

# **Power, Discourses and Accounting Change: The Implementation of Activity Based Costing in a Portuguese Bank**

**Rui Vieira**  
**Keith Hoskin**

## **Resumo:**

*This paper, based in a longitudinal case study of organisational change, explores the implementation process of an activity based costing (ABC) system in a Portuguese bank. It discusses several issues raised during the implementation, linking theory and practice, in line with Morgan and Sturdy (2000) framework that enables the exploration of the effect of accounting practices on change across time from three perspectives - changing structures, changing discourses and the effect of both of these processes on power relations. Located in a wider cultural change in Portuguese banking towards global (i.e. US derived) strategies and processes, but within an organizational world where older traditions remain powerful, the ABC project was not initially recognised as a strategic initiative. The lack of a clear supportive attitude, namely through the involvement of someone from top management, made the 'turf wars' between the departments involved the central issue, while other factors identified by the literature as key to a successful implementation become secondary. The research highlights that accounting becomes more visible in the organisation and so perceived, at the level of what people say and write, as important to it. 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.*

**Área temática:** *Gestão de Custos nas Empresas de Comércio e de Serviços*

## **Power, Discourses and Accounting Change: The Implementation of Activity Based Costing in a Portuguese Bank**

**Rui Vieira** (Universidade Nova de Lisboa – Portugal) [rui.vieira@fe.unl.pt](mailto:rui.vieira@fe.unl.pt)

**Keith Hoskin** (The University of Warwick – United Kingdom) [keith.hoskin@wbs.ac.uk](mailto:keith.hoskin@wbs.ac.uk)

### **Abstract**

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*Keywords: implementation of change, activity based costing, financial services, case study.*

*Thematic Area: Management of Costs in Commerce and Services Enterprises.*

### **1. Introduction**

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. 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 by shifting the focus from technical issues to the effect that behaviour issues have on ABC implementation (e.g. Shields and Young, 1989; Anderson, 1995; 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 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.

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, 1984; 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. 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.

This study aspires to make an empirical contribution to research into the development and implementation of ABC systems by observing the ebbs and flows in the implementation of such a system in a Portuguese bank. It looks to the changing banking context in the Portuguese financial services and how managers undergoing change use internal accounting system tools to facilitate the change process. The key research question of the present study is: ‘what were the dynamics around the ABC proposal as its implementation proceeded?’. Sub-questions derived from the main research question include: ‘what were the stated objectives when the new system was designed and how did the actual design and implementation conform to them?; Who were the key participants in the implementation and how did they participate?; what were the organisational and behavioural difficulties of the process?’. In order to answer these research questions, a qualitative research design has been adopted, and a longitudinal case study approach, based 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). Such an approach is concerned with how far accounting practices (and their underlying procedures, deploying writing, examining and quantification processes to render entities and individuals accountable) have change effects, both anticipated and unanticipated. The focus in this study was on changing structures, changing discourses and the effect of both of these processes on power relations.

Morgan and Sturdy (2000) 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). 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 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. As Morgan and Sturdy (2000:18-19) articulate,

‘[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’.

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 Hoskin, 1994, for a positive take on how Foucauldian work can complement Marx).

The research can therefore be classified as a longitudinal case study of organisational change, but one which considers that the case should be understood not purely synchronically, in terms of the observations and interviews undertaken as the ABC implementation was unfolding, but also diachronically, locating these current events in a longer organisational and cultural past. It can also be seen as a descriptive/exploratory case, given the extension of analysis to a new cultural context, and in this regard its objective may be taken as identifying possible reasons for the ways accounting practices change across time and space.

The paper has five main sections. In the following second section, it turns to consider the literature on the organisational and behavioural factors in the implementation of activity accounting and its development in the financial service sector. In the third section, after the presentation of methodology issues and the context in which the ABC system is being implemented, the implementation process is analysed. Section four discusses the organisational and behavioural problems faced by the organisation, and section five presents conclusions.

## **2. Activity Accounting in the Financial Services Sector**

The activity-based costing (ABC) literature provides ‘guidelines’ to help organisations implement ABC initiatives (e.g. Brimson, 1991) and identifies important behavioural and organisational factors in the ABC implementation. ABC principles are simple, but the design is complex and requires considerable effort and resource allocation. 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.*, 1992; 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, 1995; Krumwiede, 1998a).

Banking is 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'.

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 (1990) 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.

### **3. The Research Case: Background and Issues**

The case was undertaken in a Portuguese bank facing significant competing 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. To observe agreements of confidentiality for all research activities the bank will be named as 'Banco Lusitano'. The bank was nationalised following the fall of the Salazar regime in the 1970s, but 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 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.

Initial contact was made with the bank in early January 1998 through the accounting department. The initial purpose was to negotiate access. 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. 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, specially, the ABC project. The first stage of the main research was conducted during July and August 1999. It involved 22 open-ended interviews with members of the bank's central departments, and of regional and branch offices. The second stage of the field work was conducted between July 2000 and April 2001. The main data sources for studying the implementation of the ABC system were consultancy reports and memos, and 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. 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 tap-recorded. In one case, the interviewee did not give permission for the interview to be taped so notes were taken.

#### **3.1. Banco Lusitano**

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. The growing competitive pressure within the banking industry was set after Portugal has joined the European Community and following a period of financial deregulation. 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.

Banco Lusitano is a long-established Portuguese private bank, dating back in one manifestation to the XIX century. As such it has a considerable tradition of banking behind it, and many traditional ways of doing business. 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 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.

The bank was nationalised following the fall of the Salazar regime in the 1970s, but reprivated in the 1990s, at which point the original family regained control. 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).

The bank was 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.

### 3.2. 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). 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. The largest projects were the rationalisation carried out in the branch network (the Excellence Project) and in the central departments (the Efficiency Project):

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).

The Excellence Project 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.

In terms of 'efficiency-focused' projects to reduce operating expenses, the bank has 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 that turned the bank's attention to large-scale processes that crossed functional boundaries and forced a re-examination of the fundamental ways in which the bank operated. The main processes of the bank were studied and measured in terms of equivalent labour hours. 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. It also included the Efficiency Project, '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). 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 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.

This was not the extent of the change. In order to capture efficiencies, the IT function was outsourced (although, as has frequently occurred, it is not clear that this has been a total success). 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, 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.

### **3.3. Management Accounting Systems**

Accounting is migrating outside the accounting department. From the traditional roles, preparation of external reports and preparation of the budget, accounting is evolving through the system of objectives and incentives (SOI), and specially with the development of the new management information system (MIS) that includes the ABC 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 evolved version includes a 'tableau de bord' where special attention is paid to certain key targets, especially return on equity and the cost to income ratio. An effort to motivate managers to strive to achieve the budget goals led to the development of a SOI.

The SOI was introduced initially only for the commercial area 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 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 main problem was that the bank did not have the tools to calculate actual product margins. Consequently, 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'.

In 1999, a SOI was also created for central departments. Four types of targets were set. First, efficiency targets were set measured in terms of workforce reduction and redesign of processes. Secondly, cost targets were set measured in terms of budget execution. 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 January 1998 the bank, influenced by the consultancy firm involved previously in innovations, planned to start the implementation of ABC. 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) and the lack of comparability between information from different sources.

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 since 'the accounting department collects data by home branch, while all commercial data and effort is directed for the banking customer'.

Another problem that managers complained about was the delay in providing data. As one regional director 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'. 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 manager from the marketing department 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’.

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’.

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.

However, there were other more deep-seated reasons. It is obvious how there were power relations issues between departments, in particular 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...’.

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 from the organisation department 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’.

In January 2000 the bank finally started the implementation of ABC. The formal reason was that ABC could be a relevant data provider for the 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. A consultancy report claims that 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'. 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.

Another important aim (the most important for the organisation department) was Activity Based Management (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.

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. It was developed in several 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. 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 extension of the model to analyse activity in the central departments. The ABC team decided to create a specific model to deal with 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. 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 'negotiated drivers', i.e. what traditional overhead analysis understands as the 'arbitrary' apportionment or allocation of costs on a judgement basis. What the team had come up with was cost models for four separate areas of activity, which together produced an 'Aggregated Model'.

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. 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. These macro-activities could then be broken down at the level of a particular department into specific 'activities', thus encapsulating the core of the ABC philosophy. 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, thus the need to have a further division based on tasks (or third-level activities) for central departments.

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', 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 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].

The identification of 'activities' and the attachment of costs to those activities was in large part not seen as problematic. 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 and represented 18.1 per cent of the 1999 operating expenses.

Furthermore, 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 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.

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.

#### 4. Discussion

The overview analysis made in the previous section 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. 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.

There was 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. 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.

This therefore put the organisation department in a strong position to own the 'significant accounting', as the 'new' powerful department involved in all major change initiatives in Banco Lusitano since its re-privatisation. 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 from the organisation department 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’.

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. 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’.

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:

‘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’.

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. Often the comments were directed at failures or inadequacies, 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, by a manager from the organisation department:

‘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’.

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)’.

‘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’.

‘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’.

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’.

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’.

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’.

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’.

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’.

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’.

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'.

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'.

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'.

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'.

## 5. Conclusions

This paper 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'. Within this context the bank had to change due to these external factors but also due to internal drivers. ABC is part of the process of change hence at discourse level change is easier because it is being used by senior managers more easily. As a technology ABC is more problematic as it takes more problems to implement.

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, 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, 1995; 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.



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.

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). Failure to implement ABC is often attributable 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).

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.

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

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