**An empirical analysis of the interaction between management accounting practices and organisational innovativeness**

**\*Dr. Peter Cleary, Dr. Margaret Healy & Ms. Eimear Walsh**

Department of Accounting, Finance & Information Systems,

University College Cork,

Cork, Ireland.

\*Tel: +353 21 4902967

\*E-mail: p.cleary@ucc.ie

**Abstract submitted for consideration to the:**

Management Accounting Research Group (MARG) Conference 2015,

Aston Business School,

Birmingham, England.

19th & 20th November, 2015.

**ORAL** presentation – **EMPIRICAL** paper.

**Abstract**

The ability of an organisation to innovate is generally regarded to be of paramount importance for their future survival and growth (Crossan & Apaydin, 2010; Saunila & Ukko, 2012). Innovation is therefore considered as a key strategic capability requiring a sustained collaborative effort across an organisation (Tushman & Nadler, 1986). Consequently, the process of innovation within firms’ is inextricably linked with their management accounting practices via their performance measurement system. However, extant research is not conclusive as to the influence of management accounting practices on organisational innovativeness (i.e., the propensity of organisational employees to freely embrace new ideas, methods and processes). For example, some researchers (e.g. Davila *et al.,* 2009a; Revellino & Mouritsen, 2009) argue that the process of innovation appears to benefit from there being a balance between ‘tight’ and ‘loose’ performance measurement controls, to provide both support and direction for the innovative activity. However, others (for example, Marginson, 2002; Davenport, 2006) have reported that performance metrics create tensions and constraints for the process of innovation within organisations. Based on these conflicting views and a general lack of research in this area, this study aims to explore the role of management accounting practices from the perspective of managing innovativeness within a high-technology organisation.

Using a case study approach, this paper empirically investigates the interaction between management accounting practices and organisational innovativeness, at one high-technology firm, from the individual perspectives of a variety of organisational actors representing a range of functional expertise (i.e. finance, customer support and innovation/research). A variety of secondary data sources (e.g. press releases, annual reports) were also used to triangulate the research outcomes.

In its findings, the paper describes the culture of innovation at the case study site, documents the use of performance metrics at the organisational and strategic levels and explores the challenges posed for the design of management accounting practices within innovative organisations in general. The research findings suggest that performance measurement is used both diagnostically and interactively at the case study site. From the former perspective, a wide variety of performance measures (for example, forecasting plans, management meetings) are used to monitor performance and influence future behaviours. From the latter perspective, these performance metrics are also used to foster employee learning whilst facilitating the creation of an environment within which innovative activity is encouraged to flourish.

The findings generated from the study are analysed using structuration theory (Giddens, 1984; Stones, 2005) so as to decipher how the use of management accounting practices are implicated in the innovativeness capabilities of the case study site. By adopting this approach, it allows the researchers to highlight how the use of management control systems can provide credence to the decisions taken by management within the organisation. This is due to the fact that management accounting practices are designed to produce outputs that are deemed to be of value to the firm, and hence, important for the firm’s future trading prospects (Macintosh, 1994).Dynamic tensions (Simons, 1995) evident at operational level between innovativeness and performance measurement are managed through the development of creative boundaries (“*guide rails*”), within which creative solutions must be developed. Control and creativity are synergistically harnessed towards creating customer value, with the performance measurement constraints acting as an enabler rather than a barrier to innovativeness. Based upon these findings, the contribution of this research project is supportive of the assertion that performance measurement metrics (i.e. management accounting practices) can potentially support organisational innovativeness (see for example, Revellino & Mouritsen, 2009; Davila *et al.*, 2009a; 2009b) and is therefore at odds with the contention that performance metrics create tensions and constrains for innovative activity (see for example, Marginson, 2002; Davenport, 2006). However, further research is needed to determine which specific management accounting practices can potentially contribute most in this regard.

**Key words:** innovativeness, management accounting practices, performance measurement, dynamic tension.

**Bibliography**

Crossan, M. and Apaydin, M. (2010), “A multi-dimensional framework of organisational innovation: A systematic review of the literature”, *Journal of Management Studies*, Vol. 47, No. 6, pp. 1154-1191.

Davenport, T. (2006), “Competing on Analytics”, *Harvard Business Review*, Vol. 84, No. 1, pp. 98-107.

Davila, A., Foster, G. and Li, M. (2009a), “Reasons for management control systems adoption: Insights from product development systems choice by early-stage entrepreneurial companies”, *Accounting, Organisations and Society*, Vol. 34, No. 3 & 4, pp. 322-347.

Davila, A., Foster, G., and Oyon, D. (2009b), “Accounting and Control, Entrepreneurship and Innovation: Venturing into New Research Opportunities”, *European Accounting Review*, Vol. 18, No. 2, pp. 281-311.

Giddens, A. (1984), The Constitution of Society, Cambridge: Polity Press.

Macintosh, N. (1994), Management Accounting and Control Systems, Wiley: Chichester, England.

Marginson, D. (2002), “Management control systems and their effects on strategy formation at middle-management levels: Evidence from a UK organisation”, *Strategic Management Journal*, Vol. 23, No. 11, pp. 1019-1031.

Revellino, S. and Mouritsen, J. (2009), “The Multiplicity of Controls and the Making of Innovation”, *European Accounting Review*, Vol. 18, No. 2, pp. 341-369.

Saunila, M. and Ukko, J. (2012), “Facilitating innovation capability through performance measurement: A study of Finnish SME’s”, *Management Research Review*, Vol. 36, No. 10, pp. 991-1011.

Simons, R. (1995), Levers of Control How Managers Use Innovative Control Systems to Drive Strategic Renewal, Boston, Massachusetts: Harvard Business School Press.

Stones, R. (2005), Structuration Theory, Hampshire: Palgrave Macmillan.

Tushman, M. and Nadler, D. (1986), Organizing for Innovation, California Management Review, 28(3), pp. 74-92; reprinted in Hart, S. (1996), New Product Development: A Reader, Chapter 26, pp. 449-466, Dryden Press.