

**MANAGEMENT ACCOUNTING,
ORGANIZATIONAL THEORY
AND CAPITAL BUDGETING**

Three Surveys

**Robert W. Scapens, David T. Otley,
Roger J. Lister**

Introduction by Anthony G. Hopwood and Michael Bromwich

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MACMILLAN **_____**
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Contents

1	Emerging Patterns of Management Accounting Research	1
	<i>Anthony G. Hopwood and Michael Bromwich</i>	
	The SSRC research initiative	4
	A variety of research traditions	5
	The juxtaposition of the technical and the organizational	6
	Some issues for the future	8
	Conclusion	11
	Notes	11
	References	12
2	Management Accounting – A Survey Paper	15
	<i>Robert W. Scapens</i>	
	Abstract	15
	The conventional wisdom	18
	Management accounting practice	35
	Recent research	39
	Agency theory research in management accounting	63
	Concluding summary	74
	Notes	75
	References	78
3	Management Accounting and Organization Theory: A Review of their Interrelationship	96
	<i>David T. Otley</i>	
	Preface	96
	Introduction	97
	Organization theory	102
	Review of published work	
	The use of organization theory in management accounting research	124
	Conclusions	138
	Notes	150
	References	151

4 Capital Budgeting: A Survey	165
<i>Roger J. Lister</i>	
Introduction	165
Evolution	166
Seminal theories	167
Risk and uncertainty	180
Agency theory	189
Subproblems	194
Constrained capital budgeting	199
Mergers	207
International capital budgeting	209
Inflation; taxation	211
Conventional accounting numbers	213
Capital budgeting and corporate modelling	213
Empirical surveys	218
Conclusions and future directions	220
References	225
<i>Index of Authors</i>	257
<i>Index of Subjects</i>	271

1 Emerging Patterns of Management Accounting Research

ANTHONY G. HOPWOOD
and MICHAEL BROMWICH

Management accounting has come to play an important role in modern organizational life. It is directly implicated in attempts to increase the efficiency of organizations by providing a basis for assessing the costs and benefits of actions, both actual and potential. It provides information which can often facilitate management decision-making. Of equal importance, management accounting systems have helped to further the implementation of particular organizational structures and patterns of responsibility (Chandler, 1962; Chandler and Daems, 1979). Not only has management accounting articulated powerful images of organizational missions, objectives and expectations (Batstone, 1979) but also it has come to be an influential source of information for the monitoring and assessment of actual achievements. *Indeed it is precisely in these ways that management accounting systems have become quite centrally involved in the running of organizations as we now know them. At their best, it is now understood that they can play a very positive role in helping to shape the views which organizational participants have of the significant, the problematic, the desirable and the possible.*

The development of the accounting craft, both managerial and financial, has tended to be a pragmatic endeavour. Organizations have responded to the pressures of their own circumstances when developing their management accounting systems. Innovations have arisen in the midst of attempts to grapple with increasing organizational size, complexity and diversity. Other management practices also have infiltrated and changed the accounting craft. Not least in significance, procedures for extending the scope of economic visibility, in which accounting plays a vital role (Becker and Neuhauser, 1975), repeatedly have been called upon to increase the awareness of economic ends and the constraints upon their achievement, particularly in times of both corporate and national restraint.

The net effect of these pragmatic developments is that in many important areas of practice the knowledge that is implicit in the design and operation

of management accounting systems is far more extensive than that which informs many more scholarly discussions. This is particularly so in respect of our understanding of such areas as the relationships between accounting system design and the creation of different organizational structures and the ways in which information systems are influenced and changed by developments in information technology.

However, management accounting as we now know it has not only emerged amid the specifics of organizational life. More abstract forms of knowledge also have had a role to play. The innovations made by particular organizations have been generalized and codified in the texts and manuals of a professionalized accounting. The ideas of management accounting have been propagated not only by the educational world but also by firms of consultants and indeed by agencies of the State. In ways such as these, a more general body of accounting knowledge has emerged. A state of the art has been created and is now reasonably well understood. Indeed such is the power of that more general body of knowledge that organizations can now be reformed in its name. Our understandings of accounting can be used to evaluate and to change the specific organizations which themselves gave birth to the accounting craft.

Even these more general understandings of accounting have often tended to emerge from the institutions of business and professional life however. Certainly more scholarly forms of inquiry have not had too significant a role to play. Having said that, research has not been without influence. It undoubtedly has changed our appreciation of some aspects of management accounting. The application of economic theory to the consideration of costs and costing has been quite important (Buchanan and Thirlby, 1973; Arnold and Scapens, 1981; Solomons, 1968), as have the analyses undertaken of such topics as the measurement of divisional performance (Amey, 1969; Solomons, 1965; and Tomkins, 1973) and the financial evaluation of investment proposals (see Bromwich, 1976). In all of these areas research has had some direct impact on practice, and it also has influenced more general views of the possibilities for practice and the means for their appraisal. Be that as it may, there still has been a tendency for research and practice in management accounting to reside in rather different domains, with each having a relatively ambiguous and nebulous relationship with the other.

At the present time there are signs that the distancing of the practical from the scholarly is being reconsidered however. Accounting researchers increasingly are interested in confronting the problems involved in understanding practice. There are also some signs that practitioners in turn, faced with the uncertainties of a more turbulent world, are starting to be aware of the need to appeal to more general appreciations of their craft.

Until recently most management accounting researchers had been content to devise different and often more analytical ways for appraising and improving accounting in practice. In the areas of costing, procedures for resource allocation, internal financial reporting or investment appraisal, the

aim had not been to confront the day-to-day intricacies of practice but rather to focus on the more general possibilities for its reform. Increasingly, however, researchers in the area have started to be much more aware not only of the contrast between their general understandings and the sheer diversity of management accounting in action, but also of the seeming resilience of practice to the alternatives which they have had to offer. The fact that practice has not been changed in the name of theory now is being seen as an interesting issue in itself rather than necessarily a manifestation of tradition, ignorance or the incapacity to change. Albeit slowly, the research community is starting to be interested in why practice is as it is, the factors that do induce it to change and the consequences that accounting actually has.¹ Practice, in other words, is coming to be seen in more appreciative terms. Instead of seeking only to reform it in the name of more general notions of what its concerns should be, researchers also are starting to investigate what the pragmatic craft of accounting might actually be about.

Many practitioners, on the other hand, are now aware of the need to see management accounting in more general terms. Confronted with the problems of a constrained economy, increased competition, inflation, accelerating technological change, an increasingly international business environment and, at times, demands to see the organization in more social terms, there has been a very definite tendency to reappraise the adequacy of traditional accounting practice. People have inquired whether conventional accountings can reflect into the organization with sufficient speed and accuracy all the unexpected changes in economic parameters that characterize business life today. Questions have been raised about the organizational rigidities which routinized flows of information can create. The constrained time horizons which can often result from an undue emphasis on short-term accounting reports also have been discussed, as has the need to complement today's economic and financial accounts with information on other strategic dimensions of an organization's business. In these and other ways practitioners have started to become more interested in the consequences that accounting actually has as well as those that it should have. Increasingly recognizing that accounting practice can only achieve its potential through mobilizing other human and social processes in the organization, many now realize that accounting cannot be seen in purely technical terms. Managerial, economic and organizational perspectives, and their integration with accounting, are being seen to be of direct relevance to understanding and improving the accounting craft.

With practitioners being more interested in accounting research and researchers in practice, it is an ideal time to review and assess the current state of research in the area. What perspectives have been emphasized? What topics investigated? More specifically, what contributions has research to offer? What are the directions that research inquiries are now taking? These in fact were some of the questions that underlay the commissioning of the present series of review papers by the Social Science Research Council.

Although not aiming to provide a comprehensive overview of even the management accounting area, together they nevertheless were meant to provide some insights into the state of the art of research in an area of growing importance.

THE SSRC RESEARCH INITIATIVE

Aware of both the significance of accounting and the shortage of systematic research into it, the Social Science Research Council launched an accounting research initiative in 1976. Building on the recommendations of the Tricker report on *Research in Accountancy – A Strategy for Further Research* (1975), the initiative sought to provide both general and specific stimuli to accounting research with earmarked funds being made available for particular areas of research, the establishment of research networks and the assessment of the current state of the research art. An important element of the latter interest was the commissioning of a series of national accounting research conferences, the last of which provided a substantive overview of the achievements of accounting research in the UK (Bromwich and Hopwood, 1981).

In the area of financial accounting, emphasis was placed on research into inflation accounting and the disclosure of information to employees and trade unions. A two-year professional fellowship was established in inflation accounting to enable a review of both the current state of knowledge in the area and the nature of the debates that had taken place in the UK in recent years (Whittington, 1981, 1983a, 1983b; Whittington and Tweedie, forthcoming). Further funds are now being committed to a series of studies which will monitor the achievements and consequences of the practical developments in the inflation accounting area. Recognizing the paucity of research into the contentious issue of disclosing information, both financial and otherwise, to employees and trade unions, the SSRC also supported four research projects on this topic and subsequently allocated funds to a fifth. The fact that these latter projects adopted very different perspectives and used an array of research methodologies was seen as an advantage at this stage in the development of knowledge in the area.

Specific research was commissioned into the impact that an inflationary environment had had on management accounting systems and the processes of organizational decision-making (McCosh *et al.*, 1981). However, the major emphasis of the initiative in the area of management accounting was placed on reviewing the current state of research in important aspects of the subject, helping to establish a viable network of potential researchers and stimulating the identification of topics worthy of subsequent research funding. In conjunction with the Institute of Chartered Accountants in England and Wales and the Institute of Cost and Management Accountants, a seminar group on management accounting research was established (see Cooper, Scapens and Arnold, 1983). This in return supported another re-

search group working in the area of management control systems (see Lowe and Machin, 1983). In addition, reviews were commissioned in order to provide assessments of the current state of international research in management accounting, the organizational and behavioural aspects of management accounting, and capital budgeting. It is these reviews that provide the basis for the present volume.

A VARIETY OF RESEARCH TRADITIONS

Research into management accounting has not been a homogeneous endeavour. A variety of very different traditions of inquiry have been established. Reflecting both the complexity and diversity of the area and the variety of scholarly perspectives drawn upon, research has attempted to explore both immediate technical difficulties and more general ways of understanding and improving practice. Quantitative, economic and organizational viewpoints have been called upon to these ends, each seeking to provide some illumination of the nature of practice and the problems that it faces. All of these different traditions of inquiry are represented in the present volume.

Lister surveys the analytical attempts that have been made to structure, understand and improve one important area of internal financial control, namely the management of the capital budgeting process. His concern is to demonstrate how research can increase the economic rationality of investment decisions. However, Lister is also well aware of many of the numerous constraints on the actual process of investment decision-making in organizations. Accordingly he outlines how research in recent years has attempted to make its underlying theoretical models more complex and hopefully more realistic. Certainly there is evidence that researchers have started to react to a reality which increasingly is seen in terms of an uncertain, interdependent and constrained decision context with management users of accounting systems having both their own interests and constraints upon their information processing abilities.

Scapens, in contrast, provides an overview of both the educational texts and research literatures that relate to management accounting in its entirety, other than for the emerging behavioural perspectives which are surveyed by Otley. He emphasizes the influences that economic and quantitative thinking has had on these and contrasts the resultant perspectives with what is known of the state of the art of practice. Seeing the latter as being shaped not only by prevailing notions of the desirable and the conceivable but also by attempts to ground accounting in the complexities and uncertainties that characterize organizational life, he goes on to consider in some detail those current research directions that are trying to advance our understandings of both the factors that influence practice and the ways in which it might be helped to relate more directly to the uncertainties that pervade most organizational

decision-making. In so doing, he draws on both analytical and quantitative bases for improving accounting practice and those economic and behavioural theories of the organization that are starting to provide us with an appreciation of how interests in information and control emerge in organizational settings.

The potential of the latter behavioural and organizational understandings is the main focus of Otley's contribution. Quite consciously he aims to show how organizational research can both illuminate the management accounting process and help us to appreciate the human and organizational consequences of accounting. Moreover Otley discusses not only the potential that such research can offer to those interested in trying to understand and improve accounting in action but also some of the challenges that future research in the area must confront if that potential is to be realized.

All three surveys show an area of research in motion. Although management accounting research has not received primary attention in an era when academic attention has tended to be concentrated on the dilemmas facing financial accounting standard setters, progress nevertheless has been made. At the very least one can say that promising directions of inquiry have been opened up, even though precise findings and the underlying perspectives remain tentative.

THE JUXTAPOSITION OF THE TECHNICAL AND THE ORGANIZATIONAL

The increasing attention that is being given to understanding management accounting as it is practised can be seen in terms of a growing interest in confronting the dilemmas that are created by the juxtaposition of the technical and the analytical with the human and the organizational in the accounting area. Both accounting researchers and practitioners are now aware that the potential of management accounting to further the economic rationality of organizational decision processes is dependent upon the analytical and technical components of accounting not only intersecting with the human and social fabric of the organization but also influencing it in very particular ways.

Indeed such links between the technical and the organizational are the source of many of the current practitioner worries in the management accounting area. In this respect reference already has been made to concerns with the organizational rigidities that might be engendered by accounting controls, the short time horizons encouraged by present reporting practices, and the dominance of a financial emphasis at a time when increasing attention is being given to the strategic potential of other parameters. Such concerns, and other related ones, are being expressed about many particular aspects of the management accounting craft. The adequacy of the links between budgeting and planning, for example, and the organizational effectiveness of

current practices in both areas are now being discussed. In a similar way the need for relating the provision of accounting information to the structure of management responsibilities and accountability is being given even more consideration.

Even in the capital budgeting area, which is the focus of Lister's review, a range of very different questions are now starting to be articulated, as Lister himself makes clear. Rather than concentrating exclusively on the refinement of the technical means for project evaluation, both practitioners and researchers are now much more interested in problems of a socio-technical nature. How do processes of commitment and the psychology of forecasting influence the flows of information on which project appraisals are made? (Burchell *et al.*, 1980; Staw, 1976, 1980). How indeed does the emphasis on the analytical evaluation of the new relate to the development of the commitment that is so crucial for its realization? (Brunsson, 1980, 1982; Salancik, 1977). What are the consequences of the traditional positioning of the financial evaluation in the latter stages of the corporate investment decision process? (Bower, 1970; Morgan and Luck, 1968). And how does the exclusive technical emphasis on the economic and the financial relate to the need for strategic assessments that stress the relevance of the market, the state of competition and the frequent need for a flexible and responsive organizational posture?

All too clearly research is not yet in a position where it can address such specific questions. However, recent developments have at least taken us to the stage where both their practical and research relevance and potential can now be realized. The technical has been linked to the organizational (Kaplan, 1983). Interest has been expressed in both the organizational and economic antecedents and consequences of management accounting practice (Banbury and Nahapiet, 1979; Scapens in this volume). Moreover, research, tentative though it might still be, is now at least at the stage where it can raise some quite fundamental questions about the nature of management accounting practice. The roles that it can and does serve are starting to be discussed from a broader perspective (Burchell *et al.*, 1980), and the diverse nature of organizational interests in the development of the practice are being considered in ways such that economic and behavioural interests can complement and even inform the purely technical. Even the possibility, indeed the probability, of the management accounting craft having unanticipated as well as anticipated consequences is something that can now be contemplated in both research and practical terms (Hopwood, 1983; Kaplan, 1983).

It is now quite explicitly recognized that management accounting is only one of many practices that seek to influence and control organizational behaviour. Not only are its actual consequences moderated by the imperfect knowledge of the causal processes by which it functions, but also they are constrained by both the other management practices with which it intersects and the human resistances which its application invariably engenders. Coming so to be seen and studied as operating in a complex and interactive

organizational context, quite explicit consideration can now be given to the origins, consequences and implications of those unanticipated consequences of management accounting that lie behind so many of the practitioner worries in the area.

Equally significantly, we are now in a position to discuss more systematically the diverse roles that management accounting serves in any organization. To date, research emphasis has been placed on the decision facilitative roles (see Lister and Scapens in this volume). Although that decision emphasis is still important, and will remain so (see Kaplan, 1982), complementary attention is now being given to other organizational roles that accounting can and does serve. There is a renewed interest in the control, stewardship and accountability functions of accounts, as Scapens outlines. Accounting is being seen as arising out of the institutional structures that seek to moderate the relationship between those with an interest in the organization and those who manage it on their behalf (Baiman, 1982; Tiessen and Waterhouse, 1983). From more organizational perspectives, the origins of the interest in accounting are being related to the development of mechanisms for the management of power in organizations (Bariff and Galbraith, 1978; Cooper, 1981), to the creation of particular and partial patterns of organizational visibility (Becker and Neuhauser, 1975; Hopwood, 1983), and to the management of the internal political processes that characterize all aspects of organizational life (Burchell *et al.*, 1980; Pettigrew, 1973; Pfeffer, 1978). Attention also is being given to the more ritualistic roles served by accounting information (Gambling, 1977; Meyer, 1983). Accounting, thereby, is coming to be seen as a more heterogeneous phenomenon, intertwined with a rich array of other organizational processes and practices, deriving, in fact, its very real significance and potential from the variety of organizational roles that it is used to serve.

Without doubt, research in the management accounting area is currently in the process of extending its research agenda so that the technical can confront the organizational, be that seen in economic or social terms. Indeed there is now a very real possibility that research might not only be able to better understand, inform and guide the organizational practice of the technical accounting craft but also be more easily accepted by practitioners.

SOME ISSUES FOR THE FUTURE

All of these trends in current management accounting research are reflected in the three surveys collected in the present volume, albeit in very different ways. However, these surveys were not designed to cover all aspects of the management accounting field. Nor were they intended to give a comprehensive overview of the full range of directions in which research in the area is developing and might develop. So in these concluding remarks we briefly

turn our attention to some aspects of management accounting research that have not been emphasized to date.²

A number of such areas readily come to mind. Not least among these is the impact of changing information technology on the accounting craft. In many respects accounting as we know it is a product of previous technological developments and their associated social bases. The emergence of the clerk, the calculating machine and the mainframe computer all had quite important roles to play. Now, however, a potentially different technological era is with us. Accountants already are adjusting to this. Often slowly, organizations are nevertheless starting to change their information flows in the light of today's growing, increasingly flexible and potentially distributable computing power. However, in adjusting, the traditions of the past maintain an influential voice. Centralized tendencies compete with the decentralized; the routinized disclosure of information confronts the possibilities for accessing and more *ad hoc* processing; those who favour a growing dispersion of information processing potential are engaged in a debate with the representatives of the more focused expertise of the past. In all of these areas practical problems and the associated development of expertise emerge by the day. Equally, however, many of the difficulties that arise are of a potentially more generalized nature. One would like to think that research might play at least some role in their resolution.

On another dimension, much of the current practice of management accounting remains impregnated by its origins in the control of the production process and the need to integrate diverse manufacturing operations. Of course, such problems are still important. However, the power of these antecedents is such that management accounting has still comprehensively to address many of the problems of the non-manufacturing sector, be they in the service or financial sectors or in the sphere of public-sector organizations. All too clearly these are urgent problems for today. With structural changes in the economy tending to put increasing emphasis on the non-manufacturing sector, and with a heightened awareness of the need to further inculcate concepts of economic efficiency in the public sector, many see an urgent need for both practice and research to address the issues involved in so extending the accounting domain. In particular, there is a need to better appreciate the ways of controlling cost structures dominated by policy, programmed and fixed costs, of relating expenditures to programmes of activity that are difficult to summarize in a unitary financial manner, and of managing both the qualitative and the quantitative dimensions of performance. Such different organizational contexts also raise questions about relating information flows to very different organizational structures, cultures and traditions, not least to those issues associated with the balancing of management efficiency with the maintenance of public accountability.

The current interest in the development of management accounting in the public sector also focuses our attention on the external as well as internal

origins of interests in the accounting craft. To date, most research has been content to attribute internal rationales to management accounting as we now know it. It has been presumed to emerge from the needs to facilitate economic and financial decision-making and to integrate and control the diverse activities of large and complex organizations. Such needs are important. However, recent years have provided numerous examples of accounting being advanced in the name of external issues and concerns, including the furtherance of government policies for both prices and incomes. Such recent manifestations of the external origins of internal accounts are only particular illustrations of the ways in which management accounting has been socially as well as organizationally constructed. A great deal of the early concern with costing was orientated towards the managerial control of an organized labour process (Clawson, 1980; Hobsbawm, 1964). Accounting elaborations subsequently have been advanced in the name of providing ways for the machinery of the State to penetrate into those business organizations with which it has a trading relationship, of maintaining a more comprehensive economic reflection of an increasingly problematic national labour force (Burchell, Clubb and Hopwood, 1981; Florence, 1924), and to further conceptions of economic efficiency that were promoted in the name of national competitiveness and well-being (Burchell, Clubb and Hopwood, 1981; Haber, 1964; Hays, 1959). Accounting also has been associated with operationalizing changing conceptions of the legitimacy that organizations can either claim or be forced to reflect (Meyer and Rowan, 1977). Just as the economic crises of the 1930s resulted in a renewed interest in the maintenance of the records of rational economic administration in business organizations, so too are the different economic circumstances and ideologies of today demanding a measure of increased economic visibility from organizations in the public domain. Seemingly, management accounting continues to be advanced in the name of both the organizational and the social, although to date only the former processes have attracted the attention of the research community.

One interesting and quite important context for observing and trying to understand such wider influences on management accounting is that of international comparisons. Surprisingly, perhaps, this is an area that has so far been much neglected. A few of the different national traditions of organizational control in general and financial control and management accounting in particular have been documented (Horovitz, 1980; Kaplan, 1983). How these relate to national cultures and traditions remains unknown however. Equally, their significance has yet to be investigated. Whether they point to possibilities for learning and improvement or a more complex or even equivocal relationship between management accounting and organizational performance remains to be ascertained.

One final area for research has emerged from the undercurrents of the present research community. Albeit slowly, attention is nevertheless being given to the basically interested, or purposeful, nature of organizational accounts, be they of a managerial or financial accounting nature (Cooper,

1981; Tinker *et al.*, 1982). To date, accounting research has adopted a unitary view of the organization and its goals, seeing the ends of organized endeavour in relatively unproblematic terms. Increasingly, however, that view of the organization, and its accounting consequences, is being re-examined. The recent interest in the external origins of internal accounts has played some role in this. Accounting has thereby been shown to be socially and politically, as well as organizationally, constructed; often, in fact, being seen as emerging out of attempts to change, reform and control the organization in the name of quite particular ends. More directly, however, at least some attention is now being given to if, when and how accounting can be mobilized to serve diverse, and conflicting, interests within the organization. Questions are being asked about the emergence of a managerial interest in accounting. Consideration is being given to how accounting is intertwined with attempts to control the labour process. Equally, some, at least, are starting to wonder if accounting can, or cannot, serve interests other than those that it might have traditionally served. Admittedly such concerns are not at the forefront of the research agenda with today's re-emergence of the managerial prerogative. Be that as it may, such questions raise other serious questions about the nature and potential of the accounting endeavour which some will seek to further in the years to come.

CONCLUSION

The surveys that follow document an increasingly vibrant tradition of scholarly inquiry in the management accounting area. Together they show how research is now moving to address questions of increasing concern, if not yet of direct relevance, to those with a practical interest. Equally, they show how researchers in the area are calling upon very different traditions of inquiry to confront the dilemmas of trying to understand and improve the technical means by which management accountants seek to address important organizational issues. Although both strands of research may not always be in harmony, together they do at least point to the growing intermingling of the scholarly with the practical. From whatever perspective it is viewed, that is a most encouraging development.

NOTES

1. Similar questioning is taking place in the area of financial accounting. There is evidence of a renewed interest in the historical development of accounting practice (Hopwood, Burchell and Clubb, 1980; Parker, 1981), a concern with exploring the institutional and political processes of accounting change (Bromwich, 1981; Watts and Zimmerman, 1979) and a new interest in studying the consequences of both financial accounts and attempts to standardize them (Beaver, 1981; Beaver, 1983).
2. The interested reader is also advised to consult the useful survey and commentary by Cooper (1981).

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