

However, one consequence is that managers complain about too many people controlling their own budgets:

> 'Everyday we receive maps from somewhere to control our budget. At this moment there is excess in terms of cost control and the problem is that information in excess provokes disinterest... We have more important things to do' (Interview: Other Central Dept. Manager).

> 'There are several persons that send us the same cost control information. I do not agree with that, it should only be one entity. The same information has to be answered to all those persons' (Interview: Other Central Dept. Manager).

The intended change of mentality was not achieved completely:

> '[The budget] does not influence this department. Although we had taken some measures and people collaborate with those measures, this department is too important to be subject to the budget' (Interview: Marketing Dept. Manager).

The problems involved in motivating managers in appropriate and optimal ways had led to the development of a system of objectives and incentives (SOI). While this was undoubtedly seen as an extension of the budgetary system, a logical step to set targets at all levels in the bank, to communicate these strategies to managers and motivate them to achieve those goals, it too had limitations in the way it developed.

5.4.2 The system of objectives and incentives

The SOI was introduced initially only for the commercial area – the branch and regional directorate network, and the central commercial structures for the private, corporate and institutional segments. It was perceived as a key means of inducing more effort to achieve goals (in order to receive associated rewards) and to guide this effort into directions that are valuable for the bank. It provided a monetary bonus for achieving short-term targets giving positive direction and motivation. The objective was to develop a greater competitiveness and commercial awareness at the 'sharp end' of the business, in the branches. The targets set (along with the potential incentives for success) are increasingly driving the activities of managers and employees in the branches. There is (as in the banking sectors in other countries) an increased focus on sales and short-term profit. Targets are related to commercial effectiveness (measured by the degree that commercial objectives are reached) and profitability (measured by business volume with standard margins defined by product). Profitability is assessed in terms of the evolution of cost to income, i.e. the cost to income ratio is compared with the ratio for the same period in the previous year.

The big problem that quickly emerged with the SOI (and one that had not been solved before the advent of the ABC initiative) was that the bank did not have the tools to calculate actual product margins. Consequently, while commercial staff needed to be encouraged to direct their efforts appropriately, they were equally likely to be motivated simply to work harder, since the SOI could not differentiate focussed activity from activity in general. In other words, the system worked to encourage the generation of as much business as possible, which could involve selling less commercially attractive

products. Here the SOI failed to differentiate selling strategies, in the absence of profit margin information. As a commercial manager explained:

> 'Perhaps it should not include some products that, although strategic for the bank, are almost in extinction commercially. In terms of borrowing, the weight of the current and saving accounts is too high. I understand that those products are strategic and important for the bank but commercially they are products that we cannot make an effort to sell' (Interview: Regional Director).

Since commercial staff can squeeze margins in order to do more business, and the system does not translate that through actual margins, the results reported can create a perceived unfairness in the attribution of performance rewards. As a manager from the commercial area put it:

> 'Profitability is just a volume effectiveness because a standard margin is used, which is totally mismatched; it should be the actual margin. Imagine that I am someone who does good credit management and practice interest rates above the bank's average. In terms of profitability I am in the same situation as someone who squeezes interest rates, so there is not a profitability measure. We should have combined the volume growth with actual interest rates' (Interview: Regional Director).

An additional problem is the difficulty in identifying profitability in terms of the branch network and central departments that work with special segments, namely corporate and private banking. By using average margins, the branch network is adversely measured in terms of profitability since corporate and private banking departments have lower margins. A manager from a central department from the commercial area explained that:

> 'Our customers also affect the SOI of the branches. We do not follow directly the customer so we need to have the branches interested by reflecting their numbers with what they and we obtain. However, some of our customers could affect the branches negatively since our relationship with them is affected by the strategic position decided by the administration. We decided that five of our customers are too dangerous for branches and they have been removed from their SOI. These customers are only in our SOI. We are not very worried about

> our SOI but about the profitability we get from our customers... and the SOI is still imperfect in this measure (Interview: Other Central Dept. Manager).

In 1999, a SOI was also created for central departments. Although benefiting from the experience in the commercial area, this system was difficult to set due to the different activities in the central departments, ranging from operative to logistics and support. Therefore the overhead allocation problem was posed particularly acutely. The provisional solution was to set four types of targets, each of which related to costs that were measurable, rather than costs that were relevant. First, efficiency targets were set measured in terms of workforce reduction and redesign of processes by the 'owners'. Secondly, cost targets were set measured in terms of budget execution (including direct costs and process costs for the 'owners'). Thirdly, quality targets were set, measured through a questionnaire to internal clients regarding the quality of service. Finally, commercial targets and the global effectiveness of branches were set, but only for the two marketing departments (strategic and operational). Along with this set of targets, the system required an evaluation of each individual's performance conducted by the senior manager of the department, which also affected the individual reward. In addition to the problems with the 'objective' reward system, this added a perception of potential subjectivity and unfairness in the attribution of rewards, while imposing significant burden of time and stress on those managers.

In practice, the application of the SOI for central departments during 1999 encountered several additional problems due to significant variances from previous years that could not be easily accepted by staff. Furthermore, it turned out that if the bank had applied directly the rules initially set, the bonuses would have been far higher than the budget had allowed for. Corrections were therefore made hurriedly, on the grounds of avoiding

unfairness and inequities in the reward system. In practice this seems to have worked, at least at the time. As one manager commented:

> 'Employees from the central departments did not realise the problems because they received the results that had been corrected. Employees were satisfied since it does not have the negative aspect of comparing themselves with commercial staff: 'it seems that there are first- and second-rate employees'. Adjustments for next year would naturally exist but undoubtedly this was well received by employees' (Interview: Other Central Dept. Manager).

It was recognised however that the system needed some significant adjustments if perverse or unexpected outcomes were to be avoided. If the system had too much of a cost control focus, this was not going to motivate the development of more business. Indeed a cost focus might be counter-productive. For instance, in the treasury and market research departments more costs are the result of more market business. So long as the SOI considered only the costs, their activity would be counter-productively penalised. There was also a sense of unfairness because some departments that had well-established budgets felt penalised when compared to other departments that were new or had never had a very strict budget.

When examining the two systems of objectives and incentives introduced up to 1999 one can conclude that performance was too multi-dimensional and complex to be captured by the set of defined quantitative indicators. These were failing to capture some important performance dimensions (i.e. they were incomplete) and they were also too easily affected by exogenous events that cannot be influenced by the staff being measured (i.e. they are partly uncontrollable)[48].

[48] Dutta and Manzoni (1999) define the properties a good performance indicator. It should be complete as it captures 'the whole truth' about the subunit's (e.g. the individual's or the team's) performance, and controllable as it is only influenced by elements under the unit's control.

Nevertheless, the SOI has had a huge impact on staff. That was to be expected, since it 'touches people's pockets' and performance affects rankings. As one manager put it:

> 'One works as a function of the objectives system. Monthly the system measures us. They make ranking by branches, regional directorates and departments. At the manager level, the rankings are made on the basis of effectiveness. Each time we are evaluated more in this way; naturally this system is very relevant for us' (Interview: Regional Director).

Even though inside the bank there is a claim that there is a good fit between this system and the budgetary system, one may hypothesise that there are still some serious points of conflict. Furthermore, such conflicts are likely to be resolved in favour of acting in the terms the new system requires, particularly where incurring extra cost can be justified in the name of pursuing objectives, and where such costs are authorised without major objections under the non-flexed budgetary system. Nevertheless, the SOI is responsible for the major change in the budget that has occurred over the last years. As one manager explained:

> 'When the SOI was created, there was a major change in the budget: the division by segment of customers. Until then the budget was made for business units, i.e. the branches. Currently, business goals are set for banking customers not business units' (Interview: Accounting Dept. Manager).

The claim that there is a higher tendency to meet the budget raises the question of whether this tendency is caused by actual better performance or by manipulation of the budget estimates, or possibly the actual results reported. As one manager stated, 'if I do a credit operation and send it to deposits, I will increase two variables without any real movement' (Interview: Marketing Dept. Manager). There were claims that in fact manipulations did happen before:

> 'The analysis was always done with monthly balances that allowed manipulations. Last year there were regional directorates that made 50 per cent of their commercial effectiveness (equivalent to six months) in one month – December. It was easy to manipulate numbers because it considered the monthly average. This year the annual average is considered. We are working with months of the last year; falls one month enter another month. Therefore, at the end of the year, we will have the annual average, which is more fair. Although manipulations could always happen, when they are divided by 12 the effect is not so high' (Interview: Regional Director).

During 1999, the bank changed the SOI. Previously, data were collected by home branch but this was changed to the banking customer. As a reaction to this change, commercial staff 'adapted' themselves:

> 'In branches, employees go to see where the client is in terms of structure, and before they do business they try to modify it in order to benefit in terms of SOI. Consequently, the customer may not materialise business immediately' (Interview: Regional Director).

The system is now in continuous improvement. In the Report and Accounts for 2000 it is stated that will be an 'innovative scheme in the Portuguese financial system', the stock-based incentive system:

> 'From the start, the universal nature of this system together with its medium-term perspective regarding the employees' involvement with the institution's activity proved an efficient method of keeping hold of the most talented'.

There are grounds therefore for concluding that on balance, SOI's positive effects outweighed its negative ones. On the positive side, it appears to have widespread support among staff in comparison to the older system. It can also be seen as having been useful in adapting the corporate culture to the new environment in which the bank operates. It has also helped staff to focus on key short-term issues, particularly when it has been possible to devise incentives that promote desired activities. On the negative side, dysfunctional consequences have occurred because that has not always been possible,

particularly in the central bank areas where activities are not easily linkable to particular products or services. In addition, performance targets have sometimes been unilaterally imposed or have been manipulated so that they are relatively easy to achieve. Furthermore, targets have sometimes required revision during the year, but general principles for doing so have not been developed. There is also the danger of paying for something that people might have done anyway. Once the bank starts to pay employees, they tend only to perform because they are paid to do so. However, even if some of these problems are endemic, that remains a problem for incentive schemes generally. In addition, some of these negative factors may be relatively easy to overcome as the scheme evolves. For example, the SOI for the commercial network recently started to include service quality objectives.

There are further outstanding issues, not least ensuring that the system adequately rewards long-term aspects of performance as a basis for promotion. There are two types of promotion. The first, automatic promotion, happens after the employee has been at a certain level for *n* years. The second, promotion by merit, is based on an evaluation conducted by the senior manager of the department or branch. It seems necessary to have a clear link between promotion and the SOI in relation to long-term aspects of performance. However, that process has only recently been addressed, and so there is still a long way before it is clear how far this can be achieved. To date it has proved easier to implement at the branch network level, where relatively simple quantitative targets have been established to evaluate long-term performance.

5.5 The Activity-Based Costing project

Thus, the 1990s were a decade of major transformation, with many new opportunities and the associated problems that such transformation brings. It was in this context that an ABC initiative was suggested, influenced by the consultancy firm involved previously in innovations. The basic idea was that it should be piloted initially in one operational sector of the bank. Beyond the initial trial, which was due to begin in 1998, the intention was that, if it was successful, it should be rolled out across the bank as a means of further enhancing efficiency and effectiveness. It was not completely clear to many bank employees why they wanted to implement ABC. However, it appears that some managers were already voicing concerns about the lack of product cost information, and at the same time there was a strong price pressure from the increasing competition between banks driving a perceived need to cut margins. There were also widespread concerns about the lack of 'information' for management (especially about profitability), the lack of comparability between information from different sources, and the lack of timeliness of the information that was available.

5.5.1 Pre-implementation

The implementation of ABC was due to start in 1998. However the project was successively deferred during 1998 and 1999. There were various reasons advanced for this delay, including such factors as the currency switch to the Euro and the Y2K 'millennium bug' problem. In the context of the introduction of the new currency, the bank had to adapt its operations, especially in the information systems area. Although the new currency only entered into circulation in January 2002, January 1999 was identified

as the benchmark for the Euro programme. Regarding the millennium problem, the Report and Accounts (1997) stated that:

> '[Its] impact on the Bank will be softened because the main modules of the New Information System have already taken it into account, either wholly or in part. However, this does not mean that substantial efforts will not still be needed in the information system as a whole'.

However, there were other more deep-seated reasons. Given the structure outlined in Figure 5.1, it is obvious how there were power relations issues between departments, e.g. in the commercial area between those departments dealing with 'standard' customers and those with more of a prestige client focus. But of particular interest here was the potential 'turf' struggle between the accounting and the organisation departments. By early 1999 it was clear that the latter department was in line to mount and co-ordinate the implementation of ABC, were it to go ahead, and this clearly precipitated a boundary dispute not only over who owned 'accounting' within the firm but also who owned the 'significant' accounting. A manager from another department summed up the dynamics of the situation:

> 'There are two forces and two different interpretations of control, definitions of costs and information systems... that also has to do with the history of the bank. Till a few years ago the accounting department was responsible for planning, so they intervened almost in everything. Today, the bank is facing great change, which is not as clear as is desirable. It also has to do with an historical issue, let things run...' (Interview: Other Central Dept. Manager).

However, in the early stages, it was not clear whether or how far this potential conflict would materialise, since as the series of delays perhaps suggested, there was a noticeable lack of commitment to the proposal from top management, as a manager involved in proposing the ABC project observed:

'They [the executive committee] know much about banking, they are bankers in the real sense of the word, but they are not too sensitive to efficiency. They have a feeling that control of efficiency is important, but as they do not know the basic concepts they are not too demanding in that subject'.

'The administration wants to reduce costs and become a more efficient bank, but to do that it is necessary to change structures and processes. Although they want that, they are afraid of going too far in terms of change inside the bank. That is a constraint' (Interview: Organisation Dept. Manager).

It is interesting to note some difficulties forecast in 1999 regarding the implementation of ABC. Managers outside the accounting and organisational departments anticipated certain technical difficulties:

'The apprehension of the concept, the amount of resources that it is going to consume. It is going to change the way people act and think. There will be difficulties in feeding an ABC system. The IT (or accounting, if you prefer) still does not generate enough data continuously to feed the system. We could do the conceptual part and implement it, but the problem is the maintenance of the system since an ABC system is not simple to feed. ... It is going to deal with departments that have never suffered reorganisation processes in terms of the renewal of staff. We should do a pilot so that the executive commission and the other departments 'buy' the idea. Consultants will be necessary since there is not internal knowledge to implement it' (Interview: Other Central Dept. Manager).

Also, behavioural problems were anticipated:

'My opinion is that teams are pressured due to job redundancies and new methods of work that are not fully working. People resist change because they are overloaded; nevertheless, because of that, they are also susceptible to change.

There are two types of resistance. First, from those that are in a life phase where capacity to change is limited. Second, from those to whom change creates instability, and they tend to defend themselves. It is very important to fully inform the latter group of people so they can collaborate. We are not dealing with objects but with people. We need to follow people's reaction to avoid resistance and to immediately change their behaviour.

If you randomly interview some people, you will conclude that there is more work, less people, and working tools are not efficient. When this idea is generalised it is harder to get

staff collaboration. The insecurity caused by this situation leads to rumours, which is terrible because it destabilises and distresses people' (Interview: Other Central Dept. Manager).

5.5.2 Implementation

In January 2000 the bank decided to start the implementation of ABC. The formal reason was that ABC could be a relevant data provider for the Management Information System (MIS). The tender for service presented by the consultancy company eventually selected stated that Banco Lusitano had contacted them to help implement ABC as part of the MIS. The aim was to provide 'more accurate costs, in order to manage profitability of products, customer segments and distribution channels. Additionally, it also permits the identification of potential improvements in terms of efficiency' (Consultancy Reports: ABC Project). The consultants perceived that for the bank, the reduction of financial margins (spread) made it necessary to find new sources of profitability and gains of productivity. This meant searching for more profitable customer segments, developing new products, and using less expensive distribution channels (e.g. the Internet).

Another important aim (the most important for the organisation department) was ABM in order to reengineer business processes, particularly those that did not add value to customers. Control of cost had become a key issue in the bank and ABC was seen as a potential device to induce behavioural incentives to be more cost conscientious. ABC was perceived to be a 'cost saving identification' device. Complementary to these objectives, it also was expected to provide better information to help the budgeting process.

Potential conflict was initially deflected by appointing the two departments as formal co-sponsors for the project, with the accounting department in charge of developing the new MIS, and the organisation department in charge of reengineering processes. Nevertheless

it was apparent that in certain key respects the latter was in a stronger position, not only in terms of being more in tune with the project but also in terms of the roles of people involved and levels of direct responsibility over the project.

At the same time, there was an extraneous reason why, after the earlier delays, top management arguably saw the project as timely. This was because they were considering a potential merger with a rival bank. This suddenly gave a new kind of reason why there was a felt need for a better understanding of the costs involved, in order to ensure the merger would be a commercial success. One organisation department manager explained how he perceived the decision to go ahead:

> 'As you know, the bank was going to merge at the beginning of the year, and when these things arose they were the result of a decision planned a few months before. Initially, the project was supposed to finish in September, but it was put back to July due to the merger. Therefore, eventually there was an urgency to know our product costs before the merger. I am certain of one thing: the bank always had this need. Last year would have been impossible with all the changes, the anticipated Year 2000 bug and the Euro. We were still adapting to the IT systems transition. Last year was too complicated and perhaps if we had started the project it would have been a failure' (Interview: Organisation Dept. Employee).

Once this circumstance had raised top management interest, it appears that a more general interest developed in ABC as a promising methodology for assigning the bank's operating expenses to its varied products, customer segments, and distribution channels[49]. One perceived attraction of ABC was the way its language centred on cost awareness and unit costs, and was increasingly seen to fit with the marketing-focussed strategy.

Consequently the decision was finally made to bring in a consultancy company to implement the model in conjunction with internal staff. The bank had proposals from

[49] In 1998, 52.3 per cent of the operating costs were not allocated to responsibility centres. The costs to allocate include depreciation, and costs with ancillary services and outsourcing units such as IT.

three consultancy companies. The winning company was perceived as having one or more advantages. First, as one manager explained:

> '[The winning company] had the luck to have been the last. They took the know-how from the other proposals and the problems we identified in the other proposals and managed to present a better proposal' (Interview: Accounting Dept. Employee).

Second, the head of this company in Portugal already had a positive track record with top management through involvement in earlier consultancy projects, when he was employed elsewhere. This should not be taken to imply that the winning bid was not superior and did not necessarily mean that before he moved personal contacts within the bank. On the contrary, as an Organisation Department manager observed:

> 'We considered several issues: costs, type of approach, and the know-how of each company compared to what we want to do. We also compared their experience at the international and national levels and the type of references we had. ... [From the winning company] we knew the president in Portugal. He had worked with us as a consultant from another firm. This personal knowledge may have helped' (Interview: Organisation Dept. Manager).

At the same time, the track record almost certainly did not hurt his company's prospects at the relevant management level. As another employee observed:

> 'His first work, the AVA project, may have been a painful and traumatic process to those involved, but for top management the result was excellent. This situation may have created a strong influence near the executive committee' (Interview: Organisation Dept. Employee).

Once the consultants had been appointed, the ABC system was developed in two phases. The first phase focussed on working in the branch network because it was technically easier to study their activities and they represented 43.3 per cent of the operating costs (see Table 5.6). Furthermore, it was easier to make progress with this research, because the organisation department had already undertaken an activity analysis in branches during previous reorganisation change initiatives. The second phase then involved the

Table 5.6 – Operating costs by departmental areas
(1999)

		Costs 10^6 Escudos	%
Commercial area			
▪	*Branch network*	32 009	43.3
▪	*Regional and central directions*	4 752	6.4
▪	*Central departments*	3 438	4.6
		40 199	**54.3**
Product area		**5 141**	**7.0**
Logistics area			
▪	*Ancillary services*	1 277	1.7
▪	*IT costs*	5 985	8.1
▪	*Projects*	10 125	13.7
▪	*Other costs*	11 275	15.2
		28 662	**38.7**
TOTAL		**74 002**	**100.0**

Source: Consultancy Reports (ABC Project)

extension of the model to analyse activity in the central departments. A more detailed analysis of these two phases shows the following.

5.5.2.1 First phase – the branch network

This phase was divided into three stages. The first stage was to prepare the implementation of the project, particularly the pilot. Five high priority steps were identified. The first priority was to establish the ABC research team. In line with the commitment to collaboration, this comprised individuals from the consultancy company, plus members of the organisation and accounting departments, and it also, for necessary reasons, included employees of the company who handled the bank's IT. The detailed make-up of the project team changed over the two phases but some of the original members remained in place throughout. The second priority was to explain and communicate the nature of the project to the ABC team and the executive committee, and then to the managers of the main business units. An initial series of educational sessions were therefore held to familiarise the executive committee and the ABC team with the basics of ABC, and then a programme of meetings was arranged at intervals of approximately two weeks. At each meeting the latest progress of the project team was to be presented and critical issues were to be identified and discussed. The third priority was the selection of the branches to be involved in the pilot. It was decided that a sample of twelve branches would be appropriate and that these should be selected on the following criteria: size, productivity and type of business. It was also important to try to cover all demographic groupings served by the bank, which was done by dividing branches into urban/not urban, and large/medium/small categories. The fourth priority was the preparation of interview schedules to be carried out in the branches, in order to establish

how valid the preliminary categorisation of key activities was, as defined in the list of activities prepared by the organisation department. The fifth priority was the selection of potential ABC software suppliers to tender for the new system that would be required, and the definition of the criteria for that system.

The second stage was the pilot involving 12 branches. The obvious straightforward strategy, of going directly to staff members, to obtain information on how they spent their work time, was considered both too sensitive and too time-consuming. Within Banco Lusitano the history of staff reductions ensured that this was going to be a particularly sensitive issue, and the likelihood of getting relevant information was consequently skewed. The ABC team therefore took time to explain their work and objectives to local management teams and emphasise that the purpose was to guide a more efficient use of resources rather than simply to reduce staff. Data were gathered by interviews carried out by the ABC team. The aim of the interviews was to review the preliminary activities defined by the organisation department, calculate the percentage of time spent on each activity, and collect information regarding cost drivers and complexity factors[50]. Heavy reliance was placed on interviewees' knowledge of operational details and on their recall about the percentage of time they spent the year before (1999) performing each activity:

> 'We noticed that people had difficulties remembering what they had done last year, so as a reference we told them: 'Try to remember how you spent your time last month. It should be the same'' (Interview: Organisation Dept. Employee).

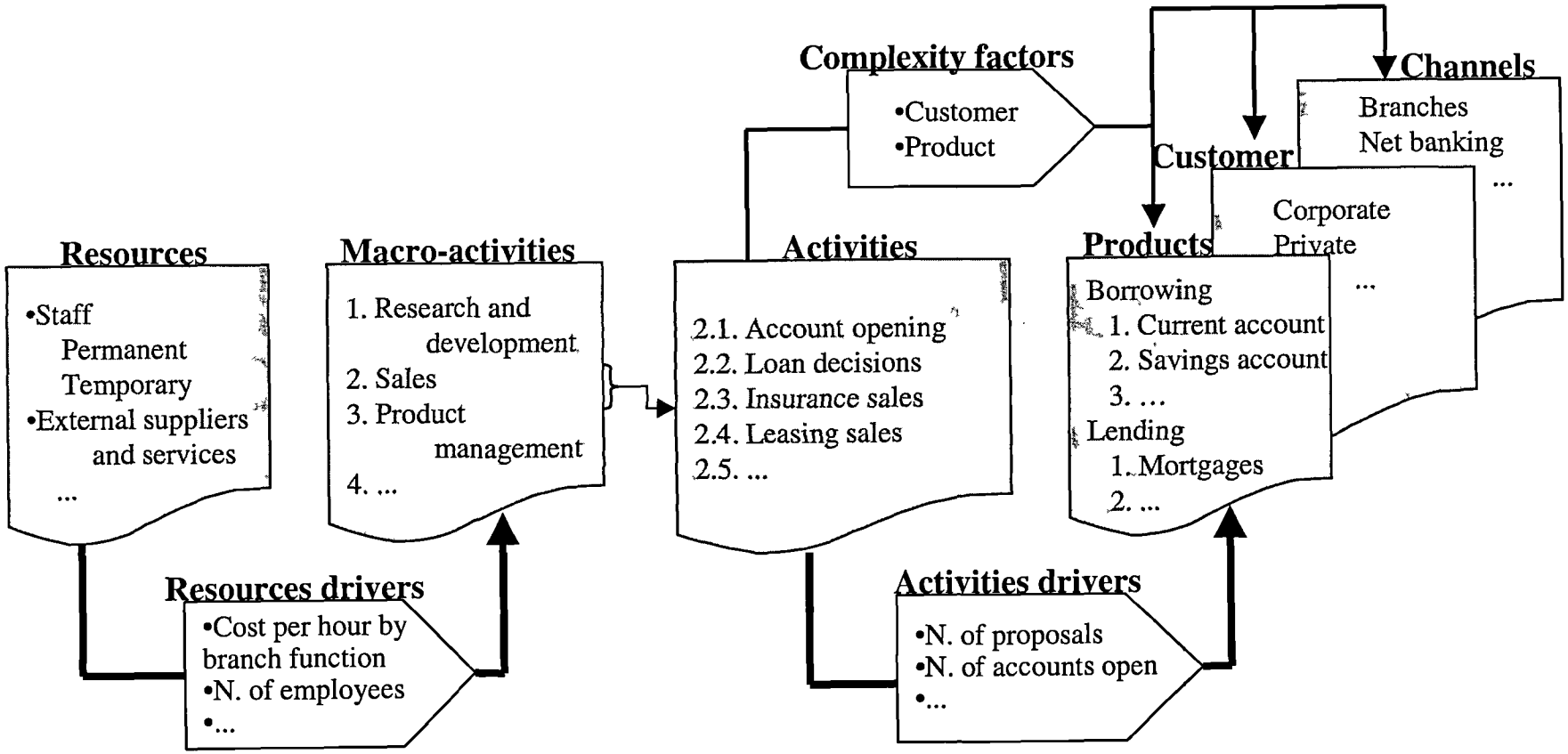
This direct information was then supplemented and cross-checked by indirect data provided by central departments. So the accounting department provided data on

resources consumed and their cost per branch, the personnel department data on permanent and temporary staff by branch, and the commercial marketing department data on publicity material used per branch. From outsourcing companies, the team also obtained confirmatory information, with the IT company having data on the volume of IT output consumed on each activity by branch, and the firms involved in supplying consumables, communications, and in property management providing data on resources consumed by branch, including rents, depreciation and insurance. Sets of key activities were thus defined in the way summarised in Figure 5.10. It began to appear that there were certain fairly generic activities across branches, relating to the major forms of business typically carried on, such as new accounts, loans, leases and insurance provision. Provisional activity drivers could be postulated, with some provision for the differences between branches being captured via the complexity factors noted above (see note 50).

Additionally, the ABC team, with the involvement of the IT company, came to a decision about the choice of software based on presentations by two suppliers. The proposals were seen as similar in terms of the potential scope and power of the systems, so the team chose the cheaper one, which happened to be the system sold by the market leader in ABCM software, and which offered stronger guarantees in case of assistance with problems. However, later there was considerable disappointment with the performance of the chosen software, once people had experience of the system in use. The following quotes come from people in the organisation and accounting departments and from a member of the ABC consultancy team:

[50] Complexity factors were defined in two ways, in terms of complexity of customer demands or of product types. This enabled the team to take into account the higher or lower consumption of resources for each activity, according to the products, customer segments or distribution channels to which the activity was performed (see Figure 5.10).

Figure 5.10 - ABC model



Source: Consultancy Reports (ABC Project)

'My expectations were that it was simpler to work with the software than it has been in reality. It is a very complex program and not as versatile as we were hoping. It requires too many people for its maintenance' (Interview: Organisation Dept. Employee).

'This model is too detailed and complex to allow a good ABM. However, since the beginning we have been simplifying, because the software does not do it. In this sense it has been a limitation; the ABC system is not the one we would have liked initially' (Interview: Accounting Dept. Employee).

'We have a tool that allows us a tri-dimensional vision. The problem is its capacity; we have already bought memory boards because it was too slow' (Interview: Consultant Company).

These problems only surfaced over time. In the meanwhile, the third stage in this phase was the roll-out of the ABC model to the branch network. Using the data collected during the pilot on branch characteristics, the ABC team identified four probable 'branch clusters' and decided on this basis to extend the study to 16 more branches: four from rural areas, four from urban areas, four from major urban areas (Lisbon and Oporto), and four from the suburban areas round these major cities. After tests and the matching and validation of results, the team worked with the software to get the branch model for defining and tracking activity costs up and running.

The first phase was due to be concluded by June 2000, when the results for the branch network were supposed to be presented to the bank. However it was delayed several times due to lack of a key factor for successful roll-out of the ABC system: output volumes. The essential nature of this information can be seen by comparing Figures 5.10 and 5.12. The former shows the outline scheme through which the set of activities for a branch in any particular 'branch cluster' were to be identified. But then to have a sense of what the costs should be for a particular branch and to track actual performance, it was essential to have detailed information on outputs of the kind set out to demonstrate the costs

associated with a particular 'contract', defined in terms of activity involved pre-sale and post-sale, and in terms of related infrastructural and transactional activities and costs.

Extracting such information depended heavily on input from the IT company. However, in April a report from the consultants, presented in the fortnightly meetings with the bank, stated:

> 'For the IT company this project is not considered a priority. This logic should change or we need to review the calendar of the project according to the date when data will be made available' (Consultancy Reports: ABC Project).

This was perhaps understandable from the IT companies viewpoint, since providing such information could be seen as extraneous to their main work, and having significant opportunity costs in terms of their own profit levels. Perhaps unsurprisingly, in July the situation was still unresolved:

> 'We have concluded the development of the model. However, costs by cost object still do not exist due to lack of data regarding volume output' (Consultancy Reports: ABC Project).

Eventually, useable data began to come on line. At this point, with activities selected and defined, resource costs traced to activities, and cost objects defined, it was possible to proceed to the next stage of analysis, and to trace the activity expenses down to the different bank products, customer segments, and channels. The tracing involved defining activity cost drivers for each activity, then collecting data about the quantities of each activity cost driver that occurred during the period. Activity cost driver rates, calculated by dividing the cost of each activity by the quantity of the associated activity cost driver, could then be used to trace activity costs to individual products, customer segments, and channels.

Again, in practice, defining appropriate cost drivers proved to be far from an easy task, and again the main problem proved to be data collection for the quantities of each driver, because for a significant number of drivers data were still not available. A member of the ABC team revealed the extent of the problem, and what they saw as the worrying nature of the solution adopted:

> 'The consultants are worried about obtaining the most practical driver not the best, because they want to present results. I had an access file in my computer, with criteria to allocate indirect costs to departments and they used it without any change. They should produce something better, but they say the IT company does not have drivers volume information. They are using practical drivers in the model, but not the best ones' (Interview: Accounting Dept. Employee).

The solution arrived at finally was that for data that were not already being collected, new data capture systems had to be designed and installed.

5.5.2.2 Second phase – the central departments

The second phase was initially supposed to start after the conclusion of the first stage. However, because of the delays just noted in the first stage, the ABC team started the new phase due to pressures from the bank's top management, who wanted the system up and running as close to the original timescale as possible. Also, since a potential merger was still alive, the bank were willing to reinforce the consultancy team in order to tackle the central departments simultaneously.

This phase was also divided into three stages based on prioritising departments in terms particularly of their degree of direct involvement in branch commercial activity. At the first stage the team also got their analysis moving quickly by defining as priority departments those for which activities had already been identified by the organisation

department. These included the central and regional structures of the commercial network, the international department, the operations executive department, and the market research department[51]. The second stage then in practice involved the other central departments seen as having significant involvement in branch commercial activity but for which no activities had been identified. These included the IT costs and other projects, the strategic marketing department, along with the stand-alone commercial departments concerned with private and corporate banking. The third stage included the remaining departments.

As the team now struggled to roll out the ABC system on two fronts, and continued to have problems over the quality and quantity of information coming from the IT company, a third problem began to surface. As noted in Chapter Two, one problem frequently found in ABC initiatives is that the number of activities defined as 'key' in a department can easily increase. In addition in a complex entity where a range of different activities are undertaken in a variety of different departments, the number of activities that are 'key' across the different activities and departments is also likely to increase. All these factors taken together lead to the design of a system that is at a global level too complex to comprehend and manage. The implementation team began to feel that this was precisely what was happening as they struggled to fulfil the different objectives. In addition the degree of complexity and opacity in the system was seen as increasing significantly when trying to analyse activities in the central departments due to the higher incidence of costs that could not be directly allocated to front-line activities, and the heterogeneity of the indirect activities undertaken. One particular example of the kind of implementation

[51] It is worth noting that this analysis led later to a new level of conceptualisation in the way activities were seen as connected, as the central and regional structures of the commercial network were later considered together with the branches to form a more comprehensive model: the commercial network model.

problems encountered was how to treat IT costs and costs from other development projects which typically only produced benefits across several years. This was a particularly acute and pressing example of the general problem since such costs already represented 21.8 per cent of operating costs, and the trend of the previous few years was for these costs to increase in proportion, as the bank was becoming more technological.

In this case, the ABC team decided to create a specific model to deal with these costs, which divided them into two cost types: depreciation costs, and relevant maintenance expenses. Since these costs had to be allocated to activities and then to cost objects, the team conducted interviews with the departments involved in the projects to identify the activities supported by each project, and the cost objects that benefited from them.

Experience pointed to the conclusion that this was an area where it was particularly difficult to identify cost drivers, and that the only viable way to do so was itself costly, since it had to be done individually by project. Furthermore, it was apparent that dealing with these costs would entail significant year-on-year work by the team responsible for the maintenance of the ABC system, as the typical number of new projects annually was more than 20. Yet it was work that would have to be done, since it was essential, given the percentage of operating costs involved, to capture the activities involved in new projects and the cost objects associated with them, if the system as a whole were to be a credible cost control model.

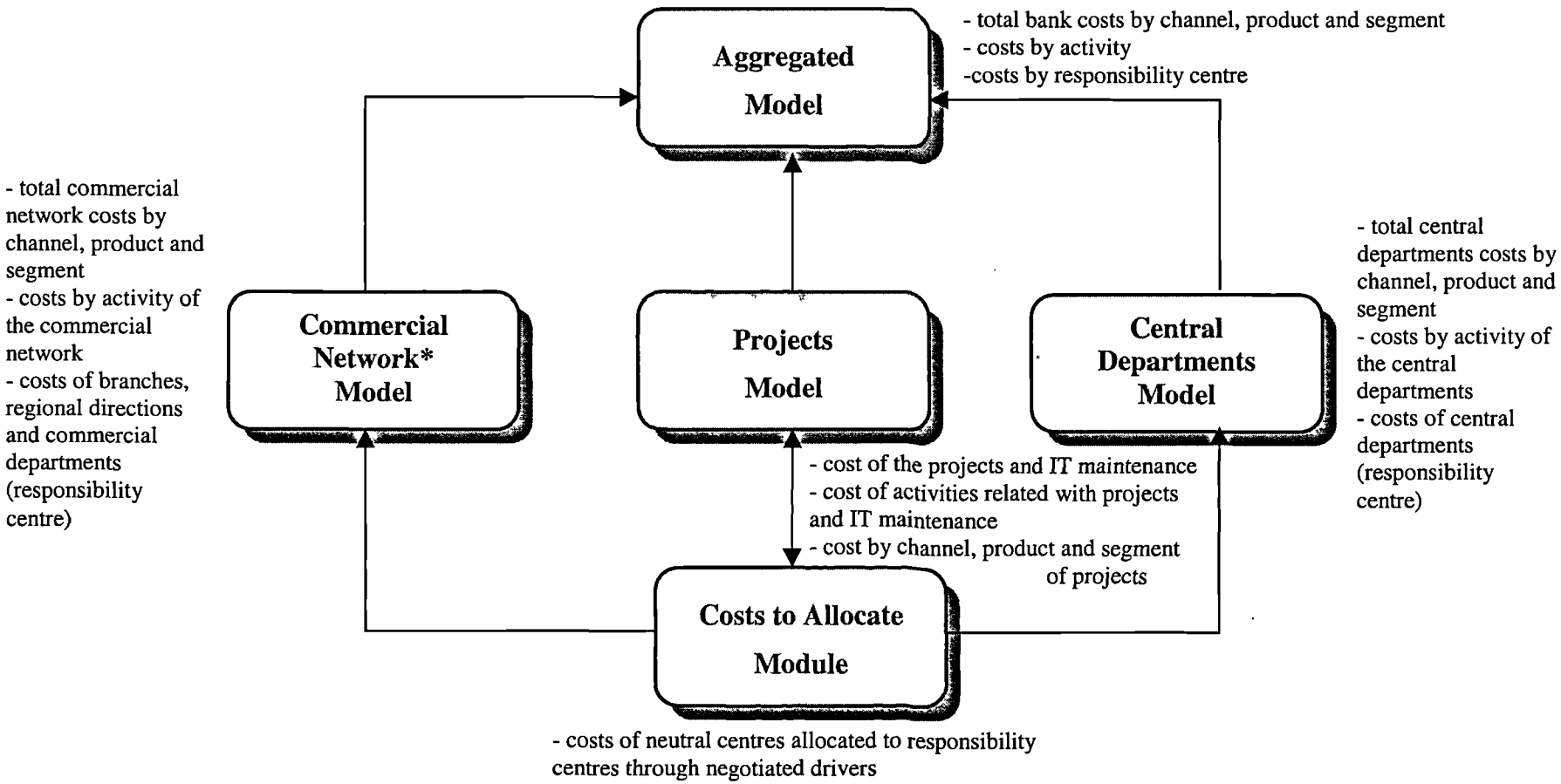
5.5.3 The activity-based costing output system

The ABC system was developed as a stand-alone system that would interface with other systems to obtain the data it required (including the 'data warehouse'). Some of the data

that were to be produced by the ABC system (e.g. standard unit costs by product, customer segment, or distribution channel) were to be fed into the data warehouse in order to obtain the expected MIS profitability models. The final structure for understanding costs articulated out of the ABC project is summarised in Figure 5.11. It can be seen that what the team had come up with was cost models for four separate areas of activity, which together produced an 'Aggregated Model'. There was one for the 'Commercial Network' which now included the old core commercial activity undertaken in the branches (though these were now reorganised via regional head offices), plus the other commercial activities involved in corporate and private banking and the municipal and institutional sector (see Figure 5.1). There was one for the 'Central Departments' covering those costs that could be traced to commercial activities or defined as indirectly contributing to value adding activities. There was a separate model, as just discussed, for the costs of 'Projects'. Finally there was a model for dealing with those residual costs defined by Cooper and Kaplan as 'facilities sustaining', where there was no possible 'causal' relation to particular products or services, and where there had to be, as Figure 5.11 puts it, 'negotiated drivers', i.e. what traditional overhead analysis understands as the 'arbitrary' apportionment or allocation of costs on a judgement basis.

The other three models could however operate as 'causal' systems with three modules of analysis, concerned respectively with resources, activities and cost objects. Within each model, in standard ABC fashion, the expenses of each business unit were now collected into activities, and then, through the appropriate cost drivers, the expenses accumulated in activities could be assigned to products, customer segments, and distribution channels

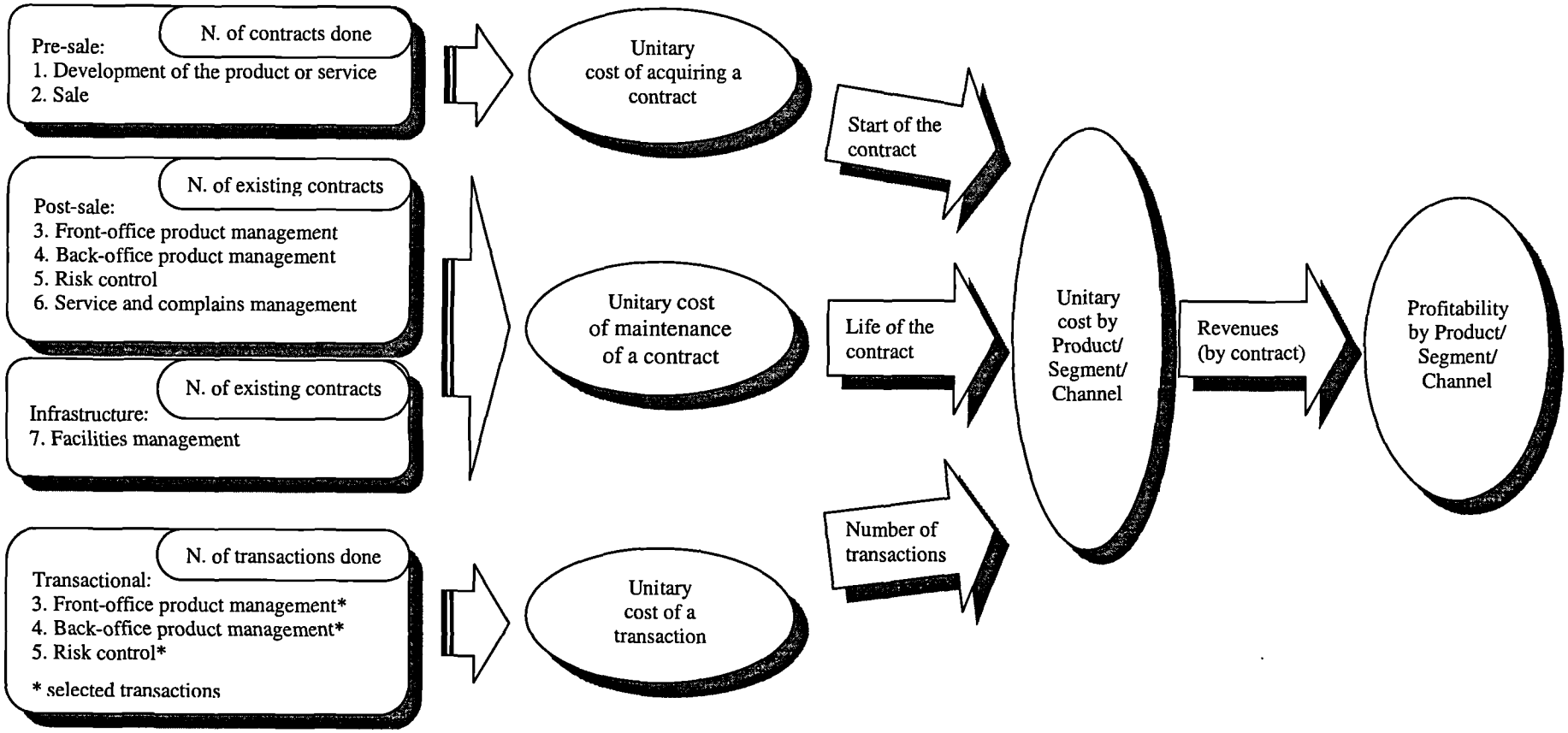
Figure 5.11 – Structure of activity based costing project



* Commercial network includes branches, regional directions and commercial departments.

Source: Consultancy Reports (ABC Project)

Figure 5.12 – Approach to calculate costs by cost object



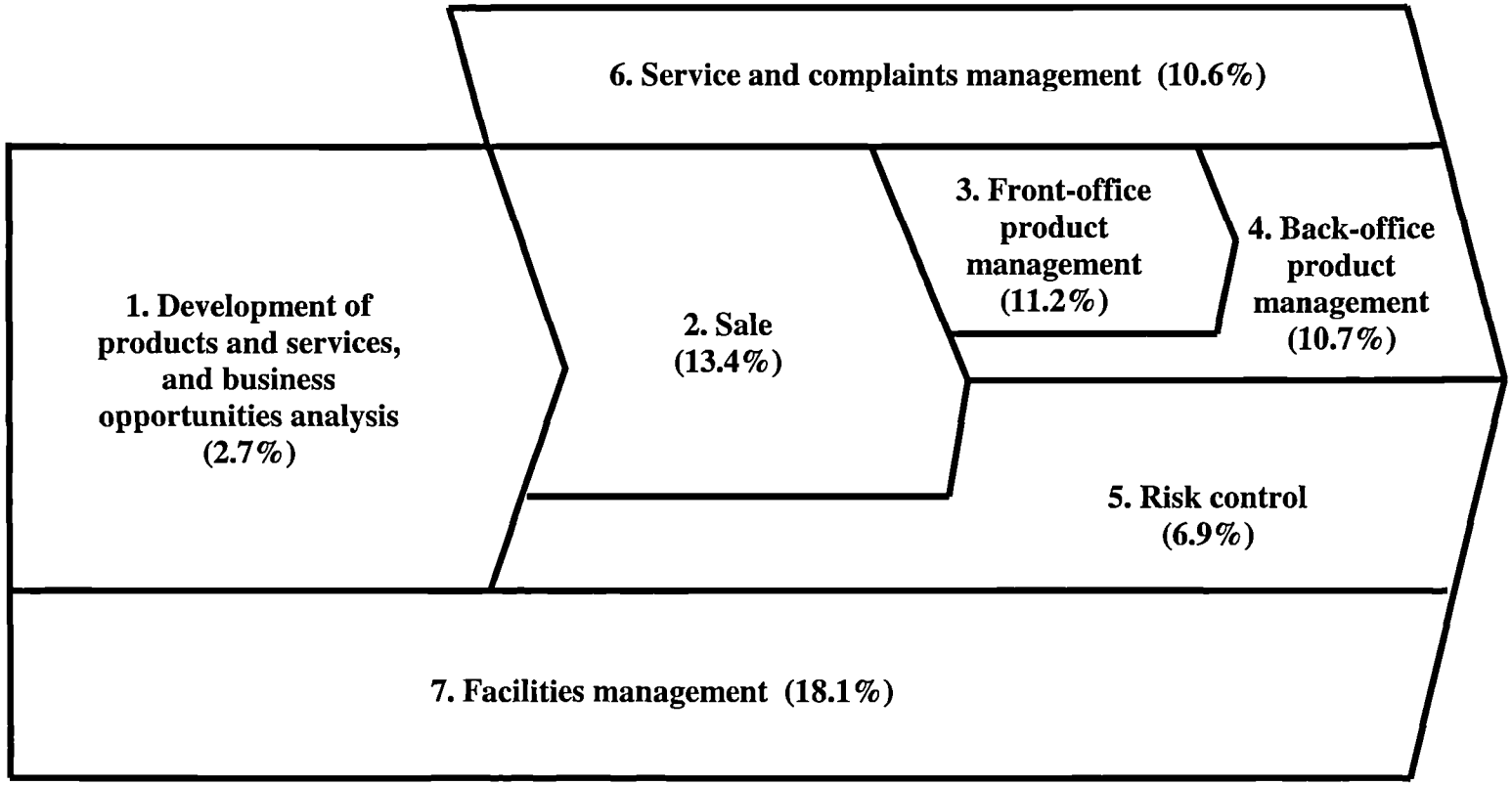
Source: Consultancy Reports (ABC Project)

(see Figures 5.10 and 5.12)[52]. The system arrived at what could therefore, in addition to providing a form of the three-dimensional vision of costs by cost object, provide data about costs by responsibility centre (including a breakdown into direct and indirect costs). It could also enable a cost analysis in terms of 'activities' and 'processes'.

In terms of the first of these categorisations, there were three 'activity' levels identified: macro-activities, activities and tasks. The perceived pay-off from this form of categorisation was that, on this basis, a Porter-style 'value chain' could be constructed for the bank. The final version of this included seven macro-activities, as represented in Figure 5.13. These macro-activities could then be broken down at the level of a particular department into specific 'activities', as per Figure 5.10, thus encapsulating the core of the ABC philosophy. At the same time, the limits of the approach were perhaps indicated by the perceived need to have a further division based on tasks (or third-level activities) for central departments, where so much was being done that was not traceable to value-adding activities. Here it was accepted, as the result of pressure from the organisation department, that analysis at the 'activity' level alone would be insufficient to capture the information necessary to run an effective ABM system. The introduction of the 'task' level of analysis may therefore be seen either as a realistic solution to the residual overhead problem, or a kind of tacit acknowledgement that the ABC approach could not in the last analysis capture all the relevant costs into 'causal networks' in an organisation of this level of complexity.

[52] The analysis of the different types of cost drivers revealed that some form of labour hour equivalent was the most frequently used driver to allocate cost to activities. This is not unusual within a service industry with staff costs a high proportion of total overhead costs. Even when allocating activity costs to cost objects the preferred cost drivers were often replaced with equivalent labour hours due to measurement difficulties. This is an interesting fact considering the claims of the ABC proponents regarding conventional cost systems.

Figure 5.13 – Macro-activities: first level of activities



Includes 73.7% of costs. From those 50% are from the commercial network, 28% central departments and 22% Projects and IT maintenance.

Source: Consultancy Reports (ABC Project)

In a sense, that way of seeing came about as what was seen by at least one member of the consultancy team as a by-product of the ABC form of cost analysis. What came about was a way of re-thinking or re-categorising what was going on in some six hundred 'processes' in which the bank had formerly seen itself as being engaged[53]. As this consultant explained it, this new way of seeing came about as follows:

> 'The bank provided us with files of their main processes. We could not use those processes because they were defined in terms of products. In the ABC we have a different perspective: activities can cross several products, and this is what matters to us. To central departments, especially to those that have a more operational focus, we redefined in detail all the 'processes' in terms of third-level activities. We gave this information to the bank, as a by-product of the project' (Interview: Consultant Company).

The perceived outcome of this whole process was that managers could now identify which processes were adding value to the customer and which were not, and how the efficiency of different processes could be improved. In addition to the focus on process improvements, the ABC team was able to produce detailed cost information reports on a range of other bases. So they identified approximately 40 products or groups of closely related products, eight customer segments according to the marketing strategy of the bank, and four business channels (branches, telephone banking, ATMs, and internet banking).

Finally, given the way they solved the cost allocation problem in terms of the four models that made up the 'Aggregated Model' (see Figure 5.11), all expenses could be shown to have been assigned to the cost objects, since the residual indirect costs had been captured in the 'Costs to Allocate' module. The costs involved included accounting, human

[53] The bank had previously seen their main 'processes' as having been defined initially by the AVA project, and then updated in the Efficiency Project. In those projects, the focus had been on identifying and measuring the sequence of activities involved in marketing and servicing the main *products* of the bank, in

resource management, and other costs not directly related to any cost object, but which supported the bank as a whole, costs which in total accounted for 26.3 per cent of the bank's 1999 operating expenses. [The 'negotiated drivers', as noted, remained an example of arbitrary or judgmental decision-making.] Apart from those intractable costs, however, an examination of the cost structure suggests that costs related to staff and external supplies and services were readily traceable to activities. But there remain questions about the traceability of many costs relating to property and other facilities, which were classified as business-sustaining or related to macro-activity facilities management[54].

If this presents an overall ex post summary of what can be seen as having gone on in the ABC project, it is perhaps helpful to compare this with the perceived concerns of a member of the consultancy team. This consultant summarised the main three concerns they had in the last few months of the project as follows:

> 'The first concern was to collect reliable data in terms of activity volumes, which needed data that should come from the IT company about volumes for the drivers used to allocate costs from activities to cost objects. ... Another concern was the transference of knowledge from the consultants to the people of the bank. Although some such people were part of the ABC team, much information is still with the consultants. Unfortunately due to the existence of other projects, the people of the bank did not always have available time. ... The final concern was the validation of the data already included in the model. We came across a lack of homogenisation between activities from the different departments. Regarding all departments, we produced reports and had meetings with each person responsible for the model to see if after all activities were identified they represent the profile of the department' (Interview: Consultant Company).

---

terms of equivalent labour hours. The objective had been to simplify the 'processes' and thereby reduce staff costs.

[54] Facilities management macro-activity represented 18.1 per cent of the 1999 operating expenses and included a range of costs that inevitably were particularly difficult to allocate to cost objects, since they were going to be incurred regardless of specific activities undertaken, unless there was a step change in costs, e.g. through reaching an activity level which either required closing an existing facility or opening a new one.

These were three very different kinds of concern. The first was a technical-level problem, or at first sight a technical problem. In other words, if only the IT company had had more of an incentive to come up with the data, then the data would have 'been there'. However there is always a question over whether or how far 'data' previously collected for one purpose, in one MAS, could have answered questions that only became relevant once an ABC approach was being attempted.

The second appears more of a knowledge or learning type of problem: sc. how to get the expertise in the consultancy firm embedded in the client. The interviewee sees this as a problem of lack of time. But it could also be a more complex problem involving some level of 'unlearning' old practices by those tasked with running the new MAS, and an ever greater level of unlearning for those who would be the object of the new regime of visibility and control.

The third problem presents itself as a 'goodness of fit' problem. 'Validation' of the data just needs more information, and the engineering of greater 'homogenisation' across departments in terms of activity and its control. On the other hand, the continuing 'lack of homogenisation' might be a signal of how far there were still vast levels of latent conflict unresolved, due variously to the legacy of the downsizing, the move from the old branch-based style of banking, the attempt to render everyone 'closer to the customer' and committed to a marketing-led strategy.

This set of comments were made during the last set of interviews for this project, conducted in April 2001, when the bank was planning to conclude this already-delayed stage of the implementation. It was by then apparent, and not only from this particular interview, that some significant problems were still unresolved, of a kind that raised

continuing questions about the accuracy of the cost information generated by the new MAS. The identification of 'activities' and the attachment of costs to those activities was in large part not seen as problematic. At the same time, when the staff involved in the implementation of the project took a wider view on what was 'really' going on, they often made comments to the effect that reported costs by cost objects 'do not reflect reality' as they seem 'unrealistically high'. One particular 'cause' fastened on to explain the 'distrusted numbers' was concern about accuracy in terms of output volumes. That is not to say that this was the real problem. The analysis above indicates that while this was undoubtedly an issue, there were a number of other significant problems and tensions in play. In addition, it is apparent that the IT company, as the outsider providing resources on an outsourced basis, was often a convenient scapegoat when things went wrong. Nonetheless, the overall conclusion has to be that, while a lot of work had gone in to the ABC project, and a lot of progress had been made, there were a lot of existing problems that had not been resolved, and perhaps some that had been exacerbated.

One of the last reports by the consultants presented a model of ABC implementation where a project went through 'natural evolution' stages: embryonic, consolidated and mature. According to this classification of theirs, it might be reasonable at this stage to suggest that the output they had provided to the bank so far was still in its embryonic stage. There might also be a question about whether it would ever reach the consolidated, let alone the mature stage. At the same time, the model itself might be questionable. All such questions remain unresolved given the stage of progress reached at this point.

One may simply observe that the implementation model was characterised by an analysis of activity structure that was far short of ideal (both in terms of the number of activities

identified and the understanding of the relative weight or significance of the various activities). It had developed cost 'drivers' to allocate costs to cost objects that for various reasons were approximate, and gaining less than total confidence, when the means for recording volumes of activities were not automated.

It retained a perceived potential to understand outputs in terms of costs by activities and so to enable a new quality of activity management (as ABM), generating a series of benchmarks enabling the optimisation of commercial structures and processes. It was also possible to read off from the final report submitted that the consultants envisaged the bank as being able to 'upgrade' the model over time. The vision remains that it would be possible to develop an activity analysis that would reflect how things did run (and should run), to identify the drivers enabling an 'exact' allocation of costs to cost objects, and to automate data capture systems that would accurately track the volumes of key activities. In that case it would be possible to have relevant unit-level costs by product, customer segments, and distribution channels, which coincidentally were the outcomes that the bank was initially looking for from the project.

The report recognises that achieving these goals would not be straightforward. It stresses that maintaining and upgrading the model would be 'complex and time consuming'. Maintaining the system and keeping it up-to-date on an on-going basis would require a significant amount of work due to the dynamic, changing nature of the organisation and a continuing need for collaboration and cooperation, even while there was a climate of potential conflict with turf battles ahead. There were two distinct but linked issues, which are captured in the following observation by one member of the consultancy team:

> 'At this moment, our concern from the organisation department's point of view is to update the structure, activities and times of the model. That allows taking advantage of the involvement in the ABC model of the remaining departments of the bank' (Interview: Consultant Company).

In other words there was an information quality issue, since the department was largely using data from 1999, and by mid-2001 the structure of the bank, its activities and the times used to perform them had already changed, along with other data used in the model. But even if that issue was resolved, there was still the ongoing problem of the relations between the organisation and accounting departments.

However, even beyond the unresolved technical problems over the accuracy of numbers in terms of cost objects to feed the data warehouse and the turf-war battles, it was not clear what would happen to the project, since this depended on the importance that top management attached to it[55]. At the time of writing up this research, these issues still remained unresolved. For instance, the bank was facing separate problems with the data warehouse project, and dealing with these meant drawing away some of the resources committed to the ABC initiative, and causing significant changes in the implementation team. At the same time, the organisation department was also undertaking other potentially linked projects, for instance in the reengineering area, which made independent calls on their resources, even if the outcome would be to use ABC outputs.

5.6 Conclusion

The objective of this chapter has been to describe change processes and related issues in this particular financial services organisation, and to help understand the role of

[55] In a real sense, the overall process of implementation and the full effects of ABC could not be tracked or assessed in the timescale of the research. Nevertheless, the research within this time frame has provided a very rich insight into the change and implementation of an accounting system in its organisational context.

accounting practices in those processes. Particular emphasis was given to locating the most recent change initiative, the ABC system, in the longer-term context of change initiatives and of attempts to refocus the bank on customers and services away from its traditional banking culture. Secondly, a general review of the implementation of the new ABC system was provided, along with a sense of the main problems and difficulties that were faced. The findings can be summarised as follows.

After the re-privatisation, it became clear to the managers of Banco Lusitano that the traditional focus on products needed to change to a stronger customer orientation particularly due to pressures and challenges that the Portuguese banking sector was facing. As structures and managerial discourse changed, contributing to the creation of a new managerial culture, the old style of traditional MAS were no longer perceived as appropriate to the internal information needs. This brought a successive series of changes: first a new more detailed kind of emphasis on cost-aware budget setting and budgetary control; second the implementation of a new system of objectives and incentives first for the commercial area and then also for central departments; and finally the implementation of ABC, amongst other changes.

The ABC project was developed and implemented with a clear dependence on technical and consultancy expertise, but in a way that turned out in practice often to be very ad hoc. There were problems in terms of estimating the level of top management support and enthusiasm. There were technical problems with the quality of information available. There were also lurking organisational problems such as the fear that this was just a new way of reducing headcount, and the potential turf war between the accounting and organisation departments. Consequently, the implementation process did not proceed

smoothly. Many workers did not have a very clear sense of what was involved in working under an ABC regime, and the initiative did not always have the necessary support of key managers. Eventual resistance from the head of a department could induce managers from that department to be lukewarm or even obstructive towards ABC.

These are all clearly significant factors in making the ABC implementation process so difficult to manage and subject to delays. But one might also suggest that overall, when one looks at the complex nature of change in an organisation such as Banco Lusitano, the evolutionary four-stage model presented by Kaplan and Cooper (1998) was arguably too schematic and insufficiently contextually aware – too much a technical model that was not prepared to cope with the complexities of organisational dynamics.

6 Case Study Findings

6.1 Introduction

The overview analysis made in the previous chapter shows two things. On the one hand, it demonstrates how potentially valuable the adoption of an ABC approach could be in an entity such as Banco Lusitano, particularly insofar as the approach was implemented according to the principles articulated in the technical and consultancy literature reviewed in Chapter Two. Furthermore, the local problems that had ensued from adopting the SOI system to motivate and incentivise desired activities, while retaining the old budget-focussed financial control system (in central bank departments), indicate that an effective ABC system could have particular benefits, by identifying which activities really had to be the focus, to get desired results. At the same time, the criticisms made about ABC remind us that implementation can face many pitfalls, many of them unanticipated. This in-depth case study attempted to be open to both possibilities, which explains the approach used to the fieldwork phase.

In this study the process of data collection and analysis was guided by the principle of 'triangulation', where a variety of data sources are used for data collection, so as to minimise the risk of having errors and ambiguities. In more detail, the field research involved access to documentary materials such as annual account reports, consultant project files and several internal documents. In-depth semi-structured interviews were conducted with several central department managers and commercial managers. There were also a number of more informal or unstructured interviews with other employees within the bank. The objective throughout has been to contribute to the understanding of

the complexity and unpredictability of life, even within well-ordered organisational contexts, by examining and recording and then reflecting on what people do *in their everyday practice*, but with a particular focus on how accounting practice and discourse contribute to what gets done and said. In that way, what follows is hopefully an insightful understanding of how change has been taking place of a kind that a more conventional study of organisational change would not necessarily be, given that the roles of accounting would just be one of many factors considered.

The chapter is divided into five further sections, following this Introduction. Section 6.2 focuses on how, using Fligstein's terminology, the organisational 'field' of Portuguese banking changed in ways that contributed to making accounting of more significance as companies competed to develop successful customer-focussed strategies, and how accounting discourse can therefore be seen to be becoming more significant within the sector. Section 6.3 then considers how the new significance of accounting discourse became visible within Banco Lusitano, in particular in relation to the more obviously significant discourses of strategy and marketing. Section 6.4 then considers how, within this discursive context, the bank's commitment to implementing ABC led to particular kinds of conflict, resolution and reformulation, as the old budget-focussed accounting practice 'owned' by the accounting department came up against the ABC style of accounting practice, whose ownership was contested. It considers how such conflicts and resolutions developed both within the accounting and organisation departments as they contended to own the ABC initiative, and then more widely, as other departments encountered and appropriated the new accounting. Section 6.5 discusses how, as one unintended consequence of the initiative, accounting can be seen as operating more 'intensively' and 'extensively' in a range of ways, almost regardless of the specific

success of ABC as a technical solution, both in the key departments studied and at the organisation wide level. Finally, Section 6.6 gives a brief summary of the ways in which accounting may now be seen to have been implicated in developments within the bank since its re-privatisation culminating in this initiative.

6.2 Accounting discourse and practice within the changing 'organisational field' of Portuguese banking

As just stated, the analysis in this section begins from Fligstein's idea of 'organisational field'. The value of using that approach here is that it ensures that there is not an over-narrow focus on how accounting discourse and practices operate purely in this site. There is an important macro-level way in which accounting comes to be more central to everyday activity, in the context of Portuguese financial services, which can be helpfully analysed through the 'organisational field' concept, and the ensuing analysis of the interaction between the elements of the field (Fligstein, 1990, 1991).

For almost two decades, Portuguese banks operated under a highly regulated oligopoly, where all but three institutions of the financial sector were nationalised (more than 90 per cent of the market), interest rates for deposits and loans were set by the state and entry was simply banned (Pinho, 2001). The state played a dominant role while the organisational field was in this situation, and the Bank of Portugal acted as the crucial mediator between the state and the financial institutions. As a result, it is fair to say that there was a strong discourse of regulation and hierarchy, rather than markets and competition.

For instance, during the period of nationalisation, banking activity was dominated by setting strict rules (e.g. banks had to finance public deficits at a low rate), and even after the re-privatisation, the discourse remained similar with an emphasis on granting rights and privileges to financial institutions in return for their co-operation in managing the state's finances. That has dramatically changed now, however, and it is more and more difficult for the Bank of Portugal to control and limit their activities (e.g. the sale of the Champalimaud group against the Portuguese Government's will).

Arguably, the move away from this old regime began well over a decade ago. In 1985 the state started a progressive deregulation process that changed some of the rules of the sector, and therefore the organisational field was characterised by new entrants, plus a gradual but long-term move towards merger and acquisition activity, and the expansion by all major participants into a wider range of investment banking, insurance, leasing and other lines of business. By the 1990s the relatively protected and regulated Portuguese banking sector had begun to change more rapidly, with the result that the previously highly protected banks are now competing with new institutions and have become part of the progressively integrated European market for financial services[56].

These general changes have triggered a range of specific organisational responses, one of which has been an increasing adoption by all banks of a more accounting and management infused discourse. As mentioned in Chapter Five, Banco Lusitano, like other financial institutions, became increasingly driven by profit and 'profitability' and a commitment to 'globalisation', extending their operations both nationally and

internationally (in particular in Portuguese-speaking countries or where there is a significant Portuguese emigrant community). At the same time, the bank became more open to management solutions, with the result that the various consultancy-based initiatives reviewed in Chapter Five for the reorganisation and downsizing of the bank were adopted.

There is an interesting interplay of discourse and practices here. There was increasing talk of internal forms of financial control, asserting managerial control over costs and efficiency to promote profitability. This talk was then manifested in practical terms through change initiatives such as the AVA and Efficiency projects, which aimed to reduce costs through the reduction of the workforce (while also renewing it). Meanwhile externally focused activity took on a similar tone, with mergers being seen as a potential source of cost savings through the usually-cited two benefits of merger, economies of scale and productive efficiency[57].

Under such initiatives the bank attempted to simplify, rationalise and redesign the internal circuits of activity, with a greater use of automated and centralised processes, while accurate and relevant financial and management accounting became a higher priority, as concern with banking earnings prompted a greater market/customer orientation. Indeed as we have seen, change initiatives such as the Excellence Project in themselves provided a greater focus on customers and marketing issues, leading to customer differentiation

[56] Protectionism may explain the low productivity and lack of a marketing approach by older banks. Although there is not much research about it, based on anecdotal evidence Portuguese banks have been considered to be cost-inefficient. In one of the few existing studies, Pinho (2001) claims that public ownership of banks is one of the main factors that negatively influence efficiency. He also concludes that privatisation may be important to reduce inefficiency within the financial services sector.

[57] High regulation and lack of competitiveness may have reduced incentives for competition based on cost – reduction and technological changes. An important contribution to that inefficiency (surplus staff) was that in the 1970s banks were forced to hire staff returning from former colonies in Africa.

(segmentation), financial innovation and diversification in the supply of financial services.

But as just noted, this did not occur in a vacuum, but in a sectoral context where competition was becoming more intense (along with its uncertainties), because all players were adopting similar practices and discourses. Hence, from this perspective, one can see that during the 1990s, the Portuguese financial services sector underwent fundamental transformations. The banks were no longer the same, the role the state played was different and not coincidentally the consumers were changing. For with this move towards competition and markets, people began to be defined and targeted more as customers, both generally and in the advertising of the banks, and so consumerism started to become embedded in Portuguese society.

6.3 The raised visibility of accounting discourse within Banco Lusitano and its relation to strategy and marketing discourses

If this, very briefly, encapsulates the change in the organisational field, the next issue for consideration is how the nature and visibility of accounting discourse changed in the move towards a more managerial and consulting-knowledge driven culture in the banking sector. Here, the interesting question is how accounting discourse was located in comparison to the two more obviously dominant forms of management discourse that have developed in the past few decades, namely strategy and marketing.

First it is apparent that all three have migrated into the bank over the 10 year period since its re-privatisation, and that one reason for the growing influence of all three is the growing influence of consultancy companies. Each can clearly be seen as significant

when one moves to the level of what gets said by key players in the bank. Let us begin by considering strategy, as the apparently most significant single discourse.

Strategy discourse can be seen, across the banking sector, as having helped to identify the need for organisational restructuring from the analysis and claims of marketing information and perspectives. The discourse of strategy engaged neatly with the neo-liberal political discourse of market freedom, as entry barriers within the financial services were dismantled. There was a sense of 'inevitability', as the country was required to meet increasing competition from other European countries[58]. Within Banco Lusitano specifically, after its return to the private sector, there was a restructuring of the equity holdings portfolio. As the 1997 Annual Report states, looking back to that period:

> 'a global financial group was developed, in which [Banco Lusitano] would act as the control tower, around which would be assembled or created, operating units specialized along product lines and devoted to the extension of high-quality financial services, aimed at their own specific market and business segments.
>
> The Group's mission is thus to its clientele, both retail and corporate, a high degree of satisfaction appropriate to the market's ever-growing requirements in terms of information and sophistication' (Report and Accounts, 1997).

In this analysis, a major change was the organisation of the bank as a Group, which enabled a new focus on strategic positioning, which

> 'has come increasingly to be the most effective way in which to respond to the ever-increasing globalization of the markets, the specialization of activities, and the intensification of competition, both present and future.
>
> In short, our universe of enterprises and the range of services provided by it give the Group the vertical and horizontal dimensions needed to maintain a presence in all segments of the

[58] The political discourse was about the role of the banks as a set of competitive institutions, but also about their role as key intermediaries in the construction of the conditions for the integration of individuals and organisations within the new social order brought by the integration in the European Community.

> market, and to make available a comprehensive range of services to satisfy our clients' financial needs' (Report and Accounts, 1997).

Two years later, the Report and Accounts (1999) are still reporting that this strategy is providing good results:

> 'Assuming as the main vehicle of strategic differentiation the provision of a superior quality service, [the bank] evolved towards the creation of a Universal Financial Group large enough to be presented in all market segments and, simultaneously, to offer a comprehensive and specialized range of services globally meeting its clientele's financial requirements.
>
> Possessing a strong culture rooted on a name and on the experience accumulated over its 120 years of existence, [the] Group is now readily recognized for its prestige and relational ability, with business units communication among them and interacting under a concerted approach, leading to the creation of synergies at the commercial level as well as in the use of human and material resources'.

In such a strategy-infused discourse, management consultants are likely to be seen as key helpers, and thereby act as crucial carriers of the discourse still more deeply into everyday organisational reality. It is reasonable to say that Banco Lusitano implemented several change initiatives with the help of management consultants, where strategy has become 'the main language through which actors make sense of, respond to and thereby help realize changes' (Morgan and Sturdy, 2000:122). But at the same time, the kind of strategy just outlined, with its emphasis on satisfying its 'clientele both retail and corporate', and on offering this clientele a range of services both 'comprehensive and specialised', inevitably meant that marketing discourse became a key aspect of the emerging strategic discourse.

Again, the 1997 Report and Accounts bear this out, as the bank highlights the 'fundamental aspects' of its commercial strategy as (1) aiming to improve its knowledge

of customers, (2) pursuing a multi-channel strategy, and (3) promoting awareness of the brand. Regarding the bases of commercial performance:

> 'Since reprivatization, we have changed the traditional focus on products to one more oriented towards the client, with a strong emphasis on segmentation. At a second phase, we conceived the role of the segment manager in each branch for individual clients and for small and medium-sized companies. In a subsequent phase, we adapted the product delivery function to the segmentation process, enriching it with Group company products, made available through a network that was substantially expanded, remodelled, supplemented by alternative channels, to which better-qualified and versatile personnel were assigned'.

As competition increases and the environment changes, marketing inevitably becomes an integral aspect of the emerging strategic discourse and set of practices, even if there is still a strong influence of a sales orientation[59]. Marketing provides mechanisms for understanding and segmenting consumer needs, for designing products and offers which analyse the relative efficacy and efficiency of particular distribution channels, and for overcome the weakness of a sales orientation through designing products more related to specific customer needs (Morgan and Sturdy, 2000). The bank reflects this, in its claims that it

> 'seeks to extend to its clientele a high degree of satisfaction by providing financial services that meet the market's ever-growing requirements in terms of information and sophistication.
>
> Our commercial performance is therefore guided by the underlying objective of delivering maximum value to our customers, and based on a relational marketing approach and the continuous effort to improve efficiency levels. The increase in value generated is shared with the agents involved (employees, customers and shareholders), thus fostering an increasingly concerned and long-lasting relationship' (Report and Accounts, 2000).

[59] The sales orientation does not disappear, and aspects of it remain valuable. However it does not provide ways of dealing with competitive problems besides exhorting more and more sales. So there is still a role for direct selling and for generating new sales via targeted advertising and promotion campaigns. The bank also, given its adoption of the SOI system, used it in the only real way possible at the time in the commercial network, to reward salesmen for sales volume and revenue achieved, in order to generate new business and increase sales. This kind of activity did not stop the bank's move towards being increasingly more market-driven and customer focused.

None of this is to say that this kind of marketing discourse is either natural, inevitable or even necessarily effective. At the same time, it flourishes through a process of 'naturalisation', e.g. through consultancy and routinisation (Morgan and Sturdy, 2000).

At the same time, there are some contradictions in terms of marketing discourse. Besides difficulties of specifying customer needs, meeting the needs of the customer only works as long as they can be met profitaby. This requires selecting profitable products and profitable customers, but in a market where everyone else is pursuing the same targets with similar marketing-led strategic approaches. So the business theory is easy. Kotler (1997), for example, claims that segments should be 'substantial' (profitable) as well as 'accessible', 'measurable' and 'actionable', with each market segment justifying exploitation in terms of return on investment. Gordon (1998) spells out similar implications in more detail[60]. In practice, however, first-mover advantages get competed away, and as more and more sectoral players follow the same prescriptions, there are sector-level effects, e.g. customers in general feeling that the banks are 'all the same', and that they are just the objects of uncaring marketing manipulation.

In sum, leaving aside general problems in contemporary marketing discourse (e.g. the rather patronising view of the 'sovereign consumer' as a passive, manipulable, rather

[60] Gordon (1998:40-46) suggests that organisations should 'decide the customer mix and the level of resources to be committed to each customer' (p.41). This requires that organisations know the 'cost-to-serve' of each customer to be able to obtain an integrated view of customer profitability. He claims that it is 'appropriate' to map customers according to their current and future profitability. Organisations should *reward and invest* in 'ideal' customers (profitable now and into the future) by assigning them the best staff, giving them more service time, providing access to new technologies, and rewarding them financially. Customers that are currently profitable, but potentially unprofitable, need to be *managed* to ensure the continuation of profitability. Customers that are currently unprofitable, but potentially profitable, should be *disciplined* either by changing the processes used to service them (cost reduction), or by charging them a fee. Gordon claims that 'some customers are unprofitable today, will be unprofitable tomorrow and do not merit further attention by the company. Let them become someone else's problem or opportunity. *Fire* them' (p.46, emphasis added). Nevertheless, he stresses that 'terminated customers, like terminated employees, should leave feeling good about the relationship in which both have invested but which, for whatever reason, no longer create the value now important to you'.

undersocialised actor), competitive pressures on profitability and consumer inertia will have a range of sector-wide consequences, as organisations all shift their attention towards particular products and customer segments. In the segmentation model spelled out by Gordon (footnote 60 above), where options defined in accounting terms as 'costly' or 'unprofitable' options are selected out, the poorest groups in society are once again, but in a new way, marginalised within financial services[61]. Boyce (2000:650-651) neatly sums up how this is a product of a marketing perspective:

> 'The implications of the use of customer valuation are immediately obvious from the marketing perspective, with the potential to selectively target promotional campaigns at "high value" customers, but the literature has been silent on other social implications including differential pricing and product and service levels to different customer groups, and downright exclusion of certain customers'.

But once again the way in which the sector-wide outcome is constructed at the micro-level of practices within each organisation can be read off: 'valuation', 'high value', differential 'pricing' and 'product and service levels' are all calculated, in each organisation, in each specific case, via accounting practices.

Not surprisingly, if one goes behind the upbeat claims made in the annual Reports, accounting practices can be seen as having this range of effects within Banco Lusitano. The focussing on segmentation and differentiation is implemented via the financial and non-financial performance numbers available, to enable the market-led strategy to operate. The discursive consequences then play out in very much the way just indicated.

[61] Hooley and Mann (1988) claim that the selection of 'profitable' customers and the 'selecting out' of others can partially be attributed to managerial short-termism or the predominance of 'non-marketing' priorities within organisations. But if the question is then asked as to how that 'short-termism' and 'non-marketing' orientation is constructed, the answer that confronts us is 'via accounting'.

So there are managers who recognise that not all customers are profitable and therefore the bank needs to identify them and take measures when appropriate. A manager from one of the marketing departments summarises the overall impact of the new marketing-led strategic discourse well in the following comments:

> 'The Excellence Project brought the vision that not all customers are equal. There are segments that are potentially profitable and there are others that have a marginal profitability almost null or even negative. It is worth using commercial resources, time and support sales instruments to some customers: corporate, private, and those with potential. While to others it is not worth to invest on them... we should try to manage them (externalise) in order to become profitable'
>
> 'The branch should be a sales centre and staff there should occupy the majority of the time in selling and advising customers. They cannot, as they do today, occupy most of their time with non-value activities. Certain operative and administrative activities should be automated. There is a bureaucratic activity load that should be externalised from the branches'.
>
> 'The bank has a credit project, that reports directly to the executive committee, to re-evaluate all credit processes, reorganise and simplify them. The project would permit more adequate pricing decisions according to the customer's profile' (Interview: Marketing Dept. Manager).

As one progresses through these successive comments, all from one interview, it is possible to see how far accounting has become implicated in this manager's discourse, at the heart of marketing-led strategy. How does the bank determine the 'non-equality' of customers in terms of profitability? Via some form of accounting metric (and this will be the case, regardless of whether in academic terms the metric chosen is of greater or lesser relevance to the task). How are 'non-value activities' to be determined? Via some form of 'activity' costing (and again this will be the case, whether or not a formal ABC system has been developed, as happened in Banco Lusitano with the SOI). How, once credit rating is fixed upon as a key feature of customer differentiation, does the bank achieve the two necessary requirements – the 'simplification' of the credit scoring process, and the

relevant pricing decision for each product or service? 'Simplification' requires an adequate means of determining the relevant activities, and pricing requires an appropriate full product costing system. With those objectives now at the heart of discourse, a system like the old SOI one is increasingly likely to be perceived as 'inadequate'. The stage is set for ABC, or a system like it, to be embraced as 'the solution', particularly if there are consultants to hand to offer it.

In such ways we can see how accounting is in the first instance important in a general way as the means by which the discourses of strategy and marketing get implemented. But further, we can see why a form such as ABC could have become so significant in this sector, given the kind of marketing-led strategy being pursued so widely. However, that poses a major organisational problem, as the new accounting required is such a long way from the traditional form of internal accounting systems and practices with which bank employees had typically been familiar. There is not simply an issue here of introducing a new form of accounting technology that will meet the demands of the marketing-led strategy. There is an issue of unlearning an allegiance to old practices, or perhaps learning how to align the old and the new. This is not a straightforward process.

Confronting this kind of situation, one can appreciate Miller's (1994:1-5) claim that accounting has to be regarded as a *social and institutional practice* with three complementary dimensions. First, accounting as a technology is a device for acting upon activities, and providing visibility to events and processes. Both the 'old' and 'new' modes of accounting here operate in this dimension. But secondly, he argues, accounting includes discourse representations and vocabularies. These rationales

> 'come to constitute truths in the name of which organizations are to be remade, processes reconfigured, and attempts made to redefine the identity of individuals. Once established, these truths come to be taken as essential for the proper government of economic and social life' (p.4).

In this respect, there is arguably one kind of 'truth' represented by the old style of budget-focussed accounting in the bank, which has a stewardship kind of concern which can primarily ensure that there is an equitable and efficient allocation of available resources, given the current strategy (whatever that may be). Such a model can year on year track the use of resources and report back on them, and serve to validate a given strategy, particularly so long as that strategy remains valid for successive periods.

But such an accounting is very poor at dealing with a world where strategies have to change, as competitors compete away short-term advantages rapidly. In this context, the need is for a more proactive and immediate understanding of the costs of internal activities and of the products and services supported by them, so that informed decisions about possible changes in strategy can be made swiftly. Here a different kind of accounting 'truth' begins to obtain, which requires a set of practices that will meet the above criteria. ABC articulates such a 'truth' as it makes visible internal activity costs, even if it does so in ways that may be questionable, in the ways noted in Chapter Two. For it is simply much better at articulating this kind of 'truth' than traditional budget-focussed accounting. It is similarly superior at providing numbers that 'you can trust' (as the research and consultancy rhetoric has it) concerning product/service costs. Again, traditional overhead allocation models are simply very poor at this game. So the *logic* of ABC, as Piper and Walley (1991) argued, may remain questionable. But as an accounting 'truth', in a world where the organisational field has altered in such a way that marketing-led strategy discourse is king, it dominates older accounting truths.

In this way, accounting discourse can operate significantly in a third dimension, that of shaping the whole way that the 'economic domain' is conceptualised and articulated. Miller's thesis here is that accounting provides ways to constitute and reconstitute the economic domain by the changing calculative practices that provide the basis for knowing 'economic reality'.

> 'By transforming the physical flows of organizations into financial flows, accounting creates a particular realm of economic calculation of which judgements can be made, actions taken or justified, policies devised, and disputes generated and adjudicated' (p.4).

The particular point here is that, if accounting in general has these effects, the particular kind of accounting encapsulated in ABC creates a distinctive version of the 'realm of economic calculation', and thereby produces particular kinds of judgements, actions, policies and disputes, while also providing the calculative means of evaluating decisions, adjudicating disputes, etc.[62]

The articulation of this new kind of 'truth' can be observed in Banco Lusitano, as accounting information can be seen to be moderating managerial vocabularies, and changing the conception of what is important and what is not. For instance, at a range of levels in the bank, the cost to income ratio became newly significant as a key target that was referred to as 'precise' and 'objective'. More generally, the vocabulary of business, efficiency, profitability, financial strength, international expansion and organisation became the basis on which claims of 'excellent progress' were made. In the Report and Accounts (1997) we find the following accounting-infused observations:

[62] The general argument is similar to that made in Hopwood (1990), which also emphasises the diverse but related roles of accounting in: (1) creating visibility in the organisation; (2) functioning as a calculative practice; and (3) playing an active part in creating a domain of economical action.

'[T]he Group, in light of growth in total assets and customers' funds, made further gains in market share... It continued to play an active and highly important part in the domestic privatization process; it strengthened its presence in the insurance market, and expanded its asset management side to new markets, specially Spain and Latin America.

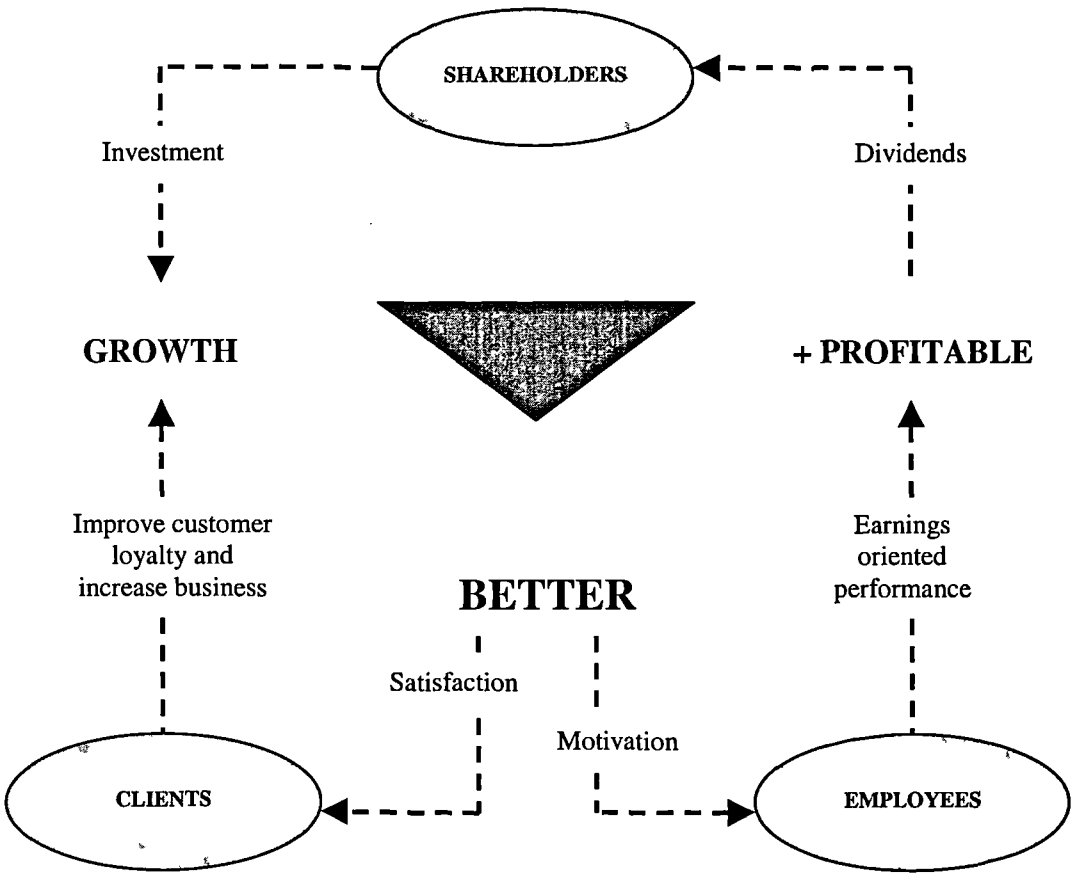
When it comes to efficiency... there was a successful containment of costs, in turn reflected in productivity gains, whether measured in terms of cost/benefits, or through the cost to income ratio. Respecting profitability... [the group] posted record earnings, with a strong increase in ROE.

We also took some major steps towards intensifying the Group's international expansion. In effect, besides the organization active in our foreign branches, and our presence in the Far East and in Spain, we completed the acquisition of a substantial holding in... the Brazilian market.

On the organizational side, we draw attention to the rationalization carried out in the branch network (the Excellence Project), and in the central departments (the Efficiency Project), as also within internal services (Complementary Grouping of Companies), while at the same time we intensified the process of horizontal and vertical communication between the Group management structures, with particular emphasis on the travelling executive committees and the Group conferences. At the same time, we took some important steps towards modernizing the new information system, with some of its modules now in operation'.

Figure 6.1 is the bank's own summary, in 1999, of how it now sees its mission. Here, at the heart of the bank's public discourse, accounting measures can be seen to be assuming a key role in both communicating and implementing the strategy of the bank. This had already been implicit in the public discourse, e.g. in the 1998 organic growth strategy formally adopted by the Group to expand its activity significantly while maintaining good profitability and operating efficiency levels. This was formally named as the Millennium 3 Programme, and approved by the shareholders at a general meeting in March 1998. In the Programme, new accounting-based quantifiable strategic commitments were set forth in terms of growth, financial strength, profitability and productivity. However, Figure 6.1 shows just how critical accounting practice becomes if the mission is to be accomplished. Everything hangs on the twin links between 'Clients' and 'Growth', and between

Figure 6.1 – Banco Lusitano's mission



Source: Report and Accounts (1999)

'Employees' and being 'Profitable', and what links each of these is accounting numbers and practices. Get these right, the statement declares, and the cash flows will enable the continued generation of investment and dividends to shareholders.

In this discursive context, within this organisational 'field', the consultancy discourse of ABC fits perfectly. ABC can be made to appear to respond to this new realm and to create just the sense of alignment with the new strategic vision that will promote the new climate of change in the bank. The following extracts from one of the first Consultancy Reports for the ABC project illustrate this perfectly:

> 'It is expected that ABC techniques will be applied in the near future in the bank, similar to what is happening in the international banking sector. The main reason for the use of ABC is the need to evaluate the performance of the operations in a dynamic environment, for which the traditional accounting tools are less efficient. This performance is measured by the costs of activities consumed by certain cost objects.
>
> The only way to keep or increase the profitability of the bank is through cost reduction, and the increase of the offer of value-added services to its customers in terms of quality, time response or innovation. To reach higher profitability it is fundamental to eliminate activities that do not increase the value added to customers.
>
> To monitor the performance of the bank and to support decision-making, it is necessary to have information about cost, quality and time measures at the bank, team and individual levels.
>
> Information about costs should: (1) provide the current position; (2) support the identification of the causes of inefficiency; (3) measure the efficacy of short-term actions to solve inefficiencies; and (4) display the existing range of similar and repetitive activities. It will be necessary to adopt a costing methodology that will capture this information for any cost objects that management needs to analyse or measure, such as customers, services or products' (Consultancy Reports: ABC Project).

Thus we can see how far the kind of analysis made by Hopwood (1990), Miller (1994) and with reference to ABC by Ezzamel *et al.* (1990; cf. Ezzamel *et al.*, 2001a), is borne

out in this banking context, regarding the accounting role. Accounting can be seen at the heart of what gets said, influencing perceptions, changing vocabulary and infusing the dialogue that circulates both formally and informally, because the concepts expressed in ABC discourse 'make sense' for actors within the bank. Secondly, it makes new profitability and customer-oriented issues visible, while older concerns focussed on budgets and internal procedures recede from view. In this way, it is easier for top management to convince employees of the importance of the change initiatives that are going on. Thirdly, it provides a 'legitimisation' of job losses, presenting them as inevitable to the bank's adaptation to the evolving competitive environment (which is now defined as the European Union and global). In this range of ways, accounting plays a key role in re-shaping the everyday reality of employees, making it inescapable for the 'lucky' remaining employees, and all the new hires brought in to make the new vision work, that they must accept (whether reluctantly or with enthusiasm) the new performance goals.

Finally, we can also suggest that accounting contributes to promoting an image of being modern and well-managed, that can be grasped and shared across different bank levels, even when there is scepticism about how well it is being realised. So a manager from the organisation department, after claiming that top management does not support ABC because they do not see efficiency as a key issue, modifies his statement, drawing on the 'image' metaphor:

> 'Probably I am giving a negative image of the top management of the bank, and those responsible for its strategy. They are aware of the efficiency problem. After all, it was considered more than two years ago a strategic issue. Therefore, we are all conscious of the problems over competition and margin reduction, and that we cannot rest on the laurels given by the bank's past profits, we all have to realise that is no guarantee of continued success. It is

just that there has been priority given to other areas' (Interview: Organisation Dept. Manager).

To sum up then, it is apparent that discourses of strategy, marketing and accounting are all circulating out there and so have migrated into the organisational field of this banking sector, with not insignificant help from consultant companies. It is apparent that within Banco Lusitano, as elsewhere, the discourse and practices of accounting have significant roles to play, with an increasing presence of the ABC type of approach under the current form of marketing-led strategy. A new kind of managerial culture can be celebrated as a result, as one more extract from the 1999 Annual Report and Accounts confirms:

> 'The Group's mission is to extend to its clientele – private and corporate clients as well as institutional clients – a high degree of satisfaction by providing financial services that meet the market's ever-growing requirements in terms of information and sophistication.
>
> In addition to our institution's GROWTH, the strategic goals defined privilege its transformation into the BEST and MOST PROFITABLE Financial Group operating in Portugal. Hence, and although the creation of value for the shareholders constitutes a basic concern, the interests of both customers and employees are also duly taken into account' (Report and Accounts, 1999, original emphasis).

In such statements, as perhaps is best captured in Figure 6.1, accounting is no longer present simply in the back office functions with which it is traditionally identified, the financial and management accounting systems and practices used to run the old-style budget-focussed approach and to generate the financial reports. Accounting is both different technically, it is more visibly present in the formal discourse and strategic plans of top management, and it is circulating as part of a new kind of management discourse in the organisation.

At the same time, it does not do so without friction, conflict and failure, as well as success. The next section analyses how the change process can be seen as unfolding, from

the viewpoint of managers in the key departments involved in the implementation, and in terms of its perceived effects in both commercial and central departments. Here again, documentary and interview data are drawn upon.

6.4 The effects of ABC implementation on management: conflicts, resolutions and reformulations

To understand how the new regime was implemented, it is important to understand the nature of the old-style accounting regime 'owned' by the accounting department, and how accounting was therefore generally perceived at departmental level across the bank at the point when the ABC initiative took off. As already noted, in change processes there can be problems caused by a failure to 'unlearn' old ways of doing things, or a failure to recognise how different the new is from the old. In the case of accounting, since many people will understand accounting only from a distance, it may not be appreciated just how much changes with the implementation of an ABC system, or how much more significant a presence accounting may therefore have. In such a context, the potential for dysfunctional interactions is considerable.

At the same time, it is important to recognise that the older accounting system had already evolved considerably, first from the system used in pre-privatisation days, and then as the SOI system had been introduced. Back when the bank was nationalised, much accounting information had been produced to provide information to the Bank of Portugal for regulatory control, while internally the budget system allocated direct costs to responsibility centres. Even then, the lack of information for managerial purposes was evident. Following the re-privatisation, there was a commitment to integrating the budget-

focussed accounting system into a more managerial approach to running the bank, and the SOI was a major step in that direction, even though, as seen above, it had very mixed results. At the same time, as the sector developed the marketing-led approach to being competitive, increasing concerns were voiced across the bank about the system's shortcomings. These included concerns about the lack of information for managers, the lack of comparability between different sources of information, the lack of timeliness of the information that was available, and the lack of information about product/service costs.

Because of the lack of information on profitability, managers from the commercial area, and even from central departments, felt the need to generate relevant information. The sense of frustration in central departments is clear from the following:

> 'There is still a significant amount of data that needs to be collected. Each time an operation is analysed we need internally to calculate the profitability of the customer. We have to conciliate data that comes from the accounting department, leasing and insurance companies, and so on. The data is not yet linked but it will be in the future. Nevertheless, this information is already important for us, since we deal with corporate customers with very low margins, and therefore we should have a global and complete analysis of the situation' (Interview: Other Central Dept. Manager).

> 'At the operational level, for daily management, I do not have relevant management information. The process owners have to arrange data manually, which often takes weeks to get' (Interview: Other Central Dept. Manager).

Given the new regional structure, which was supposed to be the organisational means to deliver the customer-focussed strategy, the regional top management had a particular need for customer-relevant accounting numbers. But as one regional director explained, the old accounting regime was still locked into the old branch focus:

> 'The accounting department collects data by home branch, while all commercially focussed data and effort is directed at the level of the banking customer' (Interview: Regional Director).

Another problem that managers complained about was the delay in providing data. As one manager explained:

> 'We receive data with about three weeks delay. It is too late; I need to follow the outputs daily to eliminate variances and ensure a uniform growth' (Interview: Regional Director).

The fault here did not necessarily lie with the accounting department, since there were ongoing timeliness problems that people often put down to the outsourcing of the IT function. Nevertheless, this did not help the accounting department's reputation for quality or relevance, or the image of accounting as such. Given that, it was perhaps not surprising that other departments saw an opportunity to expand their sphere of influence, through being more in tune with the new ABC system. For instance, marketing were already tooled up for the segmentation model with its differentiation of customer types, while the accounting department lagged behind, as one department manager observed:

> 'The marketing department tried to separate business that belongs to the commercial network from business that refers to special departments (private, corporate, municipals and institutional). In terms of commercial network business it was segmented – SME, micro companies, special individual customers, and ordinary individual customers. This partially explains the difference between the accounting and the marketing departments... Accounting should evolve for the same concepts of segmentation if we want to create a coherent profitability model' (Interview: Marketing Dept. Manager).

Another department that saw both the problem and the opportunity was the organisation department, as the comments of one of their managers show:

> 'The bank knows how much money it earns and the costs, but cannot separate them by customers or products. ... There is an obsession, not only here in the bank, for downsizing by reducing jobs. In Portuguese banks there is the belief that to improve efficiency it is necessary

> to reduce the number of employees. However, we cannot look only to the number of employees and their cost. ... ABC will allow us to get the cost to income by process, to compare that with the profitability of customers' (Interview: Organisation Dept. Manager).

This manager could see that the organisation as a whole still ran the danger of not switching mind-set and management systems, but instead remaining trapped into a narrow focus on costs, of the kind that the old accounting system provided. This in a sense dramatises how much 'unlearning' still had to take place.

6.4.1 Resistance to change and the battle for 'ownership' of ABC

There was arguably a double kind of battle that developed over ABC's implementation. At one level, the accounting department stood against it, and was seen by some at least as part of the problem rather than the solution, as the comments above indicate. At another level, the accounting department was fully aware of the potential loss of power to the organisation department, given their claim to having a better understanding of the bank's key activities. Here the fact that the accounting department was an 'old' powerful department potentially worked against it, since what it was responsible for – external reports (financial accounting), the budget and its control – began to be seen as less relevant and dysfunctional. The accounting numbers it generated did not match with what was needed to determine profitability under a marketing-led strategy. As one Regional Director put it:

> 'The accounting department collects data by home branch, while all commercial data and effort is directed for the banking customer' (Interview: Regional Director).

This therefore put the organisation department in a strong position to own the 'significant accounting', both as the 'new' powerful department involved in all major change

initiatives in Banco Lusitano since its re-privatisation, and as the department that had developed the first internal analysis of key activities, as noted in Chapter Five.

However, the department had two significant problems. First, because it was so centrally involved in previous 'change initiatives', it was seen as the department that cut jobs, and therefore did not necessarily get enthusiastic support from other departments. In addition, it did not have the counterbalance of clear top management support, since there was, at least to start with, no clear top management commitment. The situation in the bank remained very much as Fligstein (1991:316) describes, where:

> 'organizations display great inertia because they are systems of power held together by the interests of key actors in business as usual. ... In order for organizational change to occur, those in charge must have both a perception of some new strategy and the power to act upon it'.

The net result was that moves towards the ABC initiative proceeded at first in 'fits and starts', with each department wary of the other. Meanwhile the attitude of top management was perceived at departmental level as not interested, or scared of the organisational implications of the change. The remarks of one manager involved in lobbying for the project at that time are not untypical:

> 'Banks are used to earning significant amounts of money, so they do not get worried with cost analysis. Compared to other companies, for them it is irrelevant'.

> 'They [the executive committee] know much about banking, they are bankers in the real sense of the word, but they are not too sensitive to efficiency. They have a feeling that control of efficiency is important, but as they do not know the basic concepts they are not too demanding in that subject'.

> 'The administration wants to reduce costs and become a more efficient bank, but to do that it is necessary to change structures and processes. Although they want that, they are afraid of going too far in terms of change inside the bank. That is a constraint' (Interview: Organisation Dept. Manager).

Even after top management did give the green light, the project still proceeded with a need to reach diplomatic agreements on key steps, and with outsiders unsure who was really 'winning the war' for control of the new MAS[63]. At the same time, once top management had come round to the project, the two departments did co-operate, however reluctantly. This once again confirms the importance in change management of top management support. As one consultant observed in this context:

> 'When top management is totally involved in the project, things run quickly because those are the people to make the remaining departments of the bank dance to the rhythm of the project' (Interview: Consultant Company).

So how did the various departments dance to this rhythm? Not, the evidence suggests, in the most smooth-running way: nevertheless there were accommodations reached, once top management was seen to be on board, and particularly as the two lead departments saw that they had more to gain by co-operating than competing.

The next section summarises some of the interview evidence that fleshes out the unfolding scenario. It considers in turn how the various key parties involved in project implemenation saw things, sc. the accounting and organisation departments, the consultants and the IT company. It then considers how the 'objects' of the project, the

[63] The relations between the two departments and their respective relations to top management remained unclear. Although in practice the organisation department managed to carry out the project as intended, it was only possible with the 'agreement' of the accounting department. This was essential, because the unit-level cost information required to feed the new MIS was a project that at that time was the responsibility of the accounting department. Furthermore, the dominance issue became more clouded as the ABC project progressed. Many of the key senior managers from each department who were responsible for the project were allocated to other projects, while a new department head was appointed in the organisation department. A typical view was that the old order had changed, but that both departments were still very powerful: 'there are two forces and two different interpretations of control, definitions of costs and information systems... that also has to do with the history of the bank. Till a few years ago the accounting

other departments, saw things, before concluding with some more general and insightful overview observations that participants made. This hopefully shows how participants were not purely concerned with their own narrow self-interest, but had wider and often perceptive views on what was good for the bank as a whole.

6.4.2 Implementing ABC: departmental interplays and wider reactions

Looking first at views from within the Accounting Department, it is apparent that some staff at least saw their role as central and originating. This was in part because they were at the financial heart of an innovating leading-edge organisation. One of the managers was aware that they would be distinctive in the Portuguese banking sector with this innovation. As he put it:

> 'In the Portuguese financial sector, there is one bank that has implemented ABC but not with the same philosophy of feeding an integrated MIS. Organisations like Portugal Telecom, Marconi, SONAE, TMN and Telecel have also implemented ABC' (Interview: Accounting Dept. Manager).

At the same time, he recognised that they were fortunate in being able to benefit from the experience of a Spanish partner bank:

> 'In terms of information for management, the relevant bank is a Spanish bank. One of the most profitable in the world and that has one of the best MIS. We are partners with them in a new business. They have the bank completely reflected in their system. They seem to be the most electronic and efficient bank in Spain in terms of operating costs' (Interview: Accounting Dept. Manager).

---

department was the structure of planning and they intervened in almost everything. Today, the bank is facing great change...' (Interview: Other Central Dept. Manager).

Such connections could make it apparent that they were the obvious people to lead the initiative[64]. As one manager put it:

> 'We imposed ABC. The organisation department reacted negatively, but today we are working perfectly. Initially, there were negative reactions inside the bank, not only from the organisation department. I do not know if the outcome will be what we expect; nevertheless I think it is a useful work that will pay off when we start to use it. ... The organisation department was not enthusiastic, probably due to other concerns, but at this moment there is a perfect fit between us and them.' (Interview: Accounting Dept. Manager).

This then made further sense, at least to some in the department, because of their experience in what they saw as the relevant existing forms of management control, including their 'success' with the SOI model:

> 'We consider that the bank has a very refined cost control system. It improved substantially with the SOI that came to motivate those who were less alert. If there was less attention to the accomplishment of the budget, the SOI came to give priority to the budget. That occurs because strategically it has the cost to income ratio as a priority. It is a conjunctural issue: the reduction of margins. When margins were high, the bank was not concerned with efficiency measures' (Interview: Accounting Dept. Manager).

Even down the line from management, this view was accepted, although the following employee comment recognises that nothing is certain:

> 'The accounting department is going to be fundamental [to the MIS project], unless they break the department... I do not know the future, but I believe this area is going to provide relevant information' (Interview: Accounting Dept. Employee).

[64] As mentioned earlier in this Section, the two departments became sponsors of the project. Although initially the accounting department stood against it and was perceived as creating difficulties, later they claimed that they were the promoters of the project. On the other hand, the organisation department recognised the importance of this alliance: 'We had to congregate forces. Things are facilitated because luckily we are working with two directors who are quite powerful inside the Group – the senior directors of the accounting and organisation departments' (Interview: Organisation Dept. Employee).

Arguably this kind of perception was understandable, and even justifiable, insofar as the ABC project was about getting a better knowledge of *product costs* (which after all was the initial justification for the technique given by Cooper and Kaplan).

At the same time, when top management did buy into it, the project was clearly then defined as more about helping implement the marketing-focussed strategy. Some at least saw the implication of this, that the department had to come to accommodations with others, and particularly the organisation department. But at the same time, that could be a confirmation of their own competence, since they were not the cause of implementation problems, those in charge of defining activities were. All these themes can be discerned in the following comment:

> 'The ABC implementation problem was not because of knowledge about costs, but due to the knowledge about activities and the resources they use. They said, and we saw that in ABC books, that the implementation should be led by an entity other than the accounting department, namely one related to the management of the organisation. As I mentioned, that was one of the main problems of the implementation: if we had the activities well defined we did not need the consultants' (Interview: Accounting Dept. Manager).

In other words, if the organisation department had been on the ball, the Bank could arguably have saved a lot of money on consultants.

The view was predictably rather different from the organisation department side. Here, where it was recognised that the key issue was about getting control of activities, it was equally self-evident to insiders that they had the key role. As noted above, managers in the organisation department recognised that the key was to track costs to 'customers and products' and that needed their expertise in understanding processes. At the same time, this meant that they necessarily had a much closer connection to the consultants, since

with their past job-cutting reputation, they could not hope on their own to get buy-in from other departments. As one member of the field-work team put it:

> 'I noticed that when I arrived at the branches, I was considered 'persona non grata'. In the interviews I said 'attention, this is not to reduce the workforce, in contrast to other projects that the organisation department was involved in'. They associate the organisation department with job redundancies, so it was important to say that it was not to reduce people, but to understand operational costs in the bank' (Interview: Organisation Dept. Employee).

Incidentally, one may read the following comment from an accounting department team member as a recognition of that problem, and a further justification of their importance to the success of the project. Talking about how the interviews were conducted in the different clusters, he observes:

> 'Inside each cluster we chose branches that we thought were the ones where people would have a better perception of the project. We promoted meetings with staff who were going to be interviewed later. These interviews were made by mixed teams: consultants and staff from the organisation and accounting departments. The idea was to avoid the threatening process led by the consultants from previous projects' (Interview: Accounting Dept. Manager).

Minimising the perceived threat of the initiative was clearly a widespread concern. From the organisation department view, however, this made effective input from the consultancy firm essential. As one manager put it:

> 'First, they are not contaminated by our activity. They also have experience with several customers, therefore several realities. Normally these companies have good research departments and know what is happening and what the trends are, etc. That has high-added value... Finally, we learn with them, especially those who work directly with them' (Interview: Organisation Dept. Manager).

At this stage, the organisation department did not see any great value being input by the accounting department. This was their opportunity to do what they were good at, improving processes, as the following suggests:

> 'This project is going to be interesting. It is going to be very important for us because it enables us to analyse processes to see where we can optimise. Although to optimise processes is not the aim of ABC, it will always be the aim of the organisation department' (Interview: Organisation Dept. Employee).

However as the project developed, and it became apparent to all involved that the change management process was both complex and frustrating, the things said began to change. Some of these were recognitions by departments of having taken wrong steps (though usually for the right reasons, e.g. being conscientious). So for instance, from the accounting department we have this:

> 'Our problem is that activities are very detailed. Probably we did an ABC too rigorously, namely in the central departments, where we have a big number of activities and we have difficulties in terms of volume drivers. For some activities we are being pragmatic and using alternative drivers for which we have volume data. Since those are not the ideal drivers, that impacts in terms of rigour' (Interview: Accounting Dept. Employee).

Or we have this from an organisation department employee:

> 'When we have a high cost, we should try to know if there is any application that is not providing volumes or not sending all data. If that does not have problems, then we need to check if the time allocation to activities is correct. Those are the two points that could influence costs by cost object' (Interview: Organisation Dept. Employee).

But more often the comments were directed at failures or inadequacies elsewhere, with the IT company and the consultants being particular targets, the former because of the perceived lack of relevant information and footdragging in providing it, the latter because they were seen as delivering less than they promised. So we find the following sort of things being said about the IT company:

> 'IT was always a problem. We had to change our system not long ago. Last year, due to the year 2000 and other projects like the Euro, we analysed processes, evaluated our hardware and made several changes regarding machines that were already out of date. The IT company has made significant efforts to minimise the situation, but our applications look like a

'blanket cut into pieces', so that aggregating everything is complicated' (Interview: Organisation Dept. Employee).

It was seen as having too much independence in terms of how it collected data, with no control exercised from within the bank.

'Many applications are stand-alone and are not centrally registered. So a great effort is necessary to collect data. It also leaves us uncomfortable, because it is not a central database of the bank' (Interview: Organisation Dept. Manager).

Too often as a result, the IT company could provide neither relevant nor reliable information. As one employee observed:

'The numbers from the IT company were not reliable. There were numbers that were definitely not correct. In some branches, we had costs of deposits or withdrawals of 19 or 20 thousands escudos, that does not make sense. We realise that volumes were not reliable. It is impossible that the bank should have volumes so reduced that the unit-level costs should have increased that much' (Interview: Organisation Dept. Employee).

When it came to the consultants, observations were made (with hindsight) about the youth and inexperience of many of their team, about the poor coordination between them, and about what their motivations really were. Comments made included the following:

'They had some experience but note that the consultants are recent graduates. Some are trainers, other managers, but they are youngsters of my own age [26-27 years old]. Only the command team has some know-how and eventually some external contacts that co-ordinate them. In Portugal there is no experience and the team is composed of Portuguese. The co-ordinator is Spanish and he is quite good in this project (besides the French consultants; however they just support them)' (Interview: Accounting Dept. Employee).

'I think that the articulation between them was not very good. There was a lack of communication between those who were in the branches and those who were in the central departments. They were facing the same problems; some have already been overcome' (Interview: Organisation Dept. Employee).

'The consultancy costs are high. I believe they work significantly to show off. Their presentations are great, only the methodology did not work because it was their first attempt.

> Next time, they will apply the methodology only with some adjustments. It will be easy. In the beginning we thought they had already implemented ABC in one bank, but we concluded that they had not' (Interview: Organisation Dept. Employee).

In addition, one perceived problem was that as the personnel changed, the link to top management was lost. A key moment here was when the local head of the consultancy firm moved on:

> 'A few people left the consultancy company, including the one who was known previously in the bank. I believe they lost the direct link they had to the executive committee. Now all their activities have to be negotiated purely at department level' (Interview: Organisation Dept. Employee).

Such comments are understandable in the context of the frustrations being felt as the project ran over time and into difficulty. At the same time, it is important to see things from the other side as well.

From the IT company side, a number of the problems that arose were seen as coming from within the Bank itself, either through failure to understand what IT can deliver, or through an over-optimistic specification of requirements. The following observations are as reasonable and justifiable, from the IT perspective, as many of the comments made above:

> 'It is impossible to create a new IT system from the beginning. We have to take care with what we do because we are working on a running horse that we cannot stop. We have to keep the same level of performance (and the bank has many customers), customers can only notice improvements, not the changes themselves. We have to update systems without problems for the customer' (Interview: IT Company Manager).

This manager perceived a failure in the bank to appreciate just how much the accounting system had to change:

> 'For a long time accounting was the coherence matrix, since it was the source to feed the MIS. Personally, I do not agree... the accounting system can give management information, but it is not the main system. Accounting is a technique that needs to be in balance... but each branch has its own "little accounting", the accounting of the bank is a summing up of all the branches. This means that movements between the branches or between branches and central departments are made through transitory inter-departmental accounts. This means a big number of transitory accounts that have to be controlled. I used to understand the reason, accounting was the information source and we needed to have each branch autonomous to get the information about their products. Today there are other ways, things have evolved. If the quality, coherence and completeness of data is guaranteed, we can know the position of each customer without the accounting. Imagine if we had everything in the accounting, it should be monstrous' (Interview: IT Company Manager).

Further, there was a failure (much noted by IT specialists) to recognise the technical difficulty involved in what would seem a simple management change. For instance:

> 'There are certain activities that are manual, not automatic. If the IT system covered all the activities of the bank, we would have everything. However, in a certain circuit there are parts that are automatic and parts that are manual... In some cases they want us to merge data on existing 'events tracked' (and that we can do), but sometimes they want us to break 'events tracked' down into sub-events, but that affects other applications. We could not afford to disrupt a whole series of applications just because of the ABC project. Therefore they should try to change their approach and look at that activity differently' (Interview: IT Company Manager).

A similar set of reasonable objections was made against bank expectations by people in the Consultancy firm. They felt that they had acted in good faith in their negotiations with the bank from the start:

> 'I think the starting point was well identified: there was a good knowledge of the bank, what they had available and what their needs were. The approach was systematic and clear regarding how we would carry out the project, and we had a rigorous calendar. We proposed a rigorous and deep project, in a very acceptable time, with an approach that revealed experience from us, and that might have given security to the bank' (Interview: Consultant Company).

However, there was a feeling that the bank had overstated how advanced they were (possibly through giving too optimistic an impression of the depth of earlier activity analyses). As the following puts it:

> 'When we started the project, we thought the bank had their processes clearly defined. However, they were not in a transactional perspective, so we had to re-think all the processes and activities of the bank. If we had already had that, we would only have had to go to departments and control the time they spent on each activity' (Interview: Consultant Company).

There were then continuing problems in terms of communication with the bank, in particular with the IT company that created significant difficulties in overcoming the IT problems:

> 'First, there are communication difficulties. Some of our requests go, move backwards and onwards and they did not understand what we wanted. There is no critical analysis of the data that we asked for. Applications are dispersed, we have a new repository of information but the program is being tested... and they do not make any critical analysis of the data' (Interview: Consultant Company).

The net result was that on all sides, and beyond the project team, there was a sense of complexity and confusion. Interviewees reflected on this in different ways, but often with an acute and insightful form of critical reflection.

So for instance, there is this view from within the Consultancy team:

> 'In my opinion, due to the requirements of the bank, the model is too complex and it does not have the main objectives clearly defined. There are too many activities and cost objects. The bank did not prioritise which cost objects were more important in terms of costing. Eventually, there are cost objects in the model where it is not very important at this stage to know their costs. We should have advanced by phases, starting with the activities and cost objects that are important in terms of costing, and later increasing their number as the data becomes reliable. Complexity is due to the existence of two sponsors with different objectives. The organisation department needed detailed activities and the accounting

department needed information detailed in terms of cost objects' (Interview: Consultant Company).

The perspective from the branch is that it is all too much:

> 'Currently we have an excess of information. So much information that it is like a big stream of water and we cannot control it. It is information in excess and we do not have time to see it' (Interview: Branch Manager).

At regional level, one view is that there is still confusion between old and new-style measurements in the operation of the management control system:

> 'Profitability from SOI is just a volume effectiveness because we use standard rates. Someone that does more business has advantage, independently of the actual interest rate used... Besides, we need the effective profitability because the data we receive from the accounting department is not related to what we manage... We abandon managing the client account and now we use the concept of banking customer. Banking customers who independently of the domicile of their accounts are to be managed by somebody, either an organic unit or a person. Anyway, the information we receive from the marketing department is more relevant than the information we receive from the accounting department' (Interview: Regional Director).

The same kind of confusion shows up in a different way in the marketing function, where the blame is particularly put on the accounting department's failure to change:

> 'The only data we use from the accounting department are management measures. This year, top management decided to introduce the ratio cost to income. However, this is not correctly calculated because the data we use is from the profitability model and that has the total amount by branch. By doing that I am considering corporate and private customers which shouldn't be considered' (Interview: Marketing Dept. Manager).

Thus, overall there can be seen to have been a lot of concern and uncertainty associated with the attempted change. But perhaps the last word should go to a manager from one of the central departments, who had this more general reflection on what had gone wrong:

> 'If the project is well explained and if the institution has a good reputation in terms of the way it has treated people in the past, change is not very complicated. However, if we close all the

"lab scientists" in a room to produce a fantastic thing, but the organisation does not 'live the project', problems are likely to arise, up to and including a failure to implement the project... Projects must be lived, people have to understand why we are doing this project, the advantages they will have, and its impact. If there are negative impacts in terms of human resources, the solution, in one word, is communication... But too often people do not remember what the MIS is for, they are not living the MIS' (Interview: Other Central Dept. Manager).

6.5 The spread of accounting as unintended consequence: Accounting operates more 'intensively' and 'extensively'

If we finally consider this project in the context of the changing roles of accounting in Banco Lusitano, there is a case for saying that, despite all the specific problems the project faced, one general outcome was a further dissemination and intensification of accounting across the bank.

Looking back over a decade or more, there had always been a role for the kind of accounting information prepared in accordance with accounting principles and practices, established by the Bank of Portugal as applicable for the financial services sector ('Portuguese GAAP'). Traditionally, as noted above, the accounting role had focussed less on internal control needs, and was almost exclusively concerned with preparing external reports, with the incremental budget system being perceived as a 'ritual' to which the departments of the bank did not give too much attention. Certain departments might even see themselves as 'beyond' the budget, as in this example:

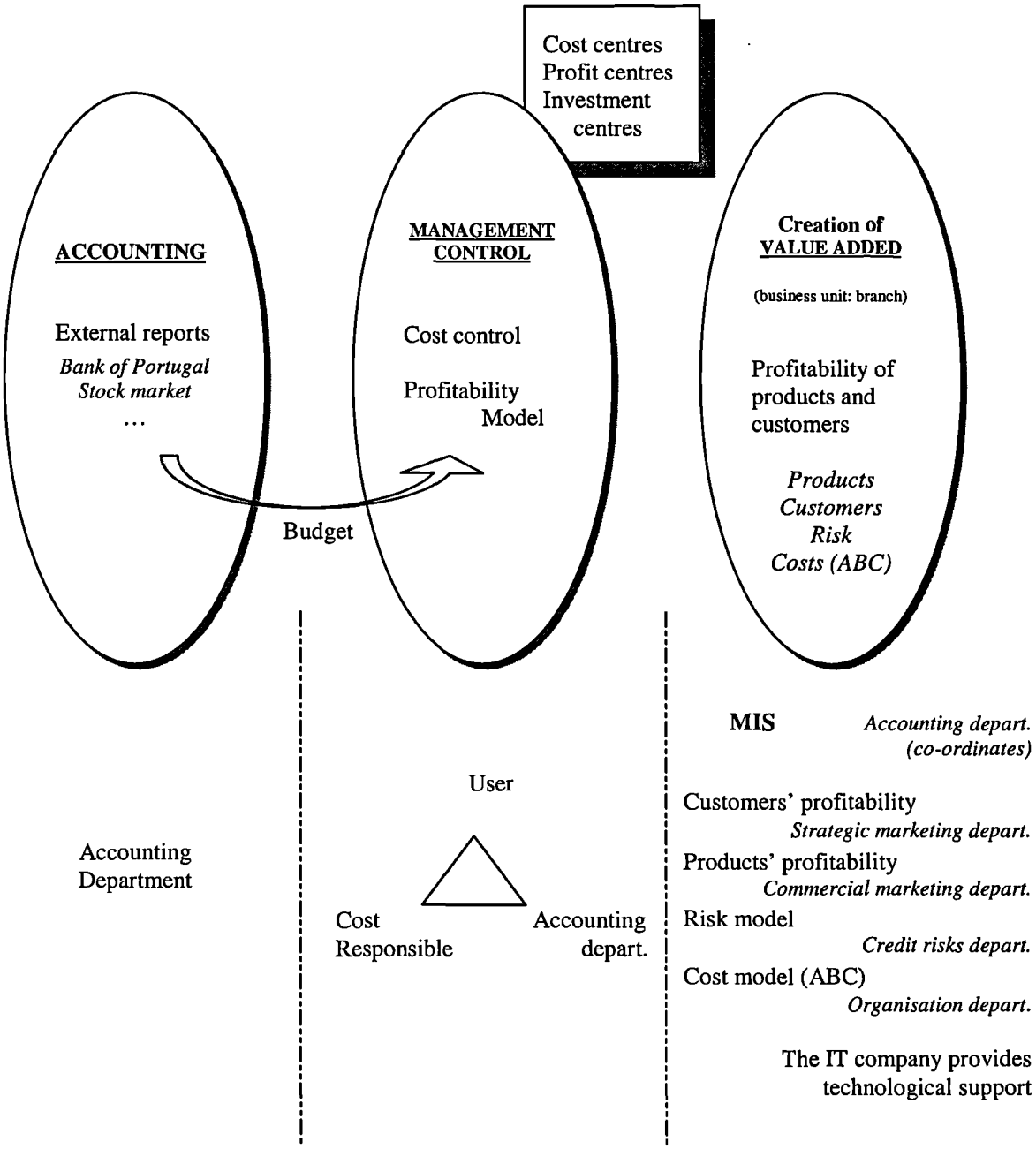
'[The budget] does not influence this department. Although we had taken some measures and people collaborate with those measures, this department is too important to be subject to the budget' (Interview: Marketing Dept. Manager).

However, following re-privatisation, as noted, the management of the bank did become more cost-conscious, and one of the consequences was a big focus on the cost to income ratio. Over the last decade, therefore, accounting had been operating more intensively and extensively in various ways. This had arguably already triggered a situation where accounting was migrating as a significant presence beyond the accounting department. At least managers from the accounting department could have that perception:

> 'We are the co-ordinators of the budget, no longer the owners. The budget has three entities: the users who make their own budget and define objectives, the manager responsible for indirect costs, who is a specialist in a particular area, and us in terms of co-ordination' (Interview: Accounting Dept. Manager).

But this migration could also be seen at the level of the formal systems being introduced. So as figure 6.2 indicates, the situation had become one where the accounting department was now co-ordinating the MIS project for the bank, but the more specific responsibilities were allocated out to a different responsible department. As the figure shows, the strategic marketing department had responsibility for the profitability of customers, the commercial marketing department for profitability of products, the credit risk department for the risk model, and the organisation department for the ABC project. Here is a clear example of formal systems making accounts more extensive and intensive, and at the same time imposing a new set of interdependencies, both at the organisational level and between different kinds of disciplinary expertise. Risk management theory had cross-overs to accounting and accountability and vice versa, and strategy and marketing knowledges were drawn into this network too. But within all this, accounting had a particular role as a key aspect of the MIS, since it was the basis for articulating the newly significant 'value chain' of the bank:

Figure 6.2 – Accounting operates more 'extensively'



> 'Each branch was a mini-bank, therefore we had to know the business of each branch, because each one of them had customers from all segments. The bank changed strategically and said 'we are a multi-specialist bank, but with a segmented business orientation', so now the relevance is on profitability by products and customers, not by branch. Nowadays, the main objective is profitability of products and customers, and cost control. We already had budget control, but now it is better because we link everything considering the value chain. We have four models: profitability of customers, profitability of products, risk model, and a cost model (ABC)' (Interview: Accounting Dept. Manager).

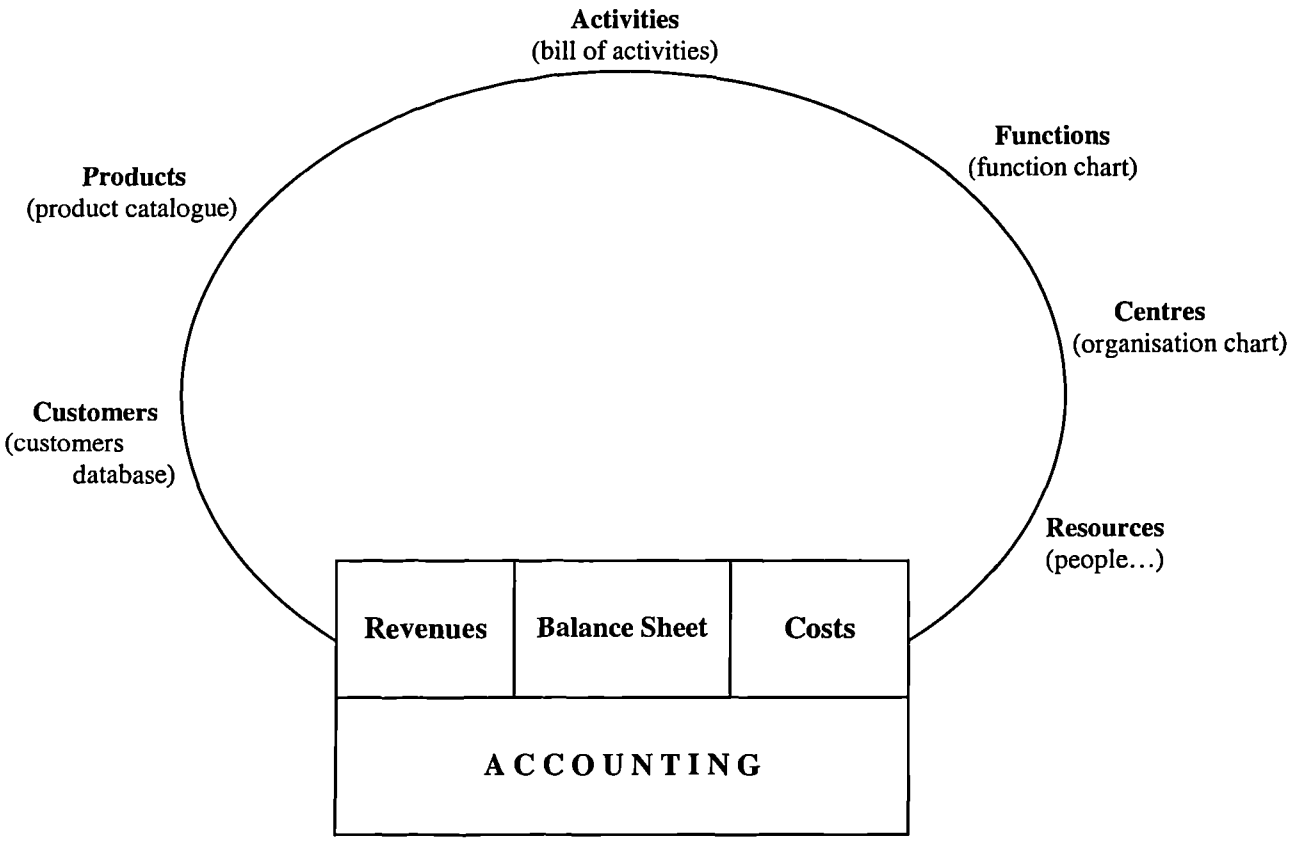
Within this general context, the impact of the ABC initiative was to produce, as an unintended consequence, a general visibility and significance for all forms of accounting in use. As the unit of analysis changed from branches to products, customers and distribution channels, a range of performance measurement and accountability practices became more essential and inevitable. New MAS needed to be developed in order to work with the new managerial reality. Figure 6.3 can be read alongside Figure 6.2 as together summarising in a formal representation the ways in which the strategic management process now proceeded via accounting through a mix of traditional and 'new' accounts, integrated together to define and track value-adding.

This kind of 'unintended consequence change' can be seen beginning to show up in other departments. A manager from the marketing department explains how he understands the importance of ABC for the bank:

> 'Activity-based costing will allow more accountability to each process. There are products that are very profitable and subsidise areas that are less profitable or even unprofitable. If we had reliable management information the correct decision would be to close those areas' (Interview: Marketing Dept. Manager).

At regional level, a Director sees a different kind of specific benefit:

Figure 6.3 – Value chain of Banco Lusitano



> 'For the regional directorates [ABC] is important in relation to our special customers, to whom we have to provide custom-made solutions, as clients are increasingly more demanding and haggle over the terms and conditions. It is important to know the actual cost of each operation, to be able to decide whether we should accept those conditions of if we are instead losing money with the operation' (Interview: Regional Director).

The interconnection to other expert knowledges is also recognised, as in the following:

> 'Changes in the MIS are the result of changes of the marketing philosophy and of profitability analysis. The existing information systems were not adjusted to the new commercial approach. The improvement of the bank's profitability was limited by the lack of vision to assure the new commercial philosophy' (Interview: Accounting Dept Employee).

In addition to these discursive shifts, there was a range of structural effects which could be seen to be connected to accounting's new significance. For example, there was a transformation from a bank culture based on relative job security and, for some, hierarchical careers, to another based more on the strategic marketing discourse of interpersonal customer-orientated skills with individual performance.

Task redefinition was another consequence, here associated with the use of new technologies and the increasing range of services offered. Imposed by reorganisation projects, in particular the Efficiency Project, there was automation of back-office functions (simplification and elimination of tasks), diversification in terms of distribution channels (e.g. ATMs, telephone banking, internet banking), and centralisation and specialisation to obtain economies of scale. There is a strongly felt sense of rapidly changing employment practices, 'things are changing fast and there are people that adapt easily, while others have difficulties in terms of adaptation' (Interview: IT Company Manager).

This has led to a new set of tensions inside the bank in which the role of accounting may not always be evident. For instance, there is a division between the branch network and central departments, where senior managers are located (a division between 'them', who are seen as the 'big thinkers', and 'us'). As the old sense of identity held by branch staff with their local branch (or their region) was lost, there was as yet little identification with head office. There are claims that 'central departments have to increase their capacity of reply' (Interview: Branch Manager) and that:

> 'Central departments should treat us with the same level of quality as we treat our customers, in order to increase the quality of the service we provide. Therefore, central departments should have as their main aim to satisfy their customers – the branches – so they can satisfy the bank customers' (Interview: Regional Director).

There is a rather sarcastic or ironic sense that they are very different and distanced people who see themselves as superior:

> 'Probably the "big thinkers" that are up there have a huge capacity, and the IT system could be wonderful, but at first sight I cannot see it' (Interview: Branch Manager).

> 'People who are up there, our graduates, IT staff, accountants and economists, often use a language that is not perceivable for people who are in charge of a branch, who do not have a higher degree. They should use a more perceivable language, more down to earth' (Interview: Branch Manager).

At the same time, there were real changes in the level of responsibility and power held in the branches. The changes in the commercial structure affected branch managers at two levels: the number of staff they were responsible for, and their level of autonomy and technical expertise. Branch managers supervised fewer staff, because part of the work that used to be done at branches was centralised in the regional directorates or head office. At the same time, the creation of segmentation reduced the autonomy of branch managers, since there were new managers responsible for each segment. It also reduced their

responsibility, for example, in terms of decisions on lending, because of centralisation and the introduction of credit guidelines. Additionally, new technology meant that work flows and targets could be closely monitored, and there were difficulties in updating their knowledge. To sum up, branch managers, who previously were in a very powerful position, were facing a reduction of responsibility and job insecurity due to the significant renovation of staff.

At the same time, as noted above, many of those initially promoted to regional directors who were former branch managers were now replaced by younger and more highly qualified people. Meanwhile, branch staff were expected to accept the new focus on sales, building and developing relationships with customers, in which they were given precise business objectives and demanding growth targets.

In this situation, there was an increased presence of accounting in the branch, in defining and measuring these targets, and there was at the same time an increased dependence on those young qualified new entrants, since they typically ran the new accounting-based MIS. Some senior managers could see the ensuing problems very clearly.

> 'There is a cultural shock between those who have knowledge derived from the everyday routine and who are convinced that this is very important because it requires years to acquire, and others, young, educated and probably satisfied to have found a working position. This new generation question the activity and knowledge of the more experienced. The reaction of the latter could be summarised: "old people serve for nothing, only young people have access, only graduates are managers"' (Interview: Other Central Dept. Manager).

This generational shift affects the relative sense of insecurity. For the older generation, job redundancies had already undermined the sense of employment security that was a central aspect of the Portuguese banking culture. The banking career was a secure and long path, with positions filled by male, school leaver and full-time staff. Entrants from

universities were not particularly important except at the highest levels, due to the fact that almost all promotions were from within. Promotions and payments were based on seniority with annual increments. The changes in career patterns involved insecurity, job evaluated and differentiated pay. Individual performance based on the SOI is a key element since employees have performance targets imposed from strategic and marketing priorities[65]. Additional pressure is due to job redundancies and the bank's policy regarding reduction and renewal of staff. As one manager explains:

> 'Change is important to three areas: staff reduction, renewal of staff and the bank's reorganisation in two aspects: IT and the organisational model... I consider that the organisational model does not correspond to reality, and IT systems do not provide a capable answer to the bank's activity' (Interview: Other Central Dept. Manager).

For the older generation, it is not only the younger generation that becomes an object of suspicion. There are claims that the bank has had to adapt itself to the IT systems, instead of the IT providing solutions to the bank's needs:

> 'The IT company provides tools and we have to install them. We were under pressure, because top management considers that it is the solution for everything, but it is not. That will be when the IT system provides an answer to the organisational model of the bank, but today it does not' (Interview: Organisation Dept. Manager).

Predictably, in the light of the experience of managing IT change generally, software has frequently not given the expected answer, as a director explained, saying that he often hears complaints such as: 'I am working with the same or worse means than I had, and I am not being compensated', although his own view of this was that 'it is not true but it is what people are assuming' (Interview: Other Central Dept. Manager). One manager

[65] The implementation of this efficient objectives scheme (SOI) includes volume, profitability, cost, and service quality objectives, with direct impact in the individual bonuses.

summed up the feeling that job cuts are happening, to reduce the workload, before IT innovations are completely developed:

> 'The commercial staff is afraid of the applications, since they do not dominate them conveniently. They have powerful tools but are afraid of using them. They complain that they cannot follow the new tools. I hear them complain about small inconveniences of the applications; nobody defends their philosophy, potentialities and timesaving' (Interview: Other Central Dept. Manager).

The situation can be partially explained: 'the old generation is critical, because they are out of touch. They are criticising and creating a bad environment inside units' (Interview: Other Central Dept. Manager). There are also claims that 'ignorance and the lack of knowledge are the main causes of insecurity' (Interview: Other Central Dept. Manager):

> 'Within this context, people have fear and in the absence of explanations from who should provide them, they tend to find their own explanations creating the rumour. The rumour creates confusion' (Interview: Other Central Dept. Manager).

As a consequence, some resistance or at least lack of co-operation towards ABC was expected:

> 'In the entire financial sector, but particularly in banking, unions are strongly structured. When we try to do something, unions and commissions of workers start to complain... If you go to a department, structured in a dodgy way, to see what they are doing and how much time they spend doing it, people in that department will easily think that you will see them as not working hard enough and immediately conclude that someone will get the sack. Therefore it is hard to find co-operation within the department' (Interview: Organisation Dept. Manager).

Summing up this section on unintended consequences, it is fair to say that the structures of the bank are changing significantly, due to the new strategic and marketing discourses. At the same time, the accounting discourse also has an important role in the bank's search for efficiency, profitability, and improvements in the cost to income ratio. There was a

strong expansion in the commercial network, accompanied by a significant reduction in the average number of employees per branch. Further structural changes in the commercial area include the creation of regional commercial divisions, responsible for managing their branches, and the creation of centres for medium-sized companies, during 2000. The structural transformation and technological change has significant impact on employment practices:

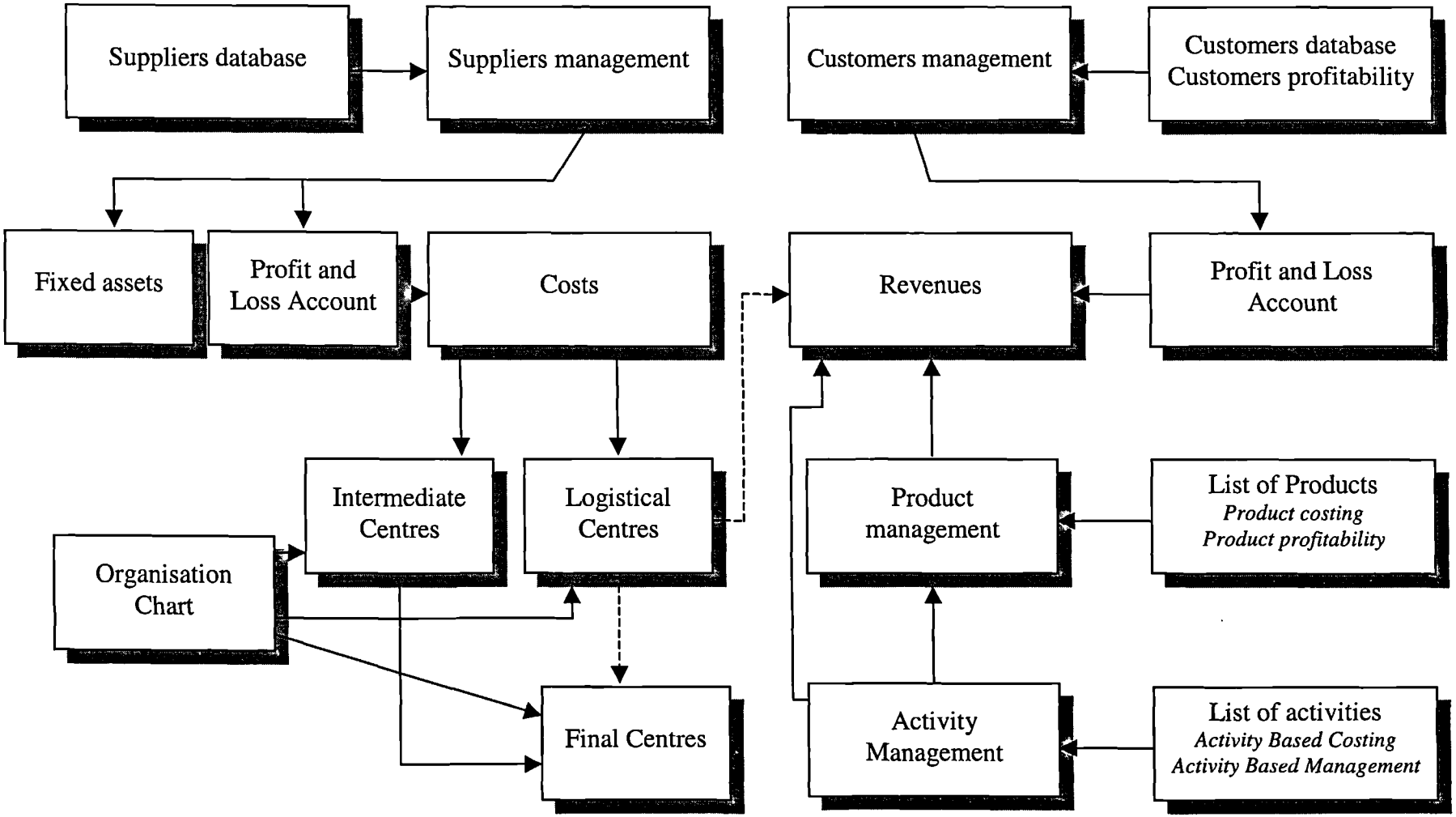
> 'A decade ago branch managers had a very important position which they do not have anymore. If we analyse who defines objectives and stimulates branches' activities are the regional managers. These regional managers are young motivated graduates, critical people with value. Even in the central departments there is a significant number of young people' (Interview: IT Company Manager).

Central departments are also changing, allowing for an increased specialisation of their activities and close support for the branch network. These changes involve the creation of new departments and the reorganisation of the existing departments:

> 'The bank is changing and that creates difficulties for the ABC project. There are thirteen new departments since the summer till now [April 2001] and this requires an update of the model' (Interview: Organisation Dept. Employee).

The change initiatives that are happening in the bank are also creating a sense of insecurity in the departments involved in them, because they are questioning the taken for granted ways of being. For instance, the accounting department is facing insecurity and tensions because of their situation regarding the MIS and the ABC projects. They were one of the co-sponsors of the MIS, but the executive committee, after delays and some problems with the consultants involved with the MIS project, decided to create a new structure just for this complex project (see Figure 6.4) that involves several departments of the bank. The new structure is starting the development of the data warehouse from

Figure 6.4 – Management Information System (MIS)



Source: Consultancy Reports (MIS Project)

scratch with new suppliers of hardware and software. It is co-ordinated by the IT company and does not include staff from the accounting department. However, a manager from the accounting department claims that:

> 'The accounting department has to be a sort of co-ordinator, in order to establish a link with the external reports and management control. One development in one area has transversal implications in the other. In this moment, the project is in the hands of an IT person. That was a mistake, because they have a narrow vision... IT staff are supposed to talk with the machines. Accounting is the only methodology that allows aggregating variables through the notion of value. Besides, it provides rigour. For instance, if you do not use accounting as the base in the MIS you face the risk that, only luckily, things will be fine' (Interview: Accounting Dept. Manager).

In terms of the ABC project, they had a secondary role compared to the other organisation department with whom they formally had joint-ownership of the project. This partnership was based on two objectives. The organisation department was pleased with the outputs in terms of the map of processes in order to implement ABM, but the unitary cost objective that was the main purpose of the accounting department was not giving 'reliable' numbers. Moreover, the organisation department was the one that was going to 'own' the ABC information. This could explain that while discussing other issues regarding the MIS, a manager from the accounting department seems to be worried about the future of the department:

> 'The accounting department is going to be fundamental [to the MIS project], unless they break the department... I do not know the future, but I believe this area is going to provide relevant information' (Interview: Accounting Dept. Employee).

The organisation department is also facing tensions. For instance, during the final stage of the ABC Project the senior managers associated with the project were allocated to other activities, as the department was split in two. The manager formerly responsible for the commercial marketing department has become the new senior manager for the

organisational department, while the manager formerly responsible for that has become responsible for the part that does not include ABC. The clusters of people associated with the ABC project were disruptive.

> 'The change in the senior managers of the project brought some additional difficulties... [the new manager] has to get involved not only in this project but in all projects in progress in the department. He also starts new projects and has to get involved in the department, reorganise it... of course this has affected the time allocated to the ABC project' (Interview: Consultant Company).

6.6 Conclusion

This research is clearly valuable for identifying key factors that may be found in a more longitudinal and 'contextually rich' sort of case study. This is the kind of study that is being undertaken here, recognising that this type of research project is more time-consuming and less immediately 'generalisable' than some other approaches, precisely because it is so intensive within one organisation. One similar study that has attempted to contextualise the introduction of an ABC 'solution' within the financial services sector is Soin's research carried out in a UK clearing bank (Soin, 1996). Like the present study, Soin's research involved a longitudinal examination of organisational change, focusing on a single organisation, and as here, that organisation was a leading player in the banking sector. Both studies therefore can be seen to develop a 'rich description' approach, where archival materials from within the organisation are combined with interview data, thus covering people's understanding both of past developments and of ongoing innovations.

MAS dealt with changes in the internal and external interdependencies in the contexts of the organisational strategy and structure, the organisational field and the state. The state,

although it has reduced its own power in the sector during the last 15 years, still maintains an important role. For instance, just a few months ago it intervened in the sale of a financial group to a Spanish group. Its influence is also important as it still has a controlling interest in the country's most important financial group. This state-owned financial group also intervened to help the process of selling one of the banks to a Portuguese group, as part of the agreement reached with the Spanish group. The sale of that bank was very important – the group that bought the bank became the biggest private bank in the country.

Thus, the organisational field has, as Fligstein observes, become redefined over time, and, importantly, the relations between banks have become more competitive (particularly in the form of a battle for market share). Product lines have become more diversified and managers now concentrate on differentiating their products. Yet, as Fligstein (1990:302) argues, managers rarely know what is economically efficient:

> 'They have a sense of controlling a market or market share and to some degree they can control costs. But the driving force for managers, just as it is for any kind of social actor, is to preserve their organizations and further their individual and collective interests. To do so they must define their situations, including what constitutes a market. In that process, they construct a conception of control that includes strategies and structures and helps to define their organizational fields'.

In that respect, change processes are shaped by a combination of random, systematic and inertial forces (Burns and Scapens, 2000).

Accounting is becoming more visible in the organisation and has been implicated in recent developments over the past ten years. It is operating more intensively and extensively, and the ABC initiative is part of this process. Accounting is significant

beyond its technical roles. Accounting based management discourses are coming from outside, with the influence of consultant companies.

MAS are influenced by strategic and marketing discourses. They can be changed and are being changed in the name of discursive developments. However, accounting can also help to create a powerful discourse. As Hopwood (1990:9) argues, accounting 'can influence perceptions, change language and infuse dialogue, thereby permeating the ways in which priorities, concerns and worries, and new possibilities for action are expressed'. Accounting has an important role, as MAS have the power to shift patterns of organisational visibility so that the concerns of the external world can influence an organisation's internal affairs:

> 'Accounting thereby can play a role in strategically changing managerial awareness away from the problems of just internal interdependences towards a view of the external positioning of the organisation or a particular segment of the organisation. The language, pressures and requirements of the marketplace can be infused into the organisation as a result of a strategic realignment of organisational structures, internal patterns of organisational segmentation and flows of information, including accounting information'. (Hopwood, 1990:11).

Accounting numbers can, together with strategic and marketing discourses, provide a 'legitimisation' of job losses, presenting them as inevitable to the bank's adaptation to the evolving competitive environment. Similarly, they can pressurise the 'lucky' remaining employers into performance goals. The budget system was designed to emphasise performance goals and the SOI was used to reward those goals (and simultaneously increase awareness of the importance of reaching those goals). ABC can be made to appear to respond to a new realm and to create a strong sense of alignment with a new strategic vision and promote a new climate of change in the organisation (cf. Ezzamel *et al.*, 2001).

Accounting numbers can also have social effects, as they can become a means for the bank selectively to focus on particular customers, rather than the customer in general. Accounting numbers can be used to increase business profits by extracting wealth from customers and by disciplining identifiable groups of people to use cheaper distribution channels (e.g. offering electronic services) through the charging of fees for services. Far from being perceived as the raison d'être for the bank, customers – or at least some of them – are seen as consumers of resources. This is a vast shift from the notion of providing a superior service to customers and placing them at the centre of the bank's priorities (cf. Boyce, 2000).

This research shows how important it is to understand the dynamics within and between the key implementing departments. If we have more accounting discourse (intensive and extensive) across the organisation, why does effective change not automatically follow? The battle over ownership between the accounting and the organisation departments is the factor that made other factors background issues. More widely across the organisation, this means that it is not clear what ABC is really about, and also that people can 'evade' (rather than resist) its impact as a means of enabling downsizing. This has been the widespread objectively-based perception of what all the change initiatives have been about.

Accounting, perceived as not neutral but a powerful set of practices and discourses, that influence perceptions and change language, is potentially the source of power issues, but also of the sense of insecurity and tensions that characterised the bank over the last years.

The ABC project started with high expectations and after facing a significant amount of problems and delays there was some disappointment, in particular because the numbers it

was providing were not reliable. Furthermore, the ABC information became rapidly out of date, because its implementation took place at a time when the organisation was going through significant change. However, the investment made in this project may still bring results, because there is an awareness of the potential value of the information.

7 Conclusions

7.1 Overview of the study

This thesis is the result of a longitudinal case study of a Portuguese bank, where an ABC system has been trialled for implementation, as a means to improve the economy, efficiency and effectiveness of employee activity. The bank is facing a significantly more competitive environment and is remoulded by new discourses particularly those concerned with 'strategy', 'marketing' and 'change'. A critical and interpretative theoretical form of analysis hopes to contribute to the generation of a new kind of empirical understanding of how accounting change works in practice in different cultures, and in that way to help deepen our theoretical understanding of accounting's role in modern management. Although based in the interpretive tradition since it is concerned with actors' perceptions, interpretations and beliefs, it also draws on a Foucault-inspired critical framework of the kind developed in the work of Hoskin and Macve (e.g. 1986, 1988, 1994, 2000), and in the research into the financial sector undertaken by Morgan and Sturdy (2000). The particular model developed here is designed to permit the exploration of the effect of accounting practices on change from three perspectives – changing structures, changing discourses and the effect of both of these processes on power relations. It also draws on Fligstein's (1991) institutional framework to understand change in terms of the interplay across three relevant institutional contexts – the organisational field, the state, and the existing strategy and structure of the bank.

The ABC literature provides 'guidelines' to help organisations implement ABC initiatives (e.g. Brimson, 1991). Nevertheless, this research has shown that there are unforeseen

characteristics and situations that create difficulties and can have a major impact on implementation. ABC principles are simple, but the design is complex and requires considerable effort and resource allocation (cf. Pryor, 1990). During the implementation, the ABC team faced significant technical difficulties that imposed important restrictions and prevented the optimisation of ABC. The ABC model design was too complex due to the range of different objectives for the new system. This complexity was translated in the difficulties faced by the IT company in providing the data required for the implementation, namely cost driver quantities. As the efforts were partially frustrated, there were claims that the IT company had too many projects and did not consider the ABC project as a priority. Nevertheless, the IT problem reveals that an adequate preparation/evaluation of the existing situation prior to the project's commencement was not done. Consequently, there was a need to design and install data capture systems or change some cost drivers. IT was the main factor causing delays in the project, but it was also the easiest area to blame because it was a different entity, not the bank itself.

The delays due to the failure to provide a 'good' outcome brought to the surface several problems, creating a tense relationship between the consultants and the bank. For example, for the bank the youth and inexperience of many of the consultants and the poor co-ordination between them were the main explanations for the problems that arose. For the consultants, difficulties were due to the fact that the aims of the ABC system were not clearly prioritised, and this created difficulties when they tried to meet all the needs.

The bank faced other technical difficulties, including resources allocation, lack of staff time, choice of activities, and the selection of cost drivers, that can influence the successful implementation of an ABC system (cf. Innes and Mitchell, 1992, 1998;

Anderson, 1995a; Shields, 1995). All these issues created serious concerns over the subjective nature of, and lack of accuracy in, the cost information generated by the management accounting system.

However, although technical issues can create difficulties in the implementation and development of the system, they are perceived as having an 'easy' solution (cf. Donevan and Kaplan, 1998). It is important to keep such problems in perspective. The accounting literature suggests that failure to implement ABC is not attributable to theory, technique or application. Rather, it is due above all to resistance to change, and the structural barriers that managers encounter when attempting to implement ABC (cf. Kaplan, 1990; Roberts and Silvester, 1996; Shields and McEwen, 1996). Organisational issues like the firm's characteristics (e.g. sector, dimension, history, cost structure), organisational structure (cf. Schultz and Slevin, 1975; Gosselin, 1997), strategy (cf. Gosselin, 1997), and culture (cf. Hofstede, 1993; Brewer, 1998) influence the design and implementation of an ABC system.

A key organisational and behavioural issue concerns the perceptions and interpretations of ABC held by the various organisational actors involved, regarding its technical characteristics, utility and impact on the organisation (cf. Hopwood, 1987, 1990; Gosselin, 1997). In Banco Lusitano, there were different views of the purpose of the new system. The promoter of ABC within the bank was the organisation department. For this department the activity-based model was seen as an information system, not necessarily as part of the accounting system. They understood that ABC information would enable them to manage activities and business processes because it provides a cross-functional and integrated view of the bank. Based on process analysis made during previous change

initiatives, the department had taken action in terms of reorganising certain product line processes. ABC was seen as the best way to lead to ABM and proceed further with reorganisation. Nevertheless, the organisation department was not able to convince top management of its importance. Nor did they have the 'expertise', resources and knowledge to implement it alone, and they did not have the support of the accounting department, which was even seen as creating obstacles. In the accounting department perceptions of the ABC system were mixed. The initial perceptions, when efforts were made to communicate the merits and potentialities of ABC, were confused. There were some questions about the feasibility of the new system, but there was no open antipathy to the introduction of the ABC system. In fact, there was some support, because it was a fashionable innovative management tool, touted by consultants, that other banks and organisations were adopting. After it was made clear that ABC was an important feature to provide the bank with cost information about unitary cost information to provide profitability by product, customer segment, and channel, some attitudes changed, and managers began to accept it as they claimed the project as their own. Part of the problem might have been that the accounting department initially did not feel they owned or managed the project. Initially perceived as creating difficulties for the project, the accounting department was now willing to participate in the implementation of the project and co-sponsor it. The result of trying to answer and reconcile different purposes for the system was design complexity.

To summarise, a key behavioural issue is resistance to change by organisational members due to the cost and benefits of ABC, power and political reasons, or the organisational culture (cf. Argyris and Kaplan, 1994; Malmi, 1997). There were a number of forces retarding the project from the start. As managers were locked in a power struggle and the

accounting department was resisting implementation, as the researcher was told informally, this assumed particular relevance while the remaining factors for 'success' became background issues.

Consequently, the real impact and value of ABC was not clear, and as a result there were different levels of involvement in and commitment to the project. It appears that the bank departments involved, until the end of the implementation, did not discuss the uses to which the information would be put in any detail, and the contradictions between the positions held on the new system were evident to all involved.

After this overview of the problems and difficulties faced during the implementation of the ABC project, this concluding chapter reviews the key contributions and brings together the major arguments of the thesis. As such, Section 7.2 describes the theoretical contributions of the study. Managerial implications of the research findings are then discussed in Section 7.3. Finally, Section 7.4 describes the limitations of the study and outlines possible directions for further research.

7.2 Theoretical contribution of the study

Initial expectations were that the empirical findings would contribute to a better theoretical understanding of MAS, and to an emergent series of research projects into accounting and the financial services. The methodology used was a combination of interviews and archive analysis in a single case-study-type approach. Within that, moving between empirical analysis and theorising, using three lenses to interrogate both the material gathered and the possible explanations – changing structures, changing discourses and the effect of these processes on power.

The main contribution of this research is related to the increase in the visibility and perceived importance of accounting in the banking sector. As organisations change accounting has become more significant. Since the reprivatisation, and more specifically over the period when the ABC initiative was being promoted and developed, accounting becomes more visible in the organisation and so perceived, at the level of what people say and write, as important to it. The research shows how, with the arrival of ABC, what becomes sayable internally includes alongside the two 'obvious' discourses of strategy and marketing, a new kind of extensive and intensive accounting discourse. The discourses of strategy, marketing and accounting 'migrated' into the banking sector, in particular over the last decade, with consultants having a key role in this process. Discursively, accounting permeates the organisation, alongside and inside marketing and strategy discourse. Measures of accounting, such as the ratio of cost to income, are crucial as, for instance, strategy uses them (intensive significance). 'Old' accounting is still out there but now it is more than that (extensive significance). From the traditional roles, preparation of external reports and preparation of the budget, accounting is migrating outside the accounting department, for instance through the SOI, and specially with the development of the new MIS that includes the ABC system.

The study provides new insights into how management accounting practices and discourses, along with other organisational systems, play an important role questioning, visualising, analysing, and measuring implemented strategies. These practices and discourses have an important influence on strategic decision-making, and help to legitimise action. As the language and practice of management have shifted towards strategy and marketing discourses, patterns of work, organisation and career are being restructured. Consequently, there are tensions and a feeling of insecurity inside the bank.

Tensions, for instance, between the branch network and central departments, and between staff with experience and a young, flexible and more educated generation. Redundancies, IT innovations, and several change initiatives undermined the sense of employment security that was a central aspect of the Portuguese banking culture.

There is an increased appreciation of the importance of accounting, since it is significant beyond its technical roles. Accounting is increasingly important in the 'doing' of management generally, including strategy and marketing. Accounting is contestable for it is a means of distributing new modes of acting and thinking/speaking across the organisation. Cost and resource levels become areas of conflict and debate (this is not necessary the same, since debate is not always conflictual). New discourses of value (e.g. in terms of value added) can be mobilised even as it becomes clear that precise measures of value added or profitability remain elusive or the subject of dispute.

7.3 Managerial implications

Theoretical and empirical insights derived from this study have several implications for managers. From the research, it becomes clear that the problem of power in the bank arises from non-co-operative behaviour of different departments. This is sometimes for opportunistic reasons, but at other times it is because of the different perspectives held by different departments concerning their missions. The implementation of an ABC system highlighted the tension between the accounting and the organisation departments, in particular regarding who owned the relevant accounting. ABC was perceived as a system that could provide relevant information and it has overcome the barrier of accounting being the exclusive domain of the accounting department.

The issue of power is crucial for the development of initiatives such as ABC, since their needs are not initially defined in terms of resources and responsibilities, so there is a level of voluntarism in the behaviour of the participant departments. At Banco Lusitano they tried to overcome the power limitation in three ways. Firstly, the organisation department assumed responsibility for the project and followed its development closely. This signalled the importance of the project to the department, in particular for activity management. Secondly, the accounting department assumed co-responsibility in particular regarding questions related to costs. This helped to prevent a clear dispute between the departments. Thirdly, all departments relevant to the project were induced to get involved in its development. This was important because ABC was imposing a new culture, associated with visibility of costs and redundancy.

The project initiators were managers from the organisation department. However, there were difficulties in building top management support. The ABC project was not initially recognised as a strategic initiative and the accounting department was perceived as creating barriers to its development. These difficulties, associated with the existence of other projects considered priorities – the Euro and the Year 2000 projects, were the main reasons for the delay of two years. After gaining top management support, the problem was creating and maintaining organisational support for the initiative. The conflict between the accounting and organisation departments had a significant impact on the implementation of ABC. The lack of a clear supportive attitude, namely through the involvement of someone from top management, made the 'turf wars' between the two departments the central issue, while other factors identified by the literature as key to a successful implementation become secondary. In this sense, the research shows that to understand fully the effects of change it is necessary to consider organisational context,

power structures and involvement (cf. Markus and Pfeffer, 1983; Malmi, 1997). Resistance to a new MAS like ABC may be due to its non-consonance with the distribution of intra-organisational power in organisations

In practical terms, the model of key factors (see Appendix I) can be used as a checklist as managers are thereby more likely to implement ABC successfully in the presence of those factors. Top management support and commitment is considered the key factor in the success of ABC implementation. Consensus about clarity of the objectives of ABC is necessary to ensure that the information that can be produced by the ABC system is efficiently and effectively used. Non-accounting ownership, integration with performance evaluation and compensation, and integration with competitive strategies such as TQM/quality initiatives and JIT/speed initiatives are important factors in obtaining organisational support. The process of designing and implementing an ABC system requires adequate resources and training. Technical problems are considered relatively insignificant compared with the organisational factors mentioned. Nevertheless, the considerable indirect costs and the difficulties in obtaining volume outputs may undermine its effective value in practice.

Managers may find inconsistencies in the key factors model, since it does not recognise MAS as a powerful discipline/technique. It is important to check if the new MAS is consistent with the dominant organisational culture and if it respects the distribution of power in the organisation. If it is perceived as a threat, resistance will tend to emerge. This research raises awareness of the need for an approach that recognises accounting itself as a complex input to the change process management.

7.4 Research limitations and future directions

A few issues must be kept in mind when interpreting the results of this study. This research has several limitations that can be viewed as opportunities for further research. The first limitation is related to its being an intensive single case study. As a result, the findings can provide little basis for generalisation, although this is not the aim of a case study (Scapens, 1990; Yin, 1994). This research is not trying to 'do' generalisation, but offer one set of insights into possible patterns of 'accounting change' implementation, the 'limits of the possible'. Future research should attempt to replicate this study in different organisational settings. The second limitation of the research concerns the methodology. There is no such thing as an '*objective*' case study. Social systems are not natural phenomena, they 'must be *interpreted* by the researcher and, thus, case studies represent interpretations of the social reality' (Scapens, 1990:277). The aim of this research is to provide a rich contextualist study (Pettigrew, 1985) within accounting and change. This does not mean that the findings will in all respects be the same in all organisations. Instead the aim is to employ a rich case study, as suggested by Yin (1994) for the purposes of (1) describing complex events in some detail, (2) exploring and analysing the relevance of different models of accounting change and thus, (3) providing an explanation of such complexity. This study is seen as having some regular or regulatory effects, which may vary with context (cultural, economic, and social) far more than traditional studies looking to find underlying generalisable factors have typically looked to find. This study is therefore not 'objective', but it is also not purely a culturally relativist study, which ends up seeing everything as 'interpretativist'. At the same time the researcher needs to be open to the phenomena, and events of the particular context, and to the need to interpret what is done and said in that context.

Three further issues should be mentioned. First, access or subjects' views can often only be gained if confidentiality is assured. This situation may prevent the researcher from presenting a full picture of what has been found, as well as sometimes making it difficult to check the validity of evidence (e.g., when access to relevant material held in confidence is denied). Second, every case study is a 'translation' even if it is intralingual. However, in this case the issue of translation presents itself at the interlingual level too. The final issue relates with time constraints within the PhD. Delays in the implementation of the ABC system prevent the research further exploring the consequences of the implementation itself. Nevertheless, the research does not end here. It is important to continue the research, to broaden it, and to test the statements made in the research.

This study opens numerous potential routes for future research. First, it would be interesting to extend this analysis over time in Banco Lusitano, particularly the analysis of how ABC is used and what are its organisational and behavioural consequences. A second suggestion for further research concerns more intensive case studies in other national or European banks that have adopted or intend to adopt ABC or other MAS innovation, in order to improve the theoretical understanding of accounting's role in modern management. Inter-country comparisons of financial institutions could provide valuable information regarding how accounting change works in practice in different cultures. A final suggestion for further research would be to shift the focus from the organisational level to the industry level. In particular, the Portuguese financial sector, would be an interesting case study. Although its liberalisation process was one of the fastest in Europe – considering the starting point in terms of regulation and the pace of introduction of the changes towards the single European market for financial services –

the impact of the changes on financial institutions' MAS has not yet been analysed in depth.

Appendix I

Factors in ABC implementation

There are claims that the literature on activity accounting typically provides detailed technical advice on design and implementation of ABC systems, with insufficient attention given to the behavioural and organisational factors (Cooper *et al.*, 1992a; Argyris and Kaplan, 1994; Shields, 1995). However, more recent studies have identified important behavioural and organisational factors in ABC implementation: top management support, integration with competitive strategies, integration with performance evaluation and compensation, training, adequacy of resources, non-accounting ownership, and consensus and clarity of objectives (Shields and Young, 1989; Shields, 1995; Shields and McEwen, 1996; Foster and Swenson, 1997; Malmi, 1997; McGowan and Klammer, 1997; Krumwiede, 1998a, 1998b; Friedman and Lyne, 1999; Innes *et al.*, 2000). Studies also conclude that these variables have reinforcing and complementary roles, and their impact varies during the stages of ABC implementation (Anderson, 1995a; Krumwiede, 1998a).

1. Top management support

Previous research concludes that top management support and commitment is the most important factor in the success of ABC implementation (Cooper *et al.*, 1992a; Shields and Young, 1989; Shields, 1995; Shields and McEwen, 1996; McGowan and Klammer, 1997; Friedman and Lyne, 1999; Innes *et al.*, 2000). Shields and McEwen (1996) claim that this finding is consistent with the more general finding that almost all successful innovations require the support of top management. First, top management should focus resources, goals, and strategies on the implementation of ABC. Second, they can provide the

political help to reduce potential conflicts. Since innovations normally involve the modification of the existing power structure, employees are likely to resist unless specifically supported by top management. Third, top management must demonstrate commitment to ABC by using it as the basis for decision-making, performance measurement, control, or evaluation, and encouraging employees to use ABC information.

Finally, to implement the top management commitment, a 'champion' is important to drive the project and facilitate communication across the organisation (Shields, 1995; Foster and Swenson, 1997; McGowan and Klammer, 1997).

2. Integration with competitive strategies

Linkage to competitive strategies, such as TQM/quality initiatives and JIT/speed initiatives is also an important determinant of the success of an ABC implementation. Where such linkages are effectively built, ABC information is more likely to help organisations to achieve continuous improvement in terms of quality and time-base performance (Shields, 1995; Shields and McEwen, 1996).

3. Integration with performance evaluation and compensation

Shields and McEwen (1996) articulate that the importance of the linkage between ABC implementation and performance evaluation and compensation is natural because employees pay attention to things that affect their welfare. Since the system used to evaluate and compensate them affects their welfare, they will only be motivated to help ABC succeed if they believe that the resulting system fairly represents their performance (see also Shields, 1995; McGowan and Klammer, 1997).

4. Training

Training in designing and implementing ABC systems, and in using ABC information, is important to help employees understand how ABC differs from conventional MAS. It also increases non-accounting ownership, and provides a mechanism for employees to understand and accept ABC, and to feel comfortable with it (Shields and Young, 1989; Shields, 1995; Shields and McEwen, 1996; McGowan and Klammer, 1997).

5. Provision of adequate resources

The process of designing and implementing an ABC system requires adequate resources, either internal or external. Internal resources include the time and commitment of accountants, top management, and operating employees. External resources include software and consultants (Shields and McEwen, 1996; McGowan and Klammer, 1997; Friedman and Lyne, 1999).

Shield and McEwen (1996) conclude that internal resources are a very important factor for ABC success. However, their study also suggests that external consultants and technical characteristics, such as the type of software adopted and the extent to which stand-alone systems were developed, did not prove fundamental. Nevertheless, the use of high quality consultants can benefit the design of the system and provide training on ABC, if only because most companies have little internal expertise in ABC. Additionally, consultants can overcome problems with the lack of suitable accounting resources and staff time to install an ABC system, where staff are likely to have continuing commitments to their regular activities.

In their study, some companies had difficulties in committing enough resources to the implementation of ABC, because they have other competing uses for resources to which higher priority was given. This is frequently likely to be the case.

6. Non-accounting ownership

When ABC is owned only by accountants, there is a danger that it might be used only to satisfy their needs. In such circumstances other employees will tend not to support or use ABC. It is important, therefore, that non-accountants believe that the ABC system is of practical use to people such as themselves, not just to the accounting department. If non-accountants are involved in the initial decisions to invest in ABC, and in the design and implementation of ABC, they are more likely to support and promote the system, and be committed to its use (Shields and McEwen, 1996; Friedman and Lyne, 1999).

7. Consensus and clarity of objectives

Consensus on, and clarity of the objectives of, ABC is necessary to ensure that the information that can be produced by the ABC system is efficiently and effectively used. This requires that the objectives of the implementation process are clearly stated at the outset and shared by all in the organisation (Shields and Young, 1989; Cooper *et al.*, 1992a; McGowan and Klammer, 1997). Designing an ABC system is facilitated if there is a clear understanding of its objectives and how its information should be used. In fact, one major source of problems can be the existence of different objectives, such as ABC for product costing and ABC for cost management. The scope, rigour and sophistication vary considerably according to the purpose defined (Innes and Mitchell, 1998).

8. Other factors

A high level of IT sophistication seems to be an important factor in ABC implementation. However, according to the literature, higher levels of IT quality may either encourage or discourage ABC. Managers who are generally satisfied with the information provided by the existing systems may be reluctant to invest in ABC (Anderson, 1995a; Krumwiede, 1998a). On the other hand, companies with higher quality IT are claimed in the literature to have lower measurement costs (Cooper, 1988b).

Technical difficulties, including design complexity, resources allocation, lack of staff time, choice of activities, and the selection of cost drivers, can influence the successful implementation of an ABC system (cf. Innes and Mitchell, 1998; Anderson, 1995a; Shields, 1995). However, Shields (1995) recognises that technical issues regarding the implementation of ABC are not sufficient to ensure its success. Rather, they are viewed as relatively insignificant in comparison with the organisational factors. Innes and Mitchell (1998) highlight five of these problems related to the complexity of an ABC system: amount of resources required, accuracy in terms of data collection, many activities crossing departmental boundaries and areas of responsibility, priority given to other change initiatives, and the work involved in ABC design and implementation (see also Roberts and Silvester, 1996).

Appendix II

Interview Guide

Introduction

First let me introduce myself and explain a little about who I am and what I am doing.

My name is Rui Vieira. I am a lecture in ISCTE, where I teach management accounting. At the moment I am in England doing my PhD on management accounting in the banking sector. It involves a case study. The main purposes of my case study are: (1) to study the change process of the management information system in the bank; (2) to understand the environment of the change; and (3) to understand historically the change initiatives that have occurred at the bank since its reprivatisation.

After collecting some information at the bank, I am talking to people in various departments. I would like to reassure you that everything you say to me today will be kept in the strictest confidence. There will be no mention of names. In no way will individual comments be repeated such that they can be traced back to the person who made them. At the end of the project I will write a thesis to be presented to Warwick University (UK) and the bank will have access to it.

Our discussion will be focussed on your experience. It will help me with accuracy if I can tape our discussion. Only myself and eventually my supervisor will have access to the tape. Would that be ok?

The interview will last for an hour to an hour and a half. Would that be that ok?

I have a list of questions. These questions are really a guide; I don't have to stick rigidly to them, I will follow up what you have found interesting or important.

Before we start do you have any questions?

The first stage – research in Banco Lusitano

Career and work experience

First of all I'd like to ask you a little about your career history and your work.

How long have you worked for the bank?

What are your actual functions in the bank?

(Try to have his career history in the bank)

Department

What are the main activities of your department?

Which of those activities do you consider the most important?

What are the main objectives of the department? (short run / long run)

How are the objectives defined? Who defines them?

Which objective is the most important to you?

How is that objective quantifiable?

(If applicable – ask how those numbers are determined?)

Information from the Accounting Department

What kind of information do you receive from the Accounting Department?

(Ask to see a report)

How often do you receive information?

(Which is the most important info)

What kind of information do you receive relevant to decision-making?

[Profitability Model – usefulness, problems, ways to overcome them]

What kind of information do you receive relevant for planning, control and performance measurement?

What kind of information do you feel is necessary to your department that you do not have?

What kind of information do you give to the Accounting Department?

In what way do you think accounting numbers influence your department?

Systems of objectives and incentives (SOI)

How would you assess whether the department has worked well on something?
Are there formal incentive systems in the bank? How do they work in practice?
How are people affected by these systems?
(If only negatives mentioned – Are there any positives?)
(If only positives mentioned – Are there any negatives?)
Do you agree with the reward structure used? Why?
(If not – which criteria do you think would be better?)
What would you say promotion decisions are based on here?
How would you describe the 'successful' people in the bank?

Budget

How would you describe the budget process? Where does it start?
(Ask for formal documents describing the process)
What have been the most significant changes in the last few years?
How do you understand the term "owner of process" in the budget system?
What is the role of "the owner of the process" in the budget process?
What is the link between the budget and the SOI?
(If there isn't one – can this cause any problems?)
What impact will ABC have on the budget process?

Changes in the management information system

There are possible changes to the management information system.
What in your opinion are the major changes?
Who decided these changes? What input did you have [if any]?
In what way do you think the new system will improve the quality of the information available to your department?
(If ABC was not mentioned ask if he/she is aware of the possible implementation of ABC in the bank? What do you think are the main advantages of that new system to the bank? Do you expect any difficulties?) *Bank level/Department level (note choice)*
What changes would improve existing information for management?
[Levels of info/types of info/info content]

Change initiatives

AVA Project

Why this project?

What were the main advantages of the project for the bank? And for the department?

What were the main problems with the project?

What happened in the department as a result?

Which objectives do you think were not reached? Why?

Excellence Project

Why this project?

What were the main advantages of the project for the bank? And for the department?

What were the main problems with the project?

What happened in the department as a result?

Which objectives do you think were not reached? Why?

Efficiency Project

Why this project?

What are the main advantages of the project for the bank? And for the department?

What are the main problems with the project?

What is happening with this project?

In your opinion, in which areas is it important to improve? Why?

How are surplus workers identified?

How were workers' numbers reduced? Which was the most common way? *'Natural wastage'*

Has this process been a problem in the workplace?

The second stage – focusing on the ABC system

Implementation of Activity-Based Costing

What were the reasons that led the bank to adopt ABC?

How was ABC implemented? (Ask to see reports)

What is the situation of the project?

Team?	[Role of consultants / staff from the bank]
Target area?	[Operational Area? Why? What are the objectives? Pilot?]
What has been done?	[Describe it / Problems]
Next steps?	[What and when?]

How were activities defined?

How were cost drivers selected? Which cost drivers did you adopt?

What were the main difficulties in the implementation process of ABC?

What sort of problems are still unresolved regarding the ABC model?

What is the department involvement within the project?

What can you conclude so far? Are things going as planned? What changes were necessary to be made?

Consultants

How often have you seen consultants in relation to ABC project? Where were they from?

What was the role of the consultants before the start of the project implementation?

What were their roles during the implementation?

IT

What changes in terms of IT have happened recently?

Have you had consultants involved in IT changes? Where from?

What is the role of IT in the ABC project?

Do you consider IT as a potential problem in the ABC implementation? Why?

(If there are problems – can you explain them?)

Activity-Based Costing*

Were you involved with the definition of activities in your department?

How were activities defined in your department?

What were the difficulties in defining the activities?

How were standard times defined to perform each activity?

Do you think that activities and times defined in your department are:

An accurate reflection of work?

An effective means of managing / improving performance?

Conclusion

That's all my questions.

Is there anything I haven't asked that you expected me to ask or think I should know about?

Is there anything you would like to ask me?

Thank you very much...

---

* Questions prepared for departments not involved directly in the ABC team.

Interviews

Number	Date	Department	Position	Length (minutes)
1	July.1999	Operations executive department	General manager	90
2	July.1999	Corporate banking department	General manager	90
2a	July.1999	Corporate banking department	Employee	(*)
3	July.1999	Private banking department	Manager	90
3a	July.1999	Private banking department	Employee	(*)
4	July.1999	Strategic marketing department	Manager	45
5	July.1999	Commercial marketing department	Senior manager	65
6	July.1999	Municipals and institutional department	Manager	50
7	July.1999	Treasury and market research department	Manager	60
8	July.1999	Credit risks department	Senior manager	80
9	July.1999	Regional directorate	Regional director	75
10	July.1999	Branch	Manager	(**)
11	July.1999	Regional directorate	Regional director	45
12	July.1999	Personnel department	Senior manager	80
13	July.1999	Organisation department	Manager	60
14	July.1999	Organisation department	Senior manager	90
15	July.1999	Advisor to the board of directors (budget supremo)	General manager	90
16	July.1999	Organisation department	Senior manager	135
17	July.1999	International department	General manager	45
18	August.1999	Regional directorate	Regional director	90
19	August.1999	Branch	Manager	45
20	August.1999	Personnel department	General manager	45
21	July.2000	Accounting department	Manager	90
22	July.2000	Accounting department	Employee	75
23	July.2000	Personnel department	Senior manager	30
24	July.2000	Operations executive department	Manager	40
25	July.2000	Organisation department	Employee	70
26	July.2000	Organisation department	Employee	45
27	July.2000	Accounting department	General manager	90
28	July.2000	Organisation department	Employee	60
29	July.2000	Consultant company		90
30	August.2000	Regional directorate	Regional director	45
31	August.2000	IT company	Manager	135
32	August.2000	Operations executive department	General manager	45
33	August.2000	Organisation department	Manager	55
34	January.2001	Accounting department	Employee	120
35	January.2001	Accounting department	General manager	75
36	January.2001	Consultant company		90
37	January.2001	Organisation department	Employee	90
38	April.2001	Organisation department	Employee	55
39	April.2001	Organisation department	Employee	30

Notes:
(*) Additional interviews with staff from the same department with the purpose of clarify some issues. Interviews not tape-recorded. Notes were taken.
(**) The interviewee asked to not tape-record the interview. Notes were taken.

Total number of interviews – summary

Departments	*Number*	*Interviews*
Central departments		
Accounting department	5	21,22,27,34,35
Organisation department	10	13,14,16,25,26,28,33,37,38,39
Marketing department	2	4,5
Other central departments	14	1,2,2a,3,3a,6,7,8,12,17,20,23,24,32
Commercial network		
Regional directorates	4	9,11,18,30
Branches	2	10,19
Others		
Budget supremo	1	15
IT company	1	31
Consultant company	2	29,36

Other primary sources

Annual Report: Form 20-F (1997), Securities and Exchange Commission
Financial statements prepared according to Article 9 of Regulation S-X of the US Securities and Exchange Commission.

AVA Project: Internal Weekend Presentation (1993)
Slides presented by a senior manager of the accounting department

Consultancy Reports: AVA Project
Consultancy Reports: Excellence Project
Consultancy Reports: Efficiency Project
Consultancy Reports: MIS Project
Bank folders of consultancy reports on each change initiative.

Consultancy Reports: ABC Project
Copies of consultants presentation materials and output reports, given to the bank at the time of meetings (provided on average every two weeks during from January 2000 till April 2001).

Increase share capital documents
Releases and presentations of a proposed capital increase.

Report and Accounts (1996)
Report and Accounts (1997)
Report and Accounts (1998)
Report and Accounts (1999)
Report and Accounts (2000)
Report and Accounts (2001)
Financial statements of the bank and its group, prepared in accordance with accounting principles and practices, established by the Bank of Portugal, as applicable for the financial services sector ("Portuguese GAAP").

***Balanço Social* (1992-2001)**
Information about employees prepared to the Bank of Portugal.

Strategy day (2001)
Strategy day (2002)
Presentation materials, used during meetings where managers of the bank discussed the key strategic issues faced by the bank.

References

Abrahamson, Eric. 1991. "Managerial Fads and Fashions: The Diffusion and Rejection of Innovations." *Academy of Management Review* 16(3): 586-612.

———. 1996. "Management Fashion." *Academy of Management Review* 21(1): 254-85.

Alasuutari, Pertti. 1995. *Researching Culture: Qualitative Method and Cultural Studies.* London: Sage publications.

Alvesson, Mats and Kaj Sköldberg. 2000. *Reflexive Methodology: New Vistas for Qualitative Research.* London: Sage Publications.

Anderson, Shannon W. 1995a. "A Framework for Assessing Cost Management System Changes: The Case of Activity Based Costing Implementation at General Motors, 1986-1993." *Journal of Management Accounting Research* 7: 1-51.

———. 1995b. "Measuring the Impact of Product Mix Heterogeneity on Manufacturing Overhead Cost." *The Accounting Review* 70(3): 363-87.

Anderson, Shannon W. and S. M. Young. 1999. "The Impact of Contextual and Process Factors on the Evaluation of Activity-Based Costing Systems." *Accounting, Organizations and Society* 24(7): 525-59.

Anthony, Robert N. and Vijay Govindarajan. 1998. *Management Control Systems.* Boston, Massachusetts: Irwin:McGraw-Hill.

Antos, John. 1992. "Activity-Based Management for Service, Not-for-Profit, and Governmental Organizations." *Journal of Cost Management* 6(2): 13-23.

Argyris, Chris. 1985. *Strategy, Change and Defensive Routines.* Boston: Pitman.

———. 1990. "The Dilemma of Implementing Controls: The Case of Managerial Accounting." *Accounting, Organizations and Society* 15(6): 503-11.

Argyris, Chris and Robert S. Kaplan. 1994. "Implementing New Knowledge: The Case of Activity-Based Costing." *Accounting Horizons* 8(3): 83-105.

Armitage, Howard M. and Ron Nicholson. 1993. *Activity Based Costing: A Survey of Canadian Practice.* Issue Paper N. 3: Society of Management Accountants of Canada.

Armstrong, Peter. 1991. "Contradiction and Social Dynamics in the Capitalist Agency Relationship." *Accounting, Organizations and Society* 16(1): 1-25.

———. 2002. "The Costs of Activity-Based Management." *Accounting, Organizations and Society* 27(1-2): 99-120.

Ask, Urban, Christian Ax, and Sten Jönsson. 1996. "Cost Management in Sweden: From Modern to Post-Modern." Pp. 199-217 in *Management Accounting: European Perspectives*, Alnoor Bhimani. Oxford: Oxford University Press.

Associação Portuguesa de Bancos. 2001. *Boletim Informativo No. 27*. Lisboa: Associação Portuguesa de Bancos.

Atkinson, Anthony A. 1987. *Cost Estimation in Management Accounting - Six Case Studies*. Toronto: SMA.

Atkinson, Paul and Amanda Coffey. 1997. "Analysing Documentary Realities." Pp. 45-62 in *Qualitative Research: Theory, Method and Practice*, David Silverman. London: Sage Publications.

Babad, Yair M. and Bala V. Balachandran. 1993. "Cost Driver Optimization in Activity-Based Costing." *The Accounting Review* 68(3): 563-75.

Baker, C. R. and Mark S. Bettner. 1997. "Interpretive and Critical Research in Accounting: A Commentary on Its Absence from Mainstream Accounting Research." *Critical Perspectives on Accounting* 8(4): 293-310.

Balachandran, Bala V., Ramji Balakrishnan, and K. Sivaramakrishnan. 1997. "On the Efficiency of Cost-Based Decision Rules for Capacity Planning." *The Accounting Review* 72(4): 599-619.

Banco Comercial Português. 2000. *Annual Report*.

Banco Santader Central Hispano. 2000. *Annual Report*.

Bank of Portugal. 1997. *Annual Report*.

———. 2000. *Annual Report*.

Barley, Stephen R. 1995. "Images of Imaging: Notes on Doing Longitudinal Fieldwork." Pp. 1-37 in *Longitudinal Field Research Methods: Studying Processes of Organizational Change*, George P. Huber and Andrew H. Van de Ven. Thousand Oaks: Sage Publications.

Benders, Jos and Kees van Veen. 2001. "What's in a Fashion? Interpretative Viability and Management Fashions." *Organization* 8(1): 33-53.

Berlant, Debbie, Reese Browning, and George Foster. 1990. "How Hewlett-Packard Gets Numbers It Can Trust." *Harvard Business Review* 68(1): 178-83.

Berliner, Callie and James A. Brimson. 1988. *Cost Management for Today's Advanced Manufacturing: The CAM-I Conceptual Design*. Boston, Massachusetts: Harvard Business School Press.

Bermeo, Nancy. 1986. *The Revolution within the Revolution: Workers' Control in Rural Portugal*. Princeton: Princeton University Press.

Bescos, Pierre-Laurent and Mendoza Mendoza. 1995. "ABC in France." *Management Accounting (US), April*: 33-41.

Bhimani, Alnoor. 1993. "Indeterminacy and the Specificity of Accounting Change: Renault 1898-1938." *Accounting, Organizations and Society* 18(1): 1-39.

Bhimani, Alnoor and David Pigott. 1992. "Implementing ABC: A Case Study of Organizational and Behavioural Consequences." *Management Accounting Research* 3: 119-32.

Bjornenak, Trond. 1997. "Diffusion and Accounting: The Case of ABC in Norway." *Management Accounting Research* 8: 3-17.

Bjornenak, Trond and Falconer Mitchell. 1999. "A Study of the Development of the Activity-Based Costing Journal Literature 1987-1998." *Working Paper, University of Edinburgh.*

Blaikie, Norman. 1993. *Approaches to Social Enquiry*. Cambridge: Polity Press.

Bleeker, Ron. 2001. "Key Features of Activity-Based Budgeting." *Journal of Cost Management* 15(4): 5-20.

Block, Richard J. and Lawrence P. Carr. 1999. "Activity-Based Budgeting at Digital Semiconductor." *Journal of Cost Management* 13(6): 11-20.

Bloland, Harland G. 1995. "Postmodernism and Higher Education." *Journal of Higher Education* 66(5): 521-59.

Boons, Arnick A. M., Hanno J. E. Roberts, and Frans A. Roozen. 1992. "Contrasting Activity-Based Costing With the German/Dutch Cost Pool Method." *Management Accounting Research* 3: 97-117.

Borgstrom, Howard G. 2000. "Performance Management for Government Internal Services." *Journal of Cost Management* 14(3): 28-34.

Börjesson, Sofia. 1997. "A Case Study on Activity-Based Budgeting." *Journal of Cost Management* 10(4): 7-18.

Bork, Hans and Malcolm Morgan. 1993. "Is ABC Really a Need Not an Option?" *Management Accounting (UK), September*: 26-27.

Bourdieu, Pierre. 1988. *Homo Academicus*. Cambridge: Polity Press.

Boyce, Gordon. 2000. "Valuing Customers and Loyalty: The Rhetoric of Customer Focus Versus the Reality of Alienation and Exclusion of (Devalued) Customers." *Critical Perspectives on Accounting* 11(6): 649-89.

Bradford, Michael G. and W. A. Kent. 1977. *Human Geography, Theories and Their Applications*. Oxford: Oxford University Press.

Braverman, Harry. 1974. *Labour and Monopoly Capital: The Degradation of Work in the Twentieth Century*. New York: Monthly Review Press.

Brewer, Peter C. 1998. "National Culture and Activity-Based Costing Systems: A Note." *Management Accounting Research* 9: 241-60.

Briers, Michael and Wai F. Chua. 2001. " The Role of Actor-Networks and Boundary Objects in Management Accounting Change: A Field Study of an Implementation of Activity-Based Costing." *Accounting, Organizations and Society* 26(3): 237-69.

Brimson, James A. 1986. "How Advanced Manufacturing Technologies Are Reshaping Cost Management." *Management Accounting (US), March*: 25-29.

———. 1988. "Improvement and Elimination of Non-Value-Added Costs." *Journal of Cost Management* 2(2): 62-65.

———. 1991. *Activity Accounting: An Activity-Based Costing Approach*. New York: John Wiley & Sons.

Brimson, James A. and John Antos. 1999. *Driving Value Using Activity-Based Budgeting*. New York: John Wiley & Sons.

Brinker, Barry J. 1991. *Emerging Practices in Cost Management: 1992 Edition*. Boston, Massachusetts: Warren, Gorham & Lamont.

———. 1993. *Emerging Practices in Cost Management: 1993 Edition*. Boston, Massachusetts: Warren, Gorham & Lamont.

———. 1994. *Handbook of Cost Management: 1994 Edition*. Boston, Massachusetts: Warren, Gorham & Lamont.

Broadbent, Jane. 1992. "Change in Organisations: A Case Study of the Use of Accounting Information in the NHS." *British Accounting Review* 24: 343-67.

———. 2002. "Critical Accounting Research: A View from England." *Critical Perspectives on Accounting* 13(4): 433-49.

Broadbent, Jane and Richard Laughlin. 1998. "Resisting the "New Public Management": Absorption and Absorbing Groups in Schools and GP Practices in the UK." *Accounting, Auditing and Accountability Journal* 11(4): 403-35.

———. 1999. "The PFI: Clarification of a Future Research Agenda." *Financial Accountability and Management* 15(2): 95-114.

Bromwich, Michael. 1990. "The Case for Strategic Management Accounting: The Role of Accounting Information for Strategy in Competitive Markets." *Accounting, Organizations and Society* 15(1/2): 27-46.

Bromwich, Michael and Alnoor Bhimani. 1989. *Management Accounting: Evolution Not Revolution*. London: The Chartered Institute of Management Accountants- CIMA.

———. 1994. *Management Accounting: Pathways to Progress*. London: The Chartered Institute of Management Accountants - CIMA.

Bruggeman, Werner, Regine Slagmulder, and Dominique Waeytens. 1996. "Management Accounting Changes: The Beligian Experience." Pp. 1-30 in *Management Accounting: European Perspectives*, Alnoor Bhimani. Oxford: Oxford University Press.

Bruns, William J. and Robert S. Kaplan. 1987. *Accounting and Management: Field Study Perspectives*. Boston: Harvard Business School Press.

Burchell, Stuart, Colin Clubb, Anthony Hopwood, John Hughes, and Janine Nahapiet. 1980. "The Roles of Accounting in Organizations and Society." *Accounting, Organizations and Society* 5(1): 5-27.

Burns, John. 2000. "The Dynamics of Accounting Change: Inter-Play Between New Practices, Routines, Institutions, Power and Politics." *Accounting, Auditing and Accountability Journal* 13(5): 566-96.

Burns, John and Robert W. Scapens. 2000. "Conceptualizing Management Accounting Change: An Institutional Framework." *Management Accounting Research* 11(1): 3-25.

Burrell, Gibson and Gareth Morgan. 1979. *Sociological Paradigms and Organisational Analysis*. Aldershot: Ashgate Publishing.

Campbell, Robert J., Peter Brewer, and Tina Mills. 1997. "Designing an Information System Using Activity-Based Costing and the Theory of Constraints." *Journal of Cost Management* 11(1): 16-25.

Campi, John M. 1992. "It's not as easy As ABC." *Journal of Cost Management* 6(2):5-11.

Carlson, David A. and S. M. Young. 1993. "Activity-Based Total Quality Management at American Express." *Journal of Cost Management* 7(1): 48-58.

Chandler, A. D. 1977. *The Visible Hand*. Cambridge, MA: Harvard University Press.

Chenhall, Robert H. and Kim Langfield-Smith. 1998. "Adoption and Benefits of Management Accounting Practices: An Australian Study." *Management Accounting Research* 9: 1-19.

Chua, Wai F. 1986. "Radical Developments in Accounting Thought." *The Accounting Review* 61(4): 601-32.

———. 1988. "Interpretive Sociology and Management Accounting Research - A Critical Review." *Accounting, Auditing and Accountability Journal* 1(2): 59-79.

———. 1995. "Experts, Networks and Inscriptions in the Fabrication of Accounting Images: A Story of the Representation of Three Public Hospitals." *Accounting, Organizations and Society* 20(2/3): 111-45.

Clarke, Peter J., Nancy T. Hill, and Kevin Stevens. 1999. "Activity-Based Costing in Ireland: Barriers to, and Opportunities for Change." *Critical Perspectives on Accounting* 10(4): 443-68.

Coate, Charles J. and Karen J. Frey. 1999. "Integrating ABC, TOC, and Financial Reporting." *Journal of Cost Management* 13(4): 22-27.

Cobb, Ian, Christine Helliar, and John Innes. 1995. "Management Accounting Change in a Bank." *Management Accounting Research* 6: 155-75.

Cobb, Ian, John Innes, and Falconer Mitchell. 1992. *Activity-Based Costing - Problems in Practice*. London: The Chartered Institute of Management Accountants - CIMA.

———. 1993. "Activity-Based Costing Problems: The British Experience." *Advances in Management Accounting* 2: 63-68.

Cokins, Gary. 1999. "Using ABC to Become ABM." *Journal of Cost Management* 13(1): 29-35.

Committe, Bruce E. and D. J. Grinnell. 1992. "Predatory Pricing, The Price-Cost Test, Activity-Based Costing." *Journal of Cost Management* 6(3): 52-58.

Connolly, Tim and Gray Ashworth. 1994. "An Integrated Activity-Based Approach to Budgeting." *Management Accounting (UK), March*: 32-37.

Cooper, Randolph B. and Robert W. Zmud. 1990. "Information Technology Implementation Research: A Technological Diffusion Approach." *Management Science* 36(2): 123-39.

Cooper, Robin. 1987. "Does Your Company Need a New Cost System?" *Journal of Cost Management* 1(1): 45-49.

———. 1988a. "The Rise of ABC - Part I: What Is an ABC System?" *Journal of Cost Management* 2(2): 45-54.

———. 1988b. "The Rise of ABC - Part II: When Do I Need an ABC System?" *Journal of Cost Management* 2(3): 41-48.

———. 1989a. "The Rise of ABC - Part III: How Many Cost Drivers Do You Need and How Do You Select Them?" *Journal of Cost Management* 2(4): 34-46.

———. 1989b. "The Rise of ABC - Part IV: What Do ABC Systems Look Like?" *Journal of Cost Management* 3(1): 38-49.

———. 1990. "Explicating the Logic of ABC." *Management Accounting (UK), November*: 58-60.

———. 1992. "How Activity-Based Cost Systems Help Managers Implement New Strategic Directions." *Advances in Management Accounting* 1: 81-95.

———. 1994. "The Role of Activity-Based Systems in Supporting the Transition to the Lean Enterprise." *Advances in Management Accounting* 3: 1-24.

———. 1996. "Activity-Based Costing and the Lean Enterprise." *Journal of Cost Management* 9(4): 6-14.

Cooper, Robin and Robert S. Kaplan. 1988a. "How Cost Accounting Distorts Product Costs." *Management Accounting (US), April*: 20-27.

———. 1988b. "Measure Costs Right: Make the Right Decisions." *Harvard Business Review* 66(5): 96-103.

———. 1991. *The Design of Cost Management Systems: Text, Cases and Readings.* Englewood Cliffs, New Jersey: Prentice-Hall International.

———. 1992. "Activity-Based Systems: Measuring the Costs of Resource Usage." *Accounting Horizons* 6(3): 1-13.

———. 1998. "The Promise - and Peril - of Integrated Cost Systems." *Harvard Business Review* 76(4): 109-19.

Cooper, Robin, Robert S. Kaplan, Lawrence S. Maisel, Eileen Morissey, and Ronald M. Oehm. 1992a. *Implementing Activity-Based Cost Management: Moving From Analysis to Action.* New Jersey: Institute of Management Accountants.

———. 1992b. "From ABC to ABM." *Management Accounting (US), November*: 54-57.

Corbett, Thomas. 2000. "Throuhput Accounting and Activity-Based Costing: The Driving Factors Behind Each Methodology." *Journal of Cost Management* 14(1): 37-45.

Corkill, David. 1993. *The Portuguese Economy Since 1974.* Edinburgh: Edinburgh University Press.

———. 1994. "Privatization in Portugal." Pp. 215-27 in *Privatization in Western Europe: Pressures, Problems and Paradoxes*, Vicent Wright. London: Pinter Publishers.

———. 1999. *The Development of the Portuguese Economy: A Case of Europeanization.* London: Routledge.

Covaleski, Mark A. and Mark W. Dirsmith. 1990. "Dialectic Tension, Double Reflexivity and the Everyday Accounting Researcher: On Using Qualitative Methods." *Accounting, Organizations and Society* 15(6): 543-73.

Creswell, John W. 1998. *Qualitative Inquiry and Research Design: Choosing Among Five Traditions.* Thousand Oaks: Sage Publications.

Curtis, Carey C. and Lynn W. Ellis. 1997. "Balanced Scorecards for New Product Development." *Journal of Cost Management* 11(3): 12-18.

Datar, Srikant and Mahendra Gupta. 1994. "Aggregation, Specification and Measurement Errors in Product Costing." *The Accounting Review* 69(4): 567-91.

Dedera, Christopher R. 1996. "Harris Semiconductor ABC: Worldwide Implementation and Total Integration." *Journal of Cost Management* 10(1): 44-58.

Demski, Joel S. 1972. *Information Analysis*. Reading, MA: Addison-Wesley Publishing.

Denzin, Norman K. and Yvonna S. Lincoln. 1994. *Handbook of Qualitative Research*. Thousand Oaks: Sage Publications.

DiMaggio, Paul J. and Walter W. Powell. 1983. "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields." *American Sociological Review* 48: 147-60.

Donelan, Joseph G. and Edward A. Kaplan. 1998. "Value Chain Analysis: A Strategic Approach to Cost Management." *Journal of Cost Management* 12(2): 7-15.

Drucker, Peter F. 1963. "Managing for Business Effectiveness." *Harvard Business Review* 41(3): 53-60.

Drumheller, Harold K. 1993. "Making Activity-Based Costing Practical." *Journal of Cost Management* 7(2): 21-27.

Drury, Colin. 1989. "Activity-Based Costing." *Management Accounting (UK), September*: 60-66.

Drury, Colin, Steve Braund, Paul Osborne, and Mike Tayles. 1993. *A Survey of Management Accounting Practices in UK Manufacturing Companies*. London: Chartered Association of Certified Accountants - ACCA.

Dunk, Alan S. 1989. "Management Accounting Lag." *ABACUS* 25(2): 149-55.

Dutta, Soumitra and Jean-François Manzoni. 1999. *Process Re-Engineering, Organizational Change and Performance Improvement*. London: McGraw-Hill.

Dyer, W. G. and Alan L. Wilkins. 1991. "Better Stories, Not Better Constructs, To Generate Better Theory: A Rejoinder to Eisenhardt." *Academy of Management Review* 16(3): 613-19.

Eisenhardt, Kathleen M. 1989. "Building Theories from Case Study Research." *Academy of Management Review* 14: 532-50.

———. 1991. "Better Stories and Better Constructs: The Case for Rigor and Comparative Logic." *Academy of Management Review* 16(3): 620-627.

———. 1995. "Building Theories From Case Study Research." Pp. 65-90 in *Longitudinal Field Research Methods: Studying Processes of Organizational Change*, George P. Huber and Andrew H. Van de Ven. Thousand Oaks: Sage Publications.

Eisenhardt, Kathleen M. and L. J. Bourgeois III. 1988. "Politics of Strategic Decision Making in High-Velocity Environments: Toward a Midrange Theory." *Academy of Management Journal* 31(4): 737-70.

Emore, James R. and Joseph Ness. 1991. "The Slow Pace of Meaningful Change in Cost Systems." *Journal of Cost Management* 4(4): 36-45.

Epstein, Mark J. and Jean-François Manzoni. 1998. "Implementing Corporate Strategy: From Tableaux De Bord to Balanced Scorecards." *European Management Journal* 16(2): 190-203.

Erickson, F. 1986. "Qualitative Methods in Research on Teaching." Pp. 119-61 in *Handbook of Research on Teaching*, Merlin C. Wittrock. New York: Macmillan.

European Central Bank. 1999a. *The Effects of Technology on the EU Banking Systems.* Frankfurt: European Central Bank.

———. 1999b. *Possible Effects of EMU on the EU Banking Systems in the Medium to Long Term.* Frankfurt: European Central Bank.

———. 2000. *Mergers and Acquisitions Involving the EU Banking Industry - Facts and Implications.* Frankfurt: European Central Bank.

European Commission. 1997. *The Economic and Financial Situation in Portugal: Portugal in the Transition to EMU.* Belgium: European Communities.

Euske, K. J. and A. Riccaboni. 1999. "Stability to Profitability: Managing Interdependencies to Meet a New Environment." *Accounting, Organizations and Society* 24(5/6): 463-81.

Ezzamel, Mahmoud. 1994a. "Organizational Change and Accounting: Understanding the Budgeting System in Its Organizational Context." *Organisation Studies* 15(2): 213-40.

———. 1994b. "From Problem Solving to Problematization: Relevance Revisited." *Critical Perspectives on Accounting* 5(3): 269-80.

Ezzamel, Mahmoud and Michael Bourn. 1990. "The Roles of Accounting Information Systems in an Organization Experiencing Financial Crisis." *Accounting, Organizations and Society* 15(5): 399-424.

Ezzamel, Mahmoud and Keith Hoskin. 1991. "Accounting, Writing and Money: From Mesopotamia and Ancient Egypt to the Modern Business Enterprise." *Paper Presented at the EIASM Workshop on Accounting in Its Organizational Context, Madrid, June.*

———. 2002. "Retheorizing Accounting, Writing and Money with Evidence from Mesopotamia and Ancient Egypt." *Critical Perspectives on Accounting* 13(3): 333-67.

Ezzamel, Mahmoud, Keith Hoskin, and Richard Macve. 1990. "Managing It All By Numbers: A Review of Johnsson & Kaplan's Relevance Lost." *Accounting and Business Research* 20(78): 153-66.

Ezzamel, Mahmoud, Simon Lilley, and Hugh Willmott. 1997. "Accounting for Management and Managing Accounting: Reflections on Recent Changes in the UK." *Journal of Management Studies* 34(3): 439-63.

Ezzamel, Mahmoud, Hugh Willmott, and Frank Worthington. 2001a. "Accounting, Organizational Transformation and Shareholder Value Creation." *Paper Presented at Warwick Business School, Accounting Research Seminar Series.*

———. 2001b. "Power, Control and Resistance in 'The Factory That Time Forgot'." *Journal of Management Studies* 38(8): 1053-79.

Feltham, Gerald A. 1972. *Information Evaluation.* Studies in Accounting Research, Volume No. 5: American Accounting Association.

Ferrara, William L. 1990. "The New Cost/Management Accounting - More Questions Than Answers." *Management Accounting (US), October*: 48-52.

Flick, Uwe. 1992. "Triangulation Revisited: Strategy of Validation or Alternative?" *Journal for the Theory of Social Behaviour* 22(2): 175-97.

———. 1998. *An Introduction to Qualitative Research.* London: Sage Publications.

Fligstein, Neil. 1990. *The Transformation of Corporate Control.* Cambridge: Harvard University Press.

———. 1991. "The Structural Transformation of American Industry: An Institutional Account of the Causes of Diversification in the Largest Firms, 1919-1979." Pp. 311-36 in *The New Institutionalism in Organizational Analysis*, Paul J. DiMaggio and Walter W. Powell. Chicago: University of Chicago Press.

Fligstein, Neil and Robert Freeland. 1995. "Theoretical and Comparative Perspectives on Corporate Organization." *Annual Review of Sociology* 21: 21-43.

Fontana, Andrea and James H. Frey. 1994. "Interviewing." Pp. 361-76 in *Handbook of Qualitative Research*, Norman K. Denzin and Yvonna S. Lincoln. Thousand Oaks: Sage Publications.

Foster, George and Charles T. Horngren. 1988. "Cost Accounting and Cost Management in a JIT Environment." *Journal of Cost Management* 1(4): 4-14.

Foster, George and Dan Swenson. 1997. "Measuring the Success of Activity-Based Costing Management and Its Determinants." *Journal of Management Accounting Research* 9: 109-41.

Foucault, Michel. 1972. *The Archeology of Knowledge.* London: Tavistock Publications.

———. 1977. *Discipline and Punish: The Birth of the Prison*. London: Allen Lane.

———. 1981. "The Order of Discourse." Pp. 48-78 in *Untying the Text*, Robert Young. London: Methuen.

Friedman, Andrew L. and Stephen Lyne. 1999. *The Success and Failure in the Implementation of Activity-Based Techniques: A Long Term Perspective*. London: The Chartered Institute of Management Accountants - CIMA.

Gammell, Frances and C. J. McNair. 1994. "Jumping the Growth Threshold Through Activity-Based Cost Management ." *Management Accounting (UK), September*: 37-46.

Gietzmann, Miles. 1991. "Implementation Issues Associated With Construction of an Activity-Based Costing System in an Engineering Components Manufacturer." *Management Accounting Research* 2: 189-99.

Gillham, Bill. 2000. *Case Study Research Methods*. London: Continuum.

———. 2000. *The Research Interview*. London: Continuum.

Glick, William H., George P. Huber, C. C. Miller, D. H. Doty, and Kathleen M. Sutcliffe. 1995. "Studying Changes in Organizational Design and Effectiveness: Retrospective Event Histories and Periodic Assessments." Pp. 126-54 in *Longitudinal Field Research Methods: Studying Processes of Organizational Change*, George P. Huber and Andrew H. Van de Ven. Thousand Oaks: Sage Publications.

Golden, Brian R. 1992. "The Past Is the Past - Or Is It? The Use of Retrospective Accounts as Indicators of Past Strategy." *Academy of Management Journal* 35(4): 848-60.

Gooderham, Gay. 2001. "The Top 10 Lessons of Implementing Performance Management Systems." *Journal of Cost Management* 15(1): 29-33.

Gordon, Ian H. 1998. *Relationship Marketing: New Strategies, Techniques and Technologies to Win the Customers You Want and Keep Them Forever*. Toronto: John Wiley & Sons.

Gosselin, Maurice. 1997. "The Effect of Strategy and Organizational Structure on the Adoption and Implementation of Activity-Based Costing." *Accounting, Organizations and Society* 22(2): 105-22.

Graham, L. 1992. "Legal and Administrative Studies. The State of the Art and the Pressures for Change in Portugal." *Unpublished Paper*.

Grasso, Lawrence P. 1997. "Is It Time to Revisit Zero-Based Budgeting?" *Journal of Cost Management* 11(2): 22-29.

Green, B. F., Felix Amenkhienan, and George Johnson. 1991. "Performance Measures and JIT." *Management Accounting (US), February*: 50-53.

Greenwood, Thomas G. and James M. Reeve. 1992. "Activity-Based Cost Management for Continuous Improvement: A Process Design Framework." *Journal of Cost Management* 5(4): 22-40.

Hayes, Robert H. and William J. Abernathy. 1980. "Managing Our Way to Economic Decline." *Harvard Business Review* 58(4): 67-77.

Hayes, Robert H., Steven C. Wheelwright, and Kim B. Clark. 1988. *Dynamic Manufacturing : Creating the Learning Organization.* New York: Free Press.

Hirsch, Maurice L. and Michael C. Nibbelin. 1992. "Incremental, Separable, Sunk, and Common Costs in Activity-Based Costing." *Journal of Cost Management* 6(1): 39-47.

Hofstede, Geert. 1993. "Cultural Constraints in Management Theories." *Academy of Management Executive* 7(1): 81-93.

Hooley, Graham and S. J. Mann. 1988. "The Adoption of Marketing by Financial Institutions in the UK." *Service Industries Journal* 8(4): 488-500.

Hopper, Trevor. 1994. "Activity Based Costing: A Critical Commentary." *Fukuoka University Review of Commercial Sciences* 39(1/2): 479-511.

Hopper, Trevor and Peter Armstrong. 1991. "Cost Accounting, Controlling Labour and the Rise of Conglomerates." *Accounting, Organizations and Society* 16(5/6): 405-38.

Hopper, Trevor, Linda Kirkham, Robert Scapens, and Stuart Turley. 1992. "Does Financial Accounting Dominate Management Accounting - A Research Note." *Management Accounting Research* 3: 307-11.

Hopper, Trevor, David Otley, and Bob Scapens. 2001. "British Management Accounting Research: Whence and Whither: Opinions and Recollections." *British Accounting Review* 33: 263-91.

Hopper, Trevor and Andrew Powell. 1985. "Making Sense of Research into the Organizational and Social Aspects of Management Accounting: A Review of Its Underlying Assumptions." *Journal of Management Studies* 22(5): 429-65.

Hopper, Trevor, John Storey, and Hugh Willmott. 1987. "Accounting for Accounting: Towards the Development of a Dialectical View." *Accounting, Organizations and Society* 12(5): 437-56.

Hopwood, Anthony G. 1978. "Towards an Organisational Perspective for the Study of Accounting and Information Systems." *Accounting, Organizations and Society* 3(1): 3-13.

———. 1983. "On Trying to Study Accounting in the Contexts in Which It Operates." *Accounting, Organizations and Society* 8(2/3): 287-305.

———. 1984. "Accounting and the Pursuit of Efficiency." Pp. 167-87 in *Issues in Public Sector Accounting*, Anthony G. Hopwood and Cyril Tomkins. Oxford: Philip Allan.

———. 1987. "The Archaeology of Accounting Systems." *Accounting, Organizations and Society* 12(3): 207-34.

———. 1990. "Accounting and Organisation Change." *Accounting, Auditing and Accountability Journal* 3(1): 7-17.

Hopwood, Anthony G. and Peter Miller. 1994. *Accounting As Social and Institutional Practice*. Cambridge: Cambridge University Press.

Hoque, Zahirul and Trevor Hopper. 1994. "Rationality, Accounting and Politics: A Case Study of Management Control in a Bangladeshi Jute Mill." *Management Accounting Research* 5: 5-30.

Horngren, Charles T. 1989. "Cost and Management Accounting: Yesterday and Today." *Journal of Management Accounting Research* 1: 21-32.

Hoskin, Keith. 1994. "Boxing Clever: For, Against and Beyond Foucault in the Battle for Accounting Theory." *Critical Perspectives on Accounting* 5(1): 57-85.

Hoskin, Keith and Richard Macve. 1986. "Accounting and the Examination: A Genealogy of Disciplinary Power." *Accounting, Organizations and Society* 11(2): 105-36.

———. 1988. "The Genesis of Accountability: The West Point Connection." *Accounting, Organizations and Society* 13(1): 37-74.

———. 1994. "Writing, Examining, Disciplining: The Genesis of Accounting's Modern Power." Pp. 67-97 in *Accounting As Social and Institutional Practice*, Anthony G. Hopwood and Peter Miller. Cambridge: Cambridge University Press.

———. 2000. "Knowing More As Knowing Less? Alternative Histories of Cost and Management in the USA and UK." *Accounting Historians Journal* 27(1): 91-149.

Howell, Robert A. and Stephen R. Soucy. 1988. "Management Reporting in the New Manufacturing Environment." *Management Accounting (US), February*: 22-29.

Hrisak, Dan. 1996. "The Controller as Business Strategist." *Management Accounting (US), December*: 48-49.

Huang, Li-Hua. 1999. "The Integration of Activity-Based Costing and the Theory of Constraints." *Journal of Cost Management* 13(6): 21-27.

Hubbell, William W. Jr. 1996a. "Combining Economic Value Added and Activity-Based Management." *Journal of Cost Management* 10(1): 18-29.

———. 1996b. "A Case Study in Economic Value Added and Activity-Based Management." *Journal of Cost Management* 10(2): 21-29.

Humphrey, Christopher and Robert W. Scapens. 1996. "Theories and Case Studies of Organizational Accounting Practices: Limitation or Liberation?" *Accounting, Auditing and Accountability Journal* 9(4): 86-106.

IMF. 1998. *Portugal: Selected Issues and Statistical Appendix.* Washington: International Monetary Fund.

Innes, John and Falconer Mitchell. 1990a. *Activity-Based Costing: A Review with Case Studies.* London: The Chartered Institute of Management Accountants - CIMA.

———. 1990b. "The Process of Change in Management Accounting: Some Field Study Evidence." *Management Accounting Research* 1(1): 3-19.

———. 1991a. "ABC: A Survey of CIMA Members." *Management Accounting (UK), October* :28-30.

———. 1991b. *Activity Based Cost Management: A Case Study of Development and Implementation.* London: The Chartered Institute of Management Accountants - CIMA.

———. 1992. *Activity Based Costing: Problems in Practice.* London: The Chartered Institute of Management Accountants - CIMA.

———. 1995. "A Survey of Activity-Based Costing in the UK's Largest Companies." *Management Accounting Research* 6:137-53.

———. 1997. "An Application of Activity-Based Costing in the UK's Largest Financial Institutions." *The Service Industries Journal* 17(1): 190-203.

———. 1998. *A Practical Guide To Activity-Based Costing.* London: The Chartered Institute of Management Accountants - CIMA.

Innes, John, Falconer Mitchell, and Donald Sinclair. 2000. "Activity-Based Costing in the UK's Largest Companies: a Comparison of 1994 and 1999 Survey Results." *Management Accounting Research* 11: 349-62.

Israelsen, Poul. 1994. "ABC and Variability Accounting: Differences and Potential Benefits of Integration." *The European Accounting Review* 3(1): 15-48.

Israelsen, Poul, Michael Andersen, Carsten Rohde, and Poul E. Sørensen. 1996. "Management Accounting in Denmark: Theory and Practice." Pp. 31-53 in *Management Accounting: European Perspectives*, Alnoor Bhimani. Oxford: Oxford University Press.

Ittner, Christopher D., David F. Larcker, and Taylor Randall. 1997. "The Activity-Based Cost Hierarchy, Production Policies and Firm Profitability." *Journal of Management Accounting Research* 9: 143-62.

Jeans, Mike and Michael Morrow. 1989. "The Practicalities of Using Activity-Based Costing." *Management Accounting (UK), November*: 42-44.

Johnson, H. T. 1988. "Activity-Based Information: A Blueprint for World-Class Management Accounting." *Management Accounting (US), June*: 23-30.

———. 1990. "Activity Management: Reviewing the Past and Future of Cost Management." *Journal of Cost Management* 3(4):4-7.

———. 1991a. "Activity-Based Management: Past, Present, and Future." *The Engineering Economist, Spring* 36(3): 219-38.

———. 1991b. "Beyond Product Costing: A Challenge to Cost Management's Conventional Wisdom." Pp. A5.1-A5.7 in *Emerging Practices in Cost Management: 1992 Edition*, Barry J. Brinker. Boston, Massachusetts: Warren, Gorham & Lamont.

———. 1992a. *Relevance Regained: From Top-Down Control to Bottom-Up Empowerment*. New York: The Free Press.

———. 1992b. "It's Time to Stop Overselling Activity-Based-Concepts." *Management Accounting (US), September*: 26-35.

———. 1994. "Relevance Regained: Total Quality Management and the Role of Management Accounting." *Critical Perspectives on Accounting* 5(3): 259-67.

Johnson, H. T. and Anders Bröms. 2000. *Profit Beyond Measure: Extraordinary Results Through Attention to Work and People*. London: Nicholas Brealey Publishing.

Johnson, H. T. and Robert S. Kaplan. 1987. *Relevance Lost - The Rise and Fall of Management Accounting*. Boston, Massachusetts: Harvard Business School Press.

Johnson, H. T. and Dennis A. Loewe. 1987. "How Weyerhaeuser Manages Corporate Overhead Costs." *Management Accounting (US), August*: 20-26.

Johnson, H. T. and R. W. Sapp. 1992. "Memo to Global Competitors: It Is Time to Replace Cost Accounting With Process Based Information." Pp. 179-88 in *Economics of Advanced Manufacturing Systems*, Hamid R. Parsaei and Anil Mital. Chapman & Hall.

Joseph, Nathan, Stuart Turley, John Burns, Linda Lewis, Robert Scapens, and Alan Southworth. 1996. "External Financial Reporting and Management Information: A Survey of UK Management Accountants." *Management Accounting Research* 7: 73-93.

Kaplan, Robert S. 1984a. "The Evolution of Management Accounting." *The Accounting Review* 59(3): 390-418.

———. 1984b. "Yesterday's Accounting Undermines Production." *Harvard Business Review* 62(4): 95-101.

———. 1985. "Accounting Lag: The Obsolescence of Cost Accounting Systems." Pp. 195-226 in *The Uneasy Alliance: Managing the Productivity Technology Dilemma*, Kim B. Clark, Robert H. Hayes, and Christopher Lorenz. Boston, MA: Harvard Business School Press.

———. 1988. "One Cost System Isn't Enough." *Harvard Business Review* 66(1): 61-66.

———. 1990. "The Four-Stage Model of Cost Systems Design." *Management Accounting (US), February*: 22-26.

———. 1992. "In Defense of Activity-Based Cost Management." *Management Accounting (US), November*: 58-63.

———. 1994. "Flexible Budgeting in an Activity-Based Costing Framework." *Accounting Horizons* 8(2): 104-9.

———. 1998. "Innovation Action Research: Creating New Management Theory and Practice." *Journal of Management Accounting Research* 10: 89-118.

Kaplan, Robert S. and Robin Cooper. 1998. *Cost & Effect: Using Integrated Cost Systems to Drive Profitability and Performance*. Boston, Massachusetts: Harvard Business School Press.

Kaplan, Robert S. and David P. Norton. 1992. "The Balanced Scorecard - Measures That Drive Performance." *Harvard Business Review* 70(1): 71-79.

———. 1993. "Putting the Balanced Scorecard to Work." *Harvard Business Review* 71(5): 134-47.

———. 1996a. "Using the Balanced Scorecard as a Strategic Management System." *Harvard Business Review* 74(1): 75-85.

———. 1996b. *The Balanced Scorecard: Translating Strategy into Action*. Boston, Massachusetts: Harvard Business School Press.

———. 1997. "Why Does Business Need a Balanced Scorecard?" *Journal of Cost Management* 11(3): 5-10.

Kennedy, J. A. 1996. "ABC Basics." *Management Accounting (UK), June*: 22-24.

Keys, David E. 1994. "Tracing Costs in the Three Stages of Activity-Based Management." *Journal of Cost Management* 7(4): 30-37.

Kieser, Alfred. 1997. "Rhetoric and Myth in Management Fashion." *Organization* 4(1): 49-76.

Kotler, Philip. 1997. *Marketing Management: Analysis, Planning, Implementation and Control.* London: Prentice Hall International.

Krumwiede, Kip R. 1998a. "The Implementation Stages of Activity-Based Costing and the Impact of Contextual and Organizational Factors." *Journal of Management Accounting Research* 10: 239-77.

———. 1998b. "Why It's Tried and How It Succeeds." *Management Accounting (US), April*: 32-38.

Kvale, Steinar. 1996. *InterViews: An Introduction to Qualitative Research Interviewing.* Thousand Oaks: Sage Publications.

Lammert, Thomas B. and Robert Ehrsam. 1987. "The Human Element: The Real Challenge in Modernizing Cost Systems." *Management Accounting (US), July*: 32-37.

Latour, Bruno. 1987. *Science in Action: How to Follow Scientists and Engineers Through Society.* Milton Keynes: Open University Press.

Laughlin, Richard. 1991. "Environmental Disturbances and Organisational Transitions and Transformations: Some Alternative Models." *Organisation Studies* 12(2): 209-32.

———. 1995. "Empirical Research in Accounting: Alternative Approaches and a Case for "Middle-Range" Thinking." *Accounting, Auditing and Accountability Journal* 8(1): 63-87.

———. 1999. "Critical Accounting: Nature, Progress and Prognosis." *Accounting, Auditing and Accountability Journal* 12(1): 73-78.

Laughlin, Richard C. 1987. "Accounting Systems in Organisational Contexts: A Case for Critical Theory." *Accounting, Organizations and Society* 12(5): 479-502.

———. 1988. "Accounting in Its Social Context: An Analysis of the Accounting Systems of the Church of England, Accounting." *Accounting, Auditing and Accountability Journal* 1(2): 19-42.

Laughlin, Richard C. and E. A. Lowe. 1990. "A Critical Analysis of Accounting Thought: Prognosis and Prospects for Understanding and Changing Accounting Systems Design." Pp. 15-43 in *Critical Accounts*, David J. Cooper and Trevor M. Hopper. London: Macmillan.

Laughlin, Richard, Jane Broadbent, David Shearn, and Heidrun Willig-Atherton. 1994. "Absorving LMS: The Coping Mechanism of a Small Group." *Accounting, Auditing and Accountability Journal* 7(1): 59-85.

Lebas, Michel. 1994. "Managerial Accounting in France: Overview of Past Tradition and Current Practice." *The European Accounting Review* 3(3):471-87.

———. 1996. "Management Accounting Practice in France." Pp. 74-99 in *Management Accounting: European Perspectives* , Alnoor Bhimani. Oxford: Oxford University Press.

Lee, Tom. 1995. "Shaping the US Academic Accounting Research Profession: The American Accounting Association and the Social Construction of a Professional Elite." *Critical Perspectives on Accounting* 6(3): 241-61.

Lim, Gavin. 2000. "From Strategy, To Accounting - Accounting Practice and Strategic Discourse in the Telecommunications Inndustry." University of Warwick.

Llewellyn, Sue. 1992. "The Role of Case Study Methods in Management Accounting Research: A Comment." *The British Accounting Review* 24:17-31.

Loft, Anne. 1986. "Towards a Critical Understanding of Accounting: The Case of Cost Accounting in the UK, 1914-1925." *Accounting, Organizations and Society* 11(2): 137-69.

———. 1988. *Understanding Accounting in Its Social and Historical Context: The Case of Cost Accounting in Britain, 1914-1925*. New York: Garland Publishing.

———. 1994. "Accountancy and the First World War." Pp. 116-37 in *Accounting As Social and Institutional Practice*, Anthony G. Hopwood and Peter Miller. Cambridge: Cambridge University Press.

———. 1995. "The History of Management Accounting: Relevance Found." Pp. 21-44 in *Issues in Management Accounting* , 2nd ed. David Ashton, Trevor Hopper, and Robert W. Scapens. London: Prentice Hall.

Longman, Donald R. and Michael Schiff. 1955. *Distribution Cost Analysis*. Homewood: R. D. Irwin.

Lopes, José d. S. 1996. "A Economia Portuguesa Desde 1960." Pp. 233-364 in *A Situação Social Em Portugal, 1960-1995*, António Barreto. Lisboa: Instituto de Ciências Sociais.

Lowry, John F. 1990. "Management Accounting and Service Industries: An Exploratory Account of Historical and Current Economic Contexts." *ABACUS* 26(2): 159-84.

———. 1993. "Management Accounting's Diminishing Post-Industrial Relevance: Johnson and Kaplan Revisited." *Accounting and Business Research* 23(90): 169-80.

Lukka, Kari and Markus Granlund. 2002. "The Fragmented Communication Structure Within the Accounting Academia: The Case of Activity-Based Costing Research Genres." *Accounting, Organizations and Society* 27(1): 165-90.

Lukka, Kari and Eero Kasanen. 1996. "Is Accounting a Global or a Local Discipline? Evidence From Major Research Journals." *Accounting, Organizations and Society* 21(7/8): 755-73.

Mabberley, Julie. 1992. *Activity-Based Costing in Financial Institutions*. London: Pitman Publishing.

———. 1997. *Managing the Future in Financial Institutions: Meeting the Challenge With Better Information*. London: Pitman Publishing.

MacArthur, John B. 1992. "Activity-Based Costing: How Many Cost Drivers Do You Want?" *Journal of Cost Management* 6(3): 37-41.

———. 1996. "From Activity-Based Costing to Throughput Accounting." *Management Accounting (US), April*: 30-38.

Macintosh, Norman B. 1990. "Annual Reports in Ideological Role: A Critical Theory Analysis." Pp. 153-72 in *Critical Accounts*, David J. Cooper and Trevor M. Hopper. London: Macmillan.

———. 1994. *Management Accounting and Control Systems: An Organizational and Behavioral Approach*. Chichester: John Wiley & Sons.

Macintosh, Norman B. and Robert W. Scapens. 1990. "Structuration Theory in Management Accounting." *Accounting, Organizations and Society* 15(5): 455-77.

———. 1991. "Management Accounting and Control Systems: A Structuration Theory Analysis." *Journal of Management Accounting Research* 3: 131-58.

Malmi, Teemu. 1996. "Activity-Based Costing in Finnish Metal and Engineering Industries." *The Finnish Journal of Business Economics* 45: 243-64.

———. 1997. "Towards Explaining Activity-Based Costing Failure: Accounting and Control in a Decentralized Organization." *Management Accounting Research* 8: 459-80.

———. 1999. "Activity-Based Costing Diffusion across Organizations: An Exploratory Empirical Analysis of Finnish Firms." *Accounting, Organizations and Society* 24(8): 649-72.

Markus, M. L. and Jeffrey Pfeffer. 1983. "Power and the Design and Implementation of Accounting and Control Systems." *Accounting, Organizations and Society* 8(2-3): 205-18.

Marshall, Brent. 1995. "Activity-Based Costing at Wavin." *Management Accounting (UK), May*: 28-30.

Maskell, Brian H. 1989a. "MRP II or Just-in-Time: Which Way to Productivity." *Management Accounting (UK), January*: 34-35.

———. 1989b. "Performance Measurement for World Class Manufacturing." *Management Accounting (UK), May*: 32-33.

———. 1989c. "Performance Measurement for World Class Manufacturing 2." *Management Accounting (UK), June*: 32-33.

———. 1989d. "Performance Measurement for World Class Manufacturing 3." *Management Accounting (UK), July/August*: 48-50.

Mason, Billy. 1996. "Activity-Based Budgeting at Scottish Courage." *Management Accounting (UK), July/August*: 32-36.

Mason, Jennifer. 1996. *Qualitative Research*. London: Sage Publications.

McGowan, Annie and Thomas P. Klammer. 1997. "Satisfaction with Activity-Based Cost Management Implementation." *Journal of Management Accounting Research* 9: 217-37.

McNair, C. J., Richard L. Lynch, and Kelvin F. Cross. 1990. "Do Financial and Nonfinancial Performance Measures Have to Agree?" *Management Accounting (US), November*: 28-36.

McWilliams, Abagail and Donald Siegel. 1997. "Event Studies in Management Research: Theoretical and Empirical Issues." *Academy of Management Journal* 40(3): 626-57.

Mecimore, Charles D. and Alice T. Bell. 1995. "Are We Ready for Fourth-Generation ABC?" *Management Accounting (US), January*: 22-26.

Menzano, Ralph J. 1991. "Activity-Based Costing for Information Systems." *Journal of Cost Management* 5(1): 35-39.

Merchant, Kenneth A. and Michael D. Shields. 1993. "Commentary on When and Why to Measure Costs Less Accurately to Improve Decision Making." *Accounting Horizons* 7: 76-81.

Miles, Matthew B. and A. M. Huberman. 1994. *Qualitative Data Analysis*. Thousand Oaks: Sage Publications.

Miller, Gale. 1997. "Building Bridges: The Possibility of Analytic Dialogue between Ethnography, Conversation Analysis and Foucault." Pp. 24-44 in *Qualitative Research: Theory, Method and Practice*, David Silverman. London: Sage Publications.

Miller, Jeffrey G., Arnoud De Meyer, and Jinichiro Nakane. 1992. *Benchmarking Global Manufacturing*. Homewood, Illinois: Business One Irwin.

Miller, Jeffrey G. and Thomas E. Vollmann. 1985. "The Hidden Factory." *Harvard Business Review* 63(5): 142-50.

Miller, Peter. 1994. "Accounting As Social and Institutional Practice: An Introduction." Pp. 1-39 in *Accounting As Social and Institutional Practice*, Anthony G. Hopwood and Peter Miller. Cambridge: Cambridge University Press.

Miller, Peter and Ted O'Leary. 1987. "Accounting and the Construction of the Governable Person." *Accounting, Organizations and Society* 12(3): 235-65.

———. 1993. "Accounting Expertise and the Politics of the Product: Economic Citizenship and Modes of Corporate Governance." *Accounting, Organizations and Society* 18(2/3): 187-206.

———. 1994. "Governing the Calculable Person." Pp. 98-115 in *Accounting As Social and Institutional Practice*, Anthony G. Hopwood and Peter Miller. Cambridge: Cambridge University Press.

Ministry of Finance. 1998. *The Portuguese Economy: Stability and Growth.* Lisbon: Ministry of Finance.

———. 1999. *The Portuguese Economy: Stability and Growth.* Lisbon: Ministry of Finance.

———. 2001. *The Portuguese Economy: Innovation and Competitiveness.* Lisbon: Ministry of Finance.

Mintzberg, Henry. 1979. *The Structuring of Organizations: A Synthesis of the Research.* London: Prentice Hall.

Molinsky, Andrew L. 1999. "Sanding Down the Edges: Paradoxical Impediments to Organizational Change." *The Journal of Applied Behavioral Science* 35(1): 8-24.

Morgan, Gareth. 1988. "Accounting As Reality Construction: Towards a New Epistemology for Accounting Practice." *Accounting, Organizations and Society* 13(5): 477-85.

Morgan, Glenn and Andrew Sturdy. 2000. *Beyond Organizational Change: Structure, Discourse and Power in UK Financial Services.* London: Macmillan Press.

Morrow, Mike and Martin Hazell. 1992. "Activity Mapping for Business Process Redesign." *Management Accounting (UK), February*: 36-38.

Mouritsen, Jan. 1999. "The Flexible Firm: Strategies for a Subcontractor's Management Control." *Accounting, Organizations and Society* 24(1): 31-55.

Nanni, Alfred J., J. R. Dixon, and Thomas E. Vollmann. 1992. "Integrated Performance Measurement: Management Accounting to Support the New Manufacturing Realities." *Journal of Management Accounting Research* 4: 1-19.

Nanni, Alfred J., Jeffrey G. Miller, and Thomas E. Vollmann. 1988. "What Shall We Account For?" *Management Accounting (US), January*: 42-48.

Nataf, Daniel and Elizabeth Sammis. 1990. "Classes, Hegemony, and Portuguese Democratization." *Transitions From Dictatorship to Democracy: Comparative Studies of Spain, Portugal and Greece*, Ronald H. Chilcote, Stylianos Hadjiyannis, Fred A. López III, Daniel Nataf, and Elizabeth Sammis. New York: Taylor and Francis.

Neely, Andy and Chris Adams. 2001. "The Performance Prism Perspective." *Journal of Cost Management* 15(1): 7-15.

Neimark, Marilyn. 1990. "The King Is Dead. Long Live the King!" *Critical Perspectives on Accounting* 1(1): 103-14.

Neves, João C. d. 1994. *The Portuguese Economy: A Picture in Figures*. Lisbon: Universidade Católica Editora.

———. 1996. "Portuguese Postwar Groth: A Global Approach." Pp. 329-54 in *Economic Growth in Europe Since 1945*, Nicholas Crafts and Gianni Toniolo. Cambridge: Cambridge University Press.

Niven, Paul R. 2001. "Examining the Endurance of the Balanced Scorecard." *Journal of Cost Management* 15(3): 18-24.

Noreen, Eric. 1991. "Conditions Under Which Activity-Based Cost Systems Provide Relevant Costs." *Journal of Management Accounting Research* 3: 159-68.

OECD. 1996. *Putting Citizens First: Portuguese Experience in Public Management Reform*. Paris: Organisation for Economic Co-operation and Development.

———. 1999. *OECD Economic Surveys: Portugal*. Paris: Organisation for Economic Co-operation and Development.

———. 2001. *OECD Economic Surveys: Portugal*. Paris: Organisation for Economic Co-operation and Development.

Oliveira, Maria d. L., Maria J. Pais, and Belmiro G. Cabrito. 1997. *Introdução à Economia*. Lisboa: Texto Editora.

Ostrega, Michael R. 1990. "Activities: The Focal Point of Total Cost Management." *Management Accounting (US), February*: 42-49.

Otley, D. T. and A. J. Berry. 1994. "Case Study Research in Management Accounting and Control." *Management Accounting Research* 5: 45-65.

Otley, David. 1994. "Management Control in Contemporary Organizations: Towards a Wider Framework." *Management Accounting Research* 5: 289-99.

Patton, Michael Q. 1990. *Qualitative Evaluation and Research Methods*. Newbury Park: Sage Publications.

Peavey, Dennis E. 1990. "Battle at the GAAP? - It's Time for a Change." *Management Accounting (US), February*: 31-35.

Pettigrew, Andrew M. 1985. *The Awakeining Giant: Continuity and Change in ICI.* London: Blackwell.

———. 1987. "Context and Action in the Transformation of the Firm." *Journal of Management Studies* 24(6): 649-70.

———. 1990. "Longitudinal Field Research on Change: Theory and Practice." *Organization Science* 1(3): 267-92.

———. 1995. "Longitudinal Field Research on Change: Theory and Practice." Pp. 91-125 in *Longitudinal Field Research Methods: Studying Processes of Organizational Change*, George P. Huber and Andrew H. Van de Ven. Thousand Oaks: Sage Publications.

Pinho, Paulo. 2001. "Using Accounting Data to Measure Efficiency in Banking: An Application to Portugal." *Applied Financial Economics* 11: 527-38.

Pinto, A. M. 1996. "Changing Financial Systems in Small Open Economies: The Portuguese Case." Pp. 96-113 in *Changing Financial Systems in Small Open Economies*, Bank for International Settlements. Basle: Policy Papers No. 1.

Piper, J. A. and P. Walley. 1990. "Testing ABC Logic." *Management Accounting (UK), September*: 37-42.

———. 1991. "ABC Relevance Not Found." *Management Accounting (UK), March*: 42-54.

Player, R. S. and David E. Keys. 1995a. "Lessons From the ABM Battlefield: Getting Off to the Right Start." *Journal of Cost Management* 9(1): 26-38.

———. 1995b. "Lessons From the ABM Battlefield: Developing the Pilot." *Journal of Cost Management* 9(2): 20-35.

———. 1995c. "Lessons From the ABM Battlefield: Moving From Pilot to Mainstream." *Journal of Cost Management* 9(3): 31-41.

———. 1999. *Activity-Based Management: Arthur Andersen's Lessons from the ABM Battlefield.* New York: John Wiley & Sons.

Player, R. S. and Roberto Lacerda. 1999. *Arthur Andersen's Global Lessons in Activity-Based Management.* New York: John Wiley & Sons.

Pohl, Manfred and Sabine Freitag. 1994. *Handbook on the History of European Banks.* Aldershot: Edward Elgar Publishing Limited.

Porter, Michael E. 1980. *Competitive Strategy: Techniques for Analyzing Industries and Competitors.* New York: The Free Press.

———. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance.* New York: The Free Press.

Preston, Alistair M., David J. Cooper, and Rod W. Coombs. 1992. "Fabricating Budgets: A Study of the Production of Management Budgeting in the National Health Service." *Accounting, Organizations and Society* 17(5/6): 561-93.

Pryor, T. E. 1990. "Designing Your New Cost System Is Simple (but Not Easy)." *Journal of Cost Management* 3(4): 43-47.

Raffish, Norm and Peter B. B. Turney. 1991. "Glossary of Activity-Based Management." *Journal of Cost Management* 5(3): 53-62.

Reeve, James M. 1996. "Projects, Models, and Systems - Where Is ABM Headed?" *Journal of Cost Management* 10(2): 5-16.

Richardson, S., J. Cullen, and B. Richardson. 1996. "The Story of a Schizoid Organisation: How Accounting and the Accountant Are Implicated in Its Creation." *Accounting, Auditing and Accountability Journal* 9(1): 8-30.

Roberts, Alan. 1995. "Management Accounting in France." *Management Accounting (UK), March*: 44-46.

Roberts, John and Robert W. Scapens. 1985. "Accounting Systems and Systems of Accountability - Understanding Accounting Practices in Their Organisational Contexts." *Accounting, Organizations and Society* 10(4): 443-56.

Roberts, Michael W. and Katherine J. Silvester. 1996. "Why ABC Failed and How It May Yet Succeed." *Journal of Cost Management* 9(4): 23-35.

Robinson, Richard. 1979. *Contemporary Portugal: A History.* London: George Allen and Unwin.

Robson, Keith. 1992. "Accounting Numbers As "Inscription": Action at a Distance and the Development of Accounting." *Accounting, Organizations and Society* 17(7): 685-708.

Roslender, Robin. 1996. "Relevance Lost and Found: Critical Perspectives on the Promise of Management Accounting." *Critical Perspectives on Accounting* 7(5): 533-61.

Rotch, William. 1990. "Activity-Based Costing in Service Industries." *Journal of Cost Management* 4(2): 4-14.

Ryan, Bob, Robert W. Scapens, and Michael Thgeobald. 1992. *Research Method and Methodology in Finance and Accounting.* London: Academic Press.

Salafatinos, Chris. 1995. "Integrating the Theory of Constraints and Activity-Based Costing." *Journal of Cost Management* 9(3): 58-67.

Scapens, Robert W. 1990. "Researching Management Accounting Practice: The Role of Case Study Methods." *British Accounting Review* 22: 259-81.

———. 1991. *Management Accounting: A Review of Contemporary Developments.* London: Macmillan Education.

———. 1994. "Never Mind the Gap: Towards an Institutional Perspective on Management Accounting Practice." *Management Accounting Research* 5: 301-21.

Scapens, Robert W. and Norman B. Macintosh. 1996. "Structure and Agency in Management Accounting Research: A Response to Boland's Interpretive Act." *Accounting, Organizations and Society* 21(7/8): 675-90.

Scherrer, Gerhard. 1996. "Management Accounting: A German Perspective." Pp. 100-122 in *Management Accounting: European Perspectives*, Alnoor Bhimani. Oxford: Oxford University Press.

Schonberger, Richard J. 1986. *World Class Manufacturing: The Lessons of Simplicity Applied.* New York: Free Press.

Schultz, Randall L. and Denis P. Slevin. 1975. "Implementation and Organizational Validity: An Empirical Investigation." Pp. 153-72 in *Implementing Operations Research/Management Science*, Randall L. Schultz and Denis P. Slevin. New York: American Elsevier.

Schwandt, Thomas A. 1994. "Constructivist, Interpretivist Approaches to Human Inquiry." Pp. 118-37 in *Handbook of Qualitative Research*, Norman K. Denzin and Yvonna S. Lincoln. Thousand Oaks: Sage Publications.

Selto, Frank H. 1995. "Implementing Activity-Based Management." *Journal of Cost Management* 9(2): 36-49.

Sephton, Marcus and Trevor Ward. 1990. "ABC in Retail Financial Services." *Management Accounting (UK), April*: 29 and 33.

Shank, John K. and Vijay Govindarajan. 1989. *Strategic Cost Analysis: The Evolution From Managerial to Strategic Accounting.* Boston: Irwin.

———. 1993. *Strategic Cost Management: The New Tool for Competitive Advantage.* New York: The Free Press.

Shields, Michael D. 1995. "An Empirical Analysis of Firms' Implementation Experiences with Activity-Based Costing." *Journal of Management Accounting Research* 7: 148-66.

Shields, Michael D. and Michael A. McEwen. 1996. "Implementing Activity-Based Costing Systems Successfully." *Journal of Cost Management* 9(4): 15-22.

Shields, Michael D. and S. M. Young. 1989. "A Behavioral Model for Implementing Cost Management Systems." *Journal of Cost Management* 2(4): 17-27.

Shillinglaw, Gordon. 1982. *Managerial Cost Accounting*. Homewood: Richard D. Irwin, Inc.

———. 1989. "Managerial Cost Accounting: Present and Future." *Journal of Management Accounting Research* 1:33-46.

Shim, Eunsup and A. J. Stagliano. 1997. "A Survey of U.S. Manufacturers on Implementation of ABC." *Journal of Cost Management* 11(2): 39-41.

Silverman, David. 1997. "Introducing Qualitative Research." Pp. 1-7 in *Qualitative Research: Theory, Method and Practice*, David Silverman. London: Sage Publications.

———. 2000. *Doing Qualitative Research: A Practical Handbook*. London: Sage Publications.

———. 2001. *Interpreting Qualitative Data: Methods for Analysing Talk, Text and Interaction*. London: Sage Publications.

Simons, Robert. 1990. "The Role of Management Control Systems in Creating Competitive Advantage: New Perspectives." *Accounting, Organizations and Society* 15(1/2): 127-43.

Smith, Chris, Richard Whipp, and Hugh Willmott. 1988. "Case Study Research in Accounting: Methodological Breakthrough or Ideological Weapon?" *Advances in Public Interest Accounting* 2(95-120).

Soin, Kim. 1995. "Management Control in the Financial Services Sector." Pp. 283-98 in *Management Control: Theories, Issues and Practices*, Anthony J. Berry, Jane Broadbent, and David Otley. London: Macmillan.

———. 1996. "Organisational Change and the Introduction of Activity Based Costing in a UK Clearing Bank." Sheffield Hallam University.

———. 1998. "Organisational and Cultural Change in a UK Clearing Bank." Lugano, Switzerland: Paper presented at the Aidea Giovani Third International Conference: "Managing Across Borders: Cross cultural issues in Managerial Studies, June 4-6.

Spicer, Barry H. 1992. "The Resurgence of Cost and Management Accounting: A Review of Some Recent Developments in Practice, Theories and Case Research Methods ." *Management Accounting Research* 3: 1-37.

Stake, Robert E. 1994. "Case Studies." Pp. 236-47 in *Handbook of Qualitative Research*, Norman K. Denzin and Yvonna S. Lincoln. Thousand Oaks: Sage Publications.

———. 1995. *The Art Of Case Study Research*. Thousand Oaks: Sage Publications.

Staubus, George J. 1971. *Activity Costing and Input-Output Accounting*. Homewood: Richard D. Irwin, Inc.

———. 1990. "Activity Costing: Twenty Years On." *Management Accounting Research* 1: 249-64.

Stenzel, Catherine and Joe Stenzel. 2001. "From the Editors." *Journal of Cost Management* 15(1): 3-6.

Stewart, Ross E. 1992. "Pluralizing Our Past: Foucault in Accounting History." *Accounting, Auditing and Accountability Journal* 5(2): 57-73.

Stringer, Ernest T. 1993. "Socially Responsive Educational Research: Linking Theory and Practice." Pp. 141-62 in *Theory and Concepts in Qualitative Research: Perspectives from the Field*, David J. Flinders and Geoffrey E. Mills. New York: Teachers College Press.

Swenson, Dan. 1995. "The Benefits of Activity-Based Cost Management to the Manufacturing Industry." *Journal of Management Accounting Research* 7: 167-80.

Syfert, Pamela A. and Lisa B. Schumacher. 2000. "Putting Strategy First in Performance Management." *Journal of Cost Management* 14(6): 32-38.

Thor, Carl G. 2000. "The Evolution of Performance Measurement in Government." *Journal of Cost Management* 14(3): 18-26.

Tinker, Anthony and Marilyn Neimark. 1987. "The Role of Annual Reports in Gender and Class Contradiction at General Motors: 1917-1976." *Accounting, Organizations and Society* 12(1): 71-88.

Turney, Peter B. B. 1989. "Using Activity-Based Costing to Achieve Manufacturing Excellence." *Journal of Cost Management* 3(2): 23-31.

———. 1991a. *Common Cents: The ABC Performance Breakthrough.* Hillsboro: Cost Technology.

———. 1991b. "How Activity-Based Costing Helps Reduce Cost." *Journal of Cost Management* 4(4): 29-35.

———. 1993. "Beyond TQM: With Workforce Activity-Based Management." *Management Accounting (US), September*: 28-31.

———. 1996. *Activity Based Costing: the Performance Breakthrough.* London: Kogan Page / CIMA.

Turney, Peter B. B. and James M. Reeve. 1990. "The Impact of Continuous Improvement on the Design of Activity-Based Cost Systems." *Journal of Cost Management* 4(2): 43-50.

Vaivio. 1999. "Exploring a 'Non-Financial' Management Accounting Change." *Management Accounting Research* 10: 409-37.

Van Maanen, John. 1979. "The Fact of Fiction in Organizational Ethnography." *Administrative Science Quarterly* 24(4): 539-50.

Vatter, William J. 1945. "Limitations of Overhead Allocation." *The Accounting Review* 20(2): 163-76.

Virtanen, Kalervo, Teemu Malmi, Juhani Vaivio, and Eero Kasanen. 1996. "Drivers of Management Accounting in Finland." Pp. 54-73 in *Management Accounting: European Perspectives*, Alnoor Bhimani. Oxford: Oxford University Press.

Vollmers, Gloria L. 1996. "Academic Cost Accounting From 1929-1950: Alive and Well." *Journal of Management Accounting Research* 8: 183-99.

Wells, Murray. 1994. "Activity Based Costing - The State of the Game." *Unpublished Paper.*

Whittington, Richard and Richard Whipp. 1992. "Professional Ideology and Marketing Implementation." *European Journal of Marketing* 26(1): 52-63.

Wierseman, William H. 1996. "Implementing Activity-Based Management: Overcoming the Data Barrier." *Journal of Cost Management* 10(2): 17-20.

Williams, J. 1998. *Management Accounting Control Systems.* London: The Chartered Institute of Management Accountants - CIMA.

Williams, Paul F. and Jacci L. Rodgers. 1995. "The Accounting Review and the Production of Accounting Knowledge." *Critical Perspectives on Accounting* 6(3): 263-87.

World Bank. 1977. *Portugal: An Economy in Transition.* Washington: World Bank.

———. 1978. *Portugal: Agricultural Sector Survey.* Washington: World Bank.

Yin, Robert K. 1989. *Case Study Research.* London: Sage Publications.

———. 1994. *Case Study Research: Design and Methods.* Thousand Oaks: Sage Publications.

———. 1998. "The Abridged Version of Case Study Research - Design and Method." Pp. 229-59 in *Handbook of Applied Social Research Methods*, Leonard Bickman and Debra J. Rog. Thousand Oaks: Sage Publications.