

# MANAGEMENT ACCOUNTING: THEORY & PRACTICE

## LECTURE 9

# MANAGEMENT ACCOUNTING, SUSTAINABILITY & ORGANIZATIONAL CHANGE

Dr. M. Contrafatto

# CLASS SCHEDULE

10:00 - 10:10      BRAINSTORMING

10:10 - 11:00   M. ACCOUNTING, SUSTAINABILITY  
& ORGANIZATIONAL CHANGE

13:00- 14:15    WORKSHOP: HOW IS MA  
INVOLVED?

13:15- 15:00    GROUP PRESENTATION

# BRAINSTORMING

**WHAT IS SD?**

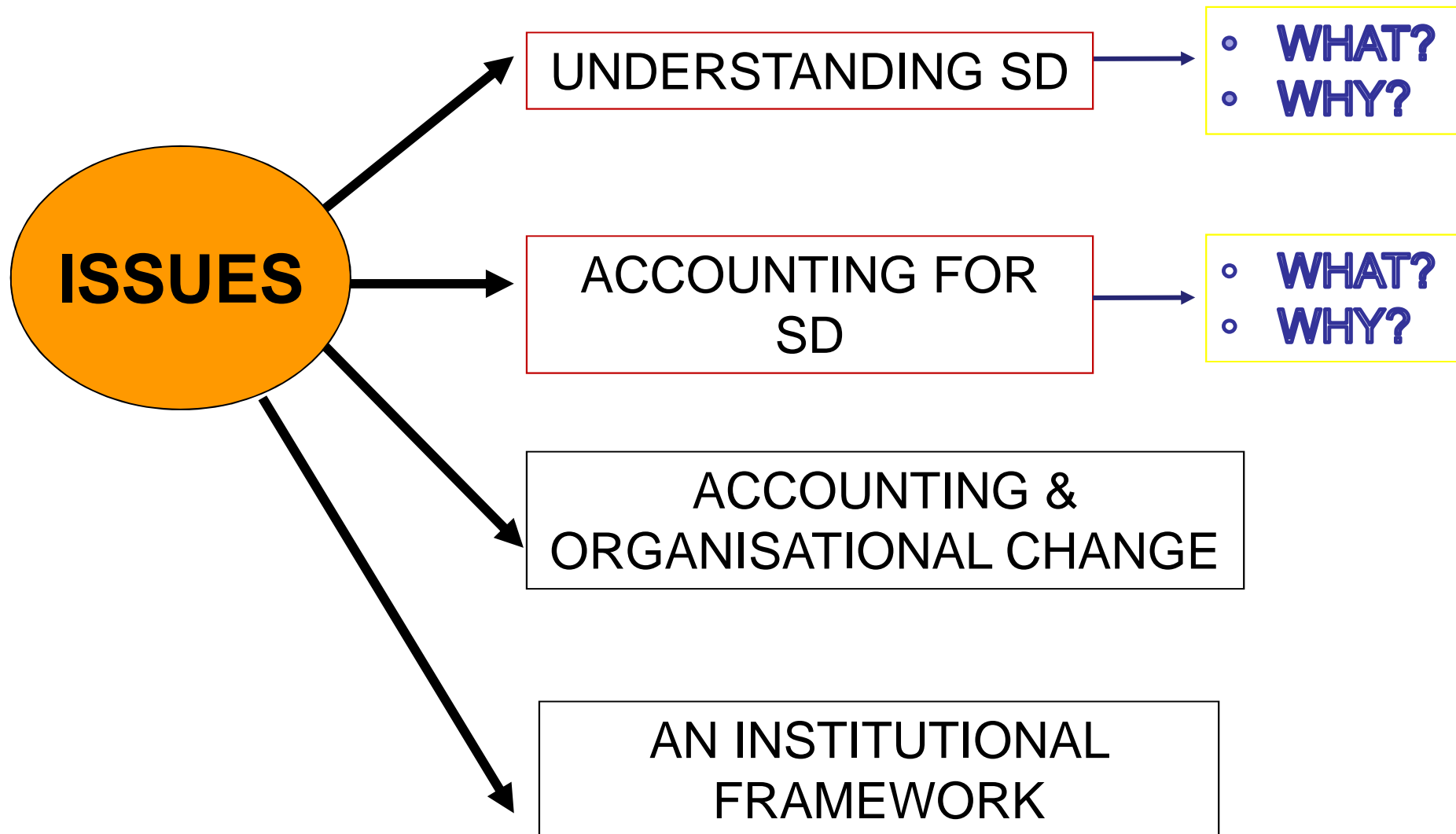
**WHY IS IT IMPORTANT?**

**M. ACCOUNTING  
FOR SD?**

**WHY ACCOUNTING  
FOR SD?**

**HOW IS  
M.ACCOUNTING  
INVOLVED?**

# FOCUS OF CLASS



# **SD: AN INTRODUCTION**

**WHAT ARE WE SPEAKING  
ABOUT?**

**WHAT IS THE PROBLEM?**

**WHY DO WE NEED TO SPEAK ABOUT THIS,  
IF AT ALL?**

# SD: THE ELEPHANT IN THE (BED)ROOMs?

**ECO-SYSTEM**

- EXTINCTION OF SPECIES
- GLOBAL WARMING & CLIMATE CHANGE
- ENVIRONMENTAL DEGRADATION

**SOCIO-ECONOMIC  
SYSTEMs**

**SUSTAINABLE  
DEVELOPMENT**

- Production
- Economic Growth
- Consumption

# SD: AN OMNIBUS DEFINITION (1)

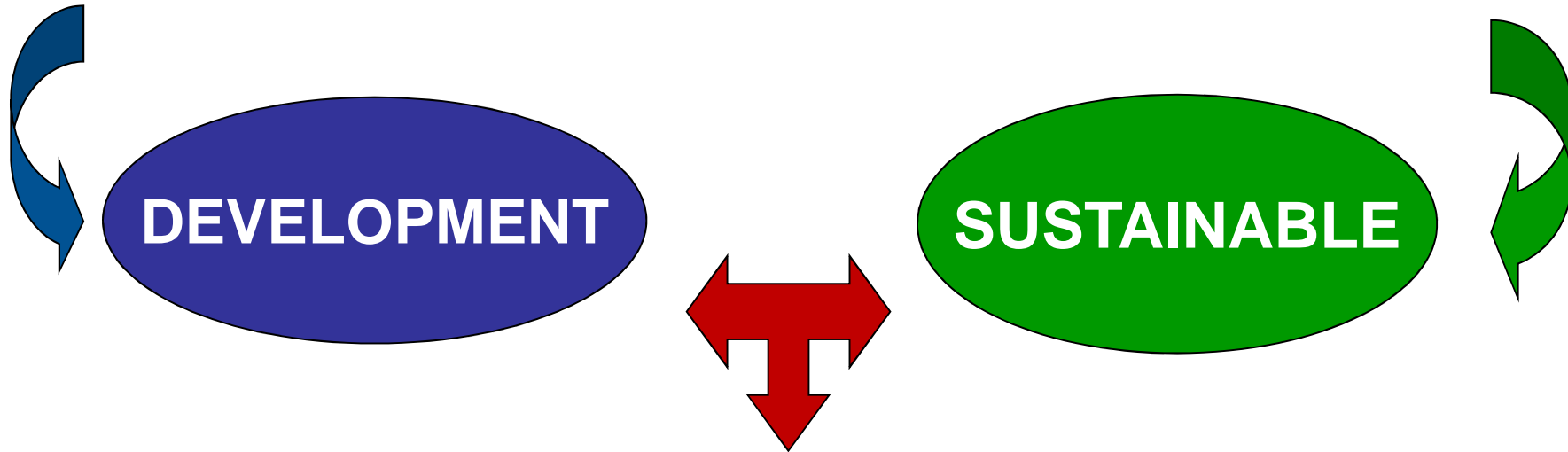
## SUSTAINABLE DEVELOPMENT\*



**“Development which meets the needs of the present without compromising the ability of the future generations to meet their own needs”  
(Brundtland Report *UNWCED*, 1987, p. 8)**

Development is not understood in simple economic or production terms but rather as means to satisfy the needs of individuals and to improve their living conditions.

## SD: AN OMNIBUS DEFINITION (2)



SD is “meeting the basic needs of *all* and extending to *all* the opportunity to fulfill their aspirations for a better world” (UNWCED, 1987, p.8)





# HOW TO GET THE ELEPHANT IN THE ROOM(S)? (1)

- SD is something to do with: justice, human rights, social welfare, development and issues which “embrace life and death” (Gray, 2013)
- What can we do? What is the role of us as accountants, students, citizens, etc?

*“We do what we can. And then we don’t sleep at night” (Gray, 2013).*

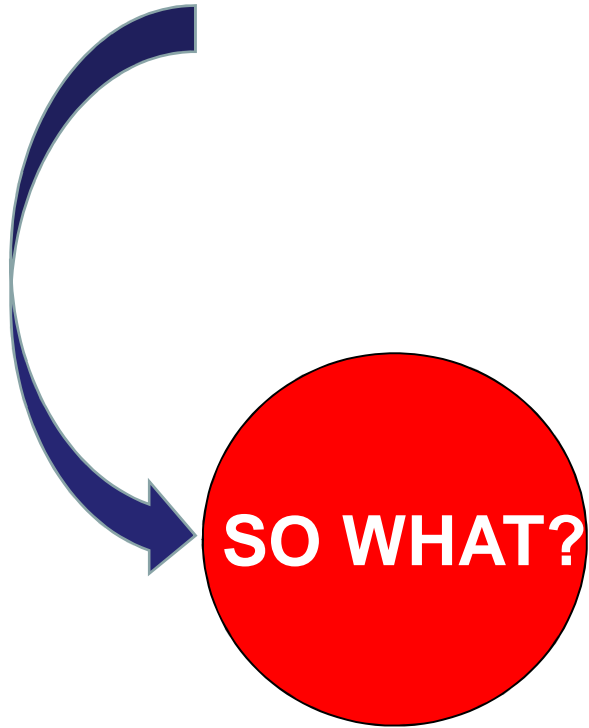
***IS THIS THE ONLY OPTION?***

## HOW TO GET THE ELEPHANT IN THE ROOM(S)? (2)

- Is there any “space” & “role” for Accounting?  
Which accounting? What about MA?
- Accounting *for (pro)* sustainability, i.e. accounting that embraces the challenges and conflicts posed by sustainability (Bebbington et al, 2007). What is missing is an accounting which is ‘at the service of’ (i.e. functional to) the urgent and important demands of sustainability (Contrafatto, 2013).

**(M) ACCOUNTING FOR (PRO) SD**

# ACCOUNTING FOR SD (1)



An accounting *for* sustainability should:

- (1) introduce, discuss and reflect on the (scary) data and problems related to (un)sustainability: e.g. climate change; inequality and human rights;
- (2) be “*transformative*” (Thomson & Bebbington, 2005) in how stakeholders understand, gain awareness & (may) act in their individual/ social undertakings to address such issues (Contrafatto, 2013).

# ACCOUNTING FOR SD: SO WHAT (1)?

*It was clear that the environmental reports provide a **window into the organizations-** the transparency- the account through which the **internal world of the company** was viewed by the outside world” (Gray et al, 1995).*

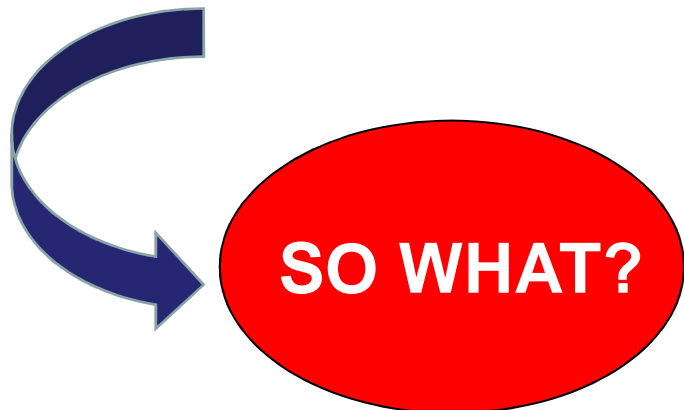
*Environmental accounting is representing a “window into” the organization, it could empower stakeholders and stimulate business change” (Larrinaga et al, 2001).*

# ACCOUNTING FOR SD: SO WHAT? (2)

- It is an ACCOUNTING FOR SD rather than ABOUT.
- SD poses fundamental challenges to current economic forms of organizations and ways of living in society.
- SD calls for *fundamental change* in societal and economic domains.
- *What is the role* of Accounting (MA, SA)?
- *How and to what extent*, does SA lead to change within organisations such that a less unsustainable way of operating may be pursued? (Bebb, 2007)

# ACCOUNTING & ORGANIZATIONAL CHANGE (1)


«We are deluding ourselves if we think that we can save the planet by sustainability accounting. Sustainability (accounting) & reporting will not save the planet. [...] However, the very act of providing accounts has the potential to *change behaviour*» (Buhr, 2007)

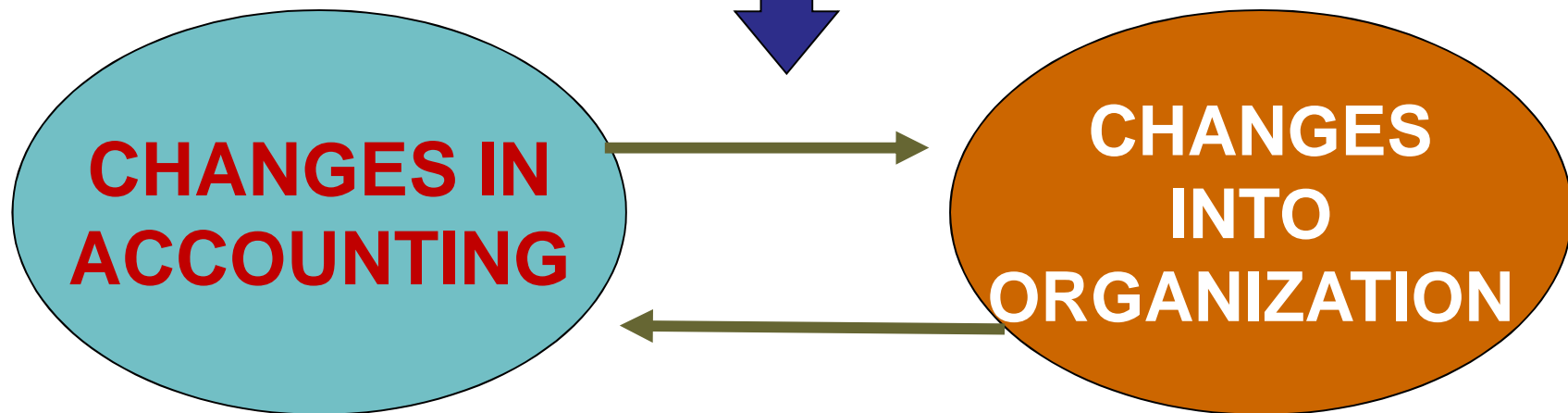


HOW & TO WHAT EXTENT IS SUST.  
ACCOUNTING INVOLVED IN  
CHANGES TOWARDS SD?

**ACCOUNTING & ORGAN. CHANGE (OG)?**

## ACCOUNTING & ORGANIZATIONAL CHANGE (2)

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- Literature shows that SA intervention produces effects on organizational change.
  - How can we understand these change dynamics?



## ACCOUNTING & ORGANIZATIONAL CHANGE (3)

- Relationships btw ACC & ORG CH could be seen in three different ways (Contrafatto, 2012):
  - i. ORG CH can promote/inhibit changes in ACC;
  - ii. CH in ACC can encourage change into ORG
  - iii. ORG CH & CH in ACC occur in a reflexive way.
- Nowadays, the “details of such relationships and **how** and **why** change comes about are still far from being clear” (Gray et al, 1995)



## ACCOUNTING & ORGANIZATIONAL CHANGE (4)

- Social ACC & Accountants seek to *think & identify* “better ways & new imaginings” (Gray, 2002) to **change** organisational & social behaviour towards SD.
- Examples of these better “ways” are:
  - educational programmes;
  - engagement with organisations;
  - silent and shadow accounts;
  - social audits and anti-reports;
  - Environmental M. ACC systems.

## ACCOUNTING & ORGANIZATIONAL CHANGE (5)

- The development & application of (management) accounting technologies (FCA, SAM, SR, EMA) can be seen as a form of engagement based on the assumption that if “new accounting” can be constructed and implemented then less unsustainable organizational practices may occur (Fraser, 2013).
- Several papers in SEAL attempted to investigate the implementation and role of *(social) accounting technology to enable (organizational) change (E.g)*

# ACCOUNTING & ORGANIZATIONAL CHANGE:

## Examples of papers (6)

- **Gray et al (1995):**
  - 27 interviews in UK and New Zealand
  - Laughlin's model of organizational change
  - How organizations changed in response to environmental agenda? NO morphogenetic
- **Larrinaga et al (2001):**
  - Interviews with 9 Spanish companies
  - Gray's study and Laughlin's model
  - The impact of ER on organizational change. NO morphogenetic.
- **Dey (2007):**
  - Ethnographic study at Traidcraft Plc.
  - Theories of change/appropriation and insight of deinstitutionalization
  - SA played a crucial role in driving organizational change.
- **Larrinaga & Bebbington (2001)**
- **Fraser (2013)**
  - Case study with a NZ city council. Focusing on effects of SAM
  - Laughlin's model & assemblage of factors
  - SAM intervention did not produce any substantial effects

## ACCOUNTING & ORGANIZATIONAL CHANGE: Contrafatto & Burns (2013)

- Paper investigates the reflexive relationships between SAR & ORG CH.
- It provides a narrative of the dynamics & effects of change(s) which occurred both: i) in the organization as a result of the adoption of SER; & ii) in SER as result of changes in organizational “domain”.

## CONTRAFATTO & BURNS'S PAPER: THEORETICAL FRAMEWORK (1)

- The paper draws on Laughlin's model of organisational change. In addition, insights from OIE (institutional theory) used to investigate the reflexive dynamics of change.
- Laughlin's model has been widely used in SEAL. This “skeletal framework” describes the change pathways which an organisation can follow as a response to external/internal jolts.

## CONTRAFATTO & BURNS'S PAPER: THEORETICAL FRAMEWORK (2)

- For Laughlin, organizations are an amalgam of: i) sub-systems; ii) design archetypes; interpretive schemes. This is held in equilibrium until disturbed by envir. disturbance.
- IS (most intangible elements) include: beliefs, values & norms; mission & purpose and metarules;
- DA (less intangible): include intangible structures (information systems such as accounting, policies, rules);
- SubS (tangible elements): buildings, behaviours, machines, people;

## CONTRAFATTO & BURNS'S PAPER: THEORETICAL FRAMEWORK (3)

- Organisations are stable open systems which dynamically adapt in response to environmental disturbance/jolts.
- An environmental disturbance will cause changes in the balance btw 3 components (e.g. legislation, changes in marketing expectations, etc);
- Role of accounting in bringing change (SAM, FC, EMA).
- L. distinguishes between 1° order change (morphogenetic) and 2° order change (morphostatic).

## CONTRAFATTO & BURNS'S PAPER: THORETICAL FRAMEWORK (4)

Laughlin (1991) distinguishes btw:

- inertia: no change;
- rebuttal: marginal change (design archetypes);
- re-orientation: changes in design archetypes & sub-systems but does not challenge the basic coherence of the organization.
- colonization: change is imposed (forced), is not-elected;
- *evolution*: affects interpretive schemes & is reached through open dialogue, consensus.



## CONTRAFATTO & BURNS'S PAPER: THEORETICAL FRAMEWORK (5)

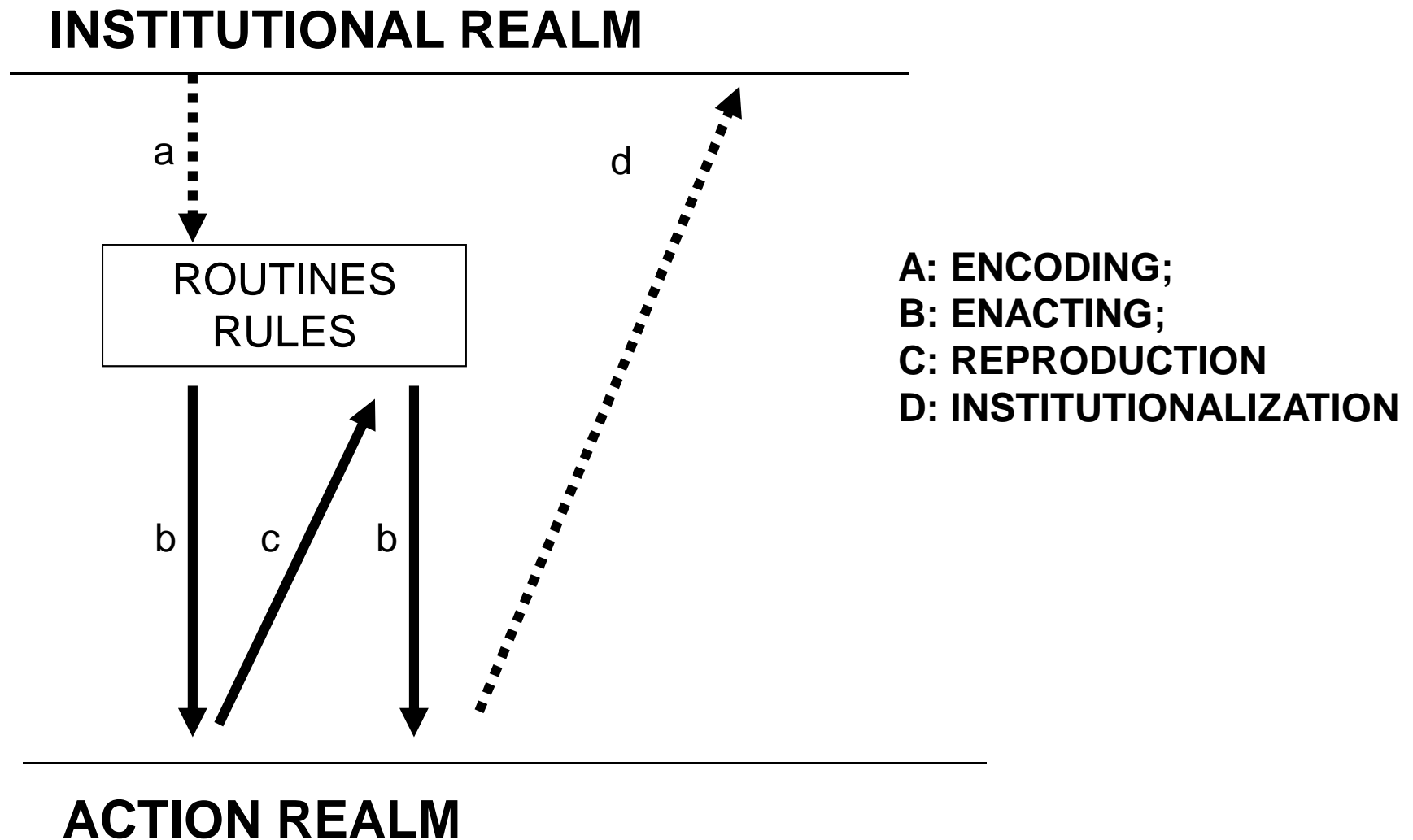
- B&S proposed a model to study “management accounting change” as a PROCESS (HOW & WHY?). This model is intended for studying change in (management) accounting practices into individual organization (INTRA-ORGANIZATIONAL PROCESS OF CHANGE)
- B&S management accounting systems & practices constitute stable routines & rules. Therefore if one wants to study MA change one should study changes in routines & rules.

## CONTRAFATTO & BURNS'S PAPER: THEORETICAL FRAMEWORK (6)

- Routines are the “patterns of thought & actions which are actually adopted by individuals”.
- Rules are “the formally recognized ways in which things should be done”.
- “IDLE CURIOSITY”: “the human tendency toward experimentation and innovation which generates novelty & impetus for change” (Veblen).

## BURNS & SCAPENS'S MODEL

# CONTRAFATTO & BURNS'S PAPER: THEORETICAL FRAMEWORK (7)



# ACCOUNTING & ORGANIZATIONAL CHANGE: SO WHAT?

- Several research projects conducted to explore the relationship between SAR & SD-related change
- Different frameworks & different results
- Accounting interventions produce some effects, although does not seem to impinge on the fibre and value of business organizations.
- Dynamics of change towards SD are more complex than usually depicted.