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Change of Management Control from the Balanced Scorecard to Budgeting: Case-Study Evidence from a Commercial Bank

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Abstract

Althoughthe balanced scorecard (BSC) is claimed to be conceptually superior to budgeting,not all BSC implementations get sustained, and some organizations even move back to budgetary control systems.Using the qualitative case study approach,this study investigates the reasons for the change of management controlfrom BSC to budgeting in a Sri Lankan commercial bank.To capture thesereasons, a revised Accounting Change Model of Cobb, Helliar, and Inns (1995) was used. This study contributes to literature by further developing Cobb et al.'s (1995) Model, by sub-categorizing the momentum for change into three elements: people, processes and external triggers, based on the case study evidence.

Keywords: Management control systems, Budgetary control, Balanced scorecard, Bank, Sri Lanka

1. Introduction

Budgets are financial plans that provide a basis for directing, evaluating performance, coordinating and controlling organizational activities, and have historically played a prominent role within most organizations' Management Control Systems (MCS) (Ekholm&Wallin, 2000; Libby &Lindsay, 2010; Lu, 2011; Tsamenyi,Bennette, & Black, 2004). Despite its wide spread use, the budgetary process is not perfect (Hansen, Otley, &Van der Stede, 2003). The main criticisms of the annual budgets are their inability to signal changes in the environment (Otley, 2008), and the uncertainty of forecasts (Ekholm &Wallin, 2000). In addition, the non-accounting managers' view that budgets perform a minimal motivational role since in practice, targets set through budgets are difficult to attain (Tsamenyi et al., 2004).

Further contemporary accounting research addresses the wide scope of MCS, and identifies the limitations of financial oriented control systems such as budgeting given their backward looking focus and inability to reflect on value creating activities (Shields, 1997; Kaplan & Norton, 1992). Thus, new

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techniques such as the Balanced Scorecard (BSC),which give top managers a balanced view of performance through both financial as well as non-financial indicators, are widely discussed in the literature (Kaplan & Norton, 1992).It is expected that the adoption of suchwide ranging measures would increase organization’s performance (Hussain & Hoque, 2002) and improve visibility of actions (Tuomela, 2005). Many researchers have illustrated that BSC has been implemented in many different types of organizations (Marr & Schiuma, 2003), such as the hotel industry (Denton & White, 2000), financial services firms (Ittner, Larcker, & Randall, 2003; McNamara & Mong, 2005), and software firms (Papalexandris, Ioannou, & Prastacos, 2004).The influence of western consultants, popularizing programmes of the Chartered Institute of Management Accountants (CIMA), Sri Lanka and the enthusiasm of the consultants have influenced local institutions to adopt BSC (Wickramasinghe, Gooneratne, & Jayakody, 2008). Andon, Baxter, and Mahama (2005) revealed that even though BSC is an appealing approach for performance measurement, at times it is problematic to implement and operate. Thus despite its merits, not all BSC implementations succeed, and some organizations even move back to their former budgetary control systems. However, there is little empirical evidence on reasons which give rise to such changes. The aim of this study is to fill the above gap by exploring how and why MCS changed from BSC to budgeting in a private sector commercial bank (Bank Alpha). Accordingly, the research questions of this study are: 1) what are the changes of MCS which occurred in Bank Alpha?; 2) how did various internal and external factors lead to this change?; and 3) how did organizational members react to the change of MCS?

The rest of the paper is structured as follows. Section two presents the theoretical model deployed in the study, while section three is on research context and method. The findings from Bank Alpha are presented in section four. A discussion of findings is offered in section five, and section six concludes the paper.

2. Theoretical Framework

Various researchers have explored the factors which affect the change of MCS in organizations. According to Innes and Mitchell (1990) management accounting change occurs through the interaction of facilitators, motivators and catalysts. Facilitators provide conditions conducive to management accounting change, but not sufficient for the change to occur. Motivators influence changes in a general manner. Catalysts are directly associated with the changes with their occurrence corresponding closely to the timing of the change. Motivators and catalysts act positively to generate change, but could only become effective when suitable facilitating conditions exist. This model was further developed by Cobb, Helliar, and Innes (1995), by introducing three new elements namely, barriers to change, leaders, and momentum for change. Barriers to change are factors which hinder, delay and even prevent change. Leaders also play a major role in the change process, and without leaders the change process will not have the sufficient strength to face barriers. The momentum for change or expectation of continuing change is also important in establishing the change within an institution. Thus motivators, catalysts and facilitators are considered necessary to create a potential for change, but action by individuals (leaders) is essential to overcome barriers to change. If not, the change initiative will be deflated by barriers and will not possess sufficient momentum required to maintain the pace of change.

The Accounting Change Model of Cobb et al. (1995) combines the forces advancing and hindering change through identifying motivators, catalysts, facilitators, leaders, momentum for change and barriers to change. Kasurinen (2002) has further developed Cobb et al.’s (1995) model by dividing the barriers into three categories, namely confusers, frustrators and delayers. This research deploys the Accounting Change Model of Cobb et al. (1995) as the analytical lensto explore the change of MCS occurred in Bank Alpha (see Appendix 1).

3. Research Context and Method

The section to follow elaborates the research context and the research methods.

3.1 Research Context

The financial sector plays a crucial role in the Sri Lankan economy in promoting economic expansion (Central Bank of Sri Lanka, 2011b). Banking, insurance and real estate category has contributed 8.8% for the services sector making it the third highest contributor within the services sector (Central Bank of Sri Lanka , 2011a). Banking is the dominant player in the financial sector accounting for 55% of its total assets. There has been a 7.9% growth inthe banking, insurance and real estate sector in 2011 when compared with 2010 (Central bank of Sri Lanka, 2011b;2011a)). The growth of the financial sector has beensupported by the expansion of branch networks, supportive services and the favourable macroeconomic environment (Central Bank of Sri Lanka, 2011a).

The bank which is the subject of this study, Bank Alpha commenced its operations in the 1980s, and has become one of the largest private sector commercial banks, among the 24 licensed commercial banks operating in Sri Lanka. The Alpha Group consists of Bank Alpha and subsidiaries. Bank Alpha’s core areas of operations include personal banking, corporate banking, development banking, trade services, treasury operations, credit and debit cards and e-banking. Bank Alpha is led by a team of competent board of directors, while the managing director and the Group Chief Financial Officer (GCFO) play the key roles in deciding the MCS and strategies. Areas such as operations, personal banking, international relations, treasury, marketing and HR are controlled under the guidance of the respective Deputy General Managers (DGMs).

3.2 Research Methods

In this research the underlying issues demanded an understanding of social and organizational processes through which the MCS of Bank Alpha have been subjected to change. Thus we adopted the qualitative methodology (Silverman, 2000) and case study approach (Yin, 1994). Yin (1994) defines case study research as an empirical inquiry, that investigates contemporary phenomenon, within its real-life context, when the boundaries between the phenomenon and context are not clearly evident and in which multiple sources of evidence is used. The role of accounting and other controls cannot be fully understood in isolation and a more contextual approach is required to comprehend MCS(Otley& Berry, 1994). To understand the operation and the change of MCS it is necessary to place them in their wider organizational context, and the case-study approach was considered as the most suitable approach for this research.

According to Yin (1994) case studies are typically adopted to answer “how” and “why” questions. This study explores research questions such as: what are the changes of MCS which occurred in Bank Alpha; how did various internal and external factors lead to this change; and how did organizational members react to the change of MCS. Otley and Berry (1994) commented that case studies can be used as a vehicle by which theories can be generated and modified in light of data. Accordingly,this study further developed Cobb et al.’s (1995) Accounting Change Model by sub-categorizing the momentum for change through evidence gathered from Bank Alpha.

The data collection was mainly conducted through in-depth interviews where one spanned between half an hour to forty-five minutes. The initial interviews were aimed at gaining an understanding on MCS of Bank Alpha and background information on the change of MCS. Thirteen interviews were conducted: 6 senior managers including Manager -Business Process Re-engineering, Senior Manager-Finance, Chief Manager-Branch Credit (the manager who facilitated and implemented the BSC), Senior Manager-Marketing, Manager-Employee Relations, Manager-Capability Development, 2 executive level employees which includes Management Accountant (Executive grade) and Senior Executive-Finance and Planning, 2 Regional Managers and 3 Branch Managers. Three interviews were held initially with the Head of Finance, Business Process Re-engineering Manager and Human Resource Development Manager. The subsequent interviews were directed towards understanding how and why management accounting change happened. Interviewees were asked about the factors which led to this change, their views, ideas and feelings about the change of MCS. The interviews were conducted using probing questions based on Cobb et al.'s (1995) Accounting Change Model. Almost all the interviews were tape recorded and detailed notes were taken down. The ideas expressed on the current budgetary process were supplemented by the documentary evidence provided by the Finance and Planning division. The interviewees' opinions on the financial performance were crosschecked with the 2010 and 2011 Annual Reports of Bank Alpha.

4. Findings

The interview evidence reveals that Bank Alpha adopted the BSC as a Performance Measurement System (PMS) led by a foreign consultant during the period 2004-2007.From 2008 there has been a change of MCS with the discontinuation of the BSC and adoption of the 'strategic plan revolving model', (how the MCS is called in the bank), which involves a budgetary control system. This section explores how and why MCS in the bank changed from BSC to budgeting from 2008 onwards, using Cobb et al.'s (1995) Accounting Change Model.

4.1 Motivators and Catalysts for Change

In Bank Alpha, motivators played an important role in the change of MCS from BSC to budgeting. Motivators related with this change are problems with the former PMS (i.e., the BSC), high competition in the industry, positive economic conditions and top management's positive attitude towards budgeting.

With regard to the problems in continuing with the BSC, the lack of knowledge on it among employees was noteworthy. The Manager-Business Process Re-engineering remarked that even though there were several meetings conducted to educate the employees on the BSC, often the managers lacked the required knowledge to operate it correctly. He added:

> *According to my view, if you are good in BSC and if you have a thorough knowledge in BSC you can implement it. But in the case of Bank Alpha, most of the managers who were allocated with the responsibility of BSC did not have sufficient knowledge to operate it correctly. So the lack of knowledge on the BSC created issues with regard to its implementation.*

According to the Manager-Employee Relations, there was a lack of guidance with regard to the breadth and depth of the measurements. Therefore, sometimes the managers had to spend unnecessary time measuring the activities which were not necessarily required by the top management.

A further motivation to the change towards budgeting was the high competition in the banking industry. As in order to survive in this industry, maintaining financial stability was important, and a high focus on the bottom line was needed. In this regard, the BSC was perceived by most of the Branch and Regional Managers as a system which scattered the management's focus away from financial performance. Therefore, Bank Alpha had decided to move back to budgeting thinking that it would help managers and employees to focus more on the financial performance. From 2008 onwards the financial sector of Sri Lanka flourished as a result of the favourable economic conditions which emerged after the end ofthe30 year war. Given this positive economic condition, the management of the bank felt that it was the appropriate time to reap profits from the industry, by focusing on financial performance and profits, through budgeting rather than extensively being involved in measuring non-financial performance. Almost all members of the top management remarked on the value of adopting budgets. For instance, the Senior Manager-Finance commented:

> *When there is a budget, there is a direction. Then we can predict the future. Our budget is for one year and we plan for three years. So we know where we are going. Without a budget we can't forecast the future (for planning purposes we need a budget). The budget helps us to align our goals with the time horizon and plan our resources to achieve the goals. When there is a budget we can align all our targets among our branches and SBUs. Therefore in order to have an equal distribution of targets among the SBUs we need a budget.*

Similar positive views were expressed by Regional Managers, Marketing Manager and the Branch Managers.

Catalysts are directly associated with change, and correspond closely to the timing of the change (Cobb et al., 1995). Catalysts such as lack of focus on the bottom line and on short-term financial results, leadership change, and stagnated profits and market share contributed to the change of MCS which occurred in Bank Alpha. For instance one of the Regional Managers had the view that BSC lacked the focus on delivering short-term financial results. He elaborated:

> *As an example, in order to achieve excellence in the learning and growth perspective, in the short-run you would have to incur a lot of cost and time to develop the skills of the employees through conducting training programmes. But even though you spend your time and money sacrificing your short-run profits, you won't be able to achieve massive returns in the short-run. Since, it takes a lot of time for a company to achieve positive financial returns from training. So, you would have to sacrifice your short-term profits in order to achieve long-term profits if you are focusing on the BSC.*

The Senior Manager-Marketing and Senior Executive-Finance and Planning noted that Bank Alpha had suffered from stagnated profits and market share during the period which the BSC was adopted. These comments were supported by the evidence gathered from the 2004, 2005 and 2006Annual Reports of Bank Alpha. Under these circumstances there was a pressure imposed on the management to somehow drive the organization towards excellence in financial performance. Thus, a mechanism which focuses more on the financial achievements was vital and accordingly budgets were considered to be more suitable to focus management's attention more on the bottom line. Meeting this expectation, as became evident from the 2009 and 2010 Annual Reports of Bank Alpha, the Bank was able to achieve growth of profits, and many interviewees agreed that this growth of profits resulted from the change of MCS. The Manager-Business Process Re-engineering commented:

> *Yes of course, our profits have improved after we started to mainly focus on budgets. Because when we are practicing budgets we are more disciplined on numbers. So it clearly focuses your attention on profits. And it's obvious that we were benefited by satisfactory financial results after this change.*

The interviewees revealed that the leadership change which occurred during 2008 in Bank Alpha was a main driver behind the change of MCS. The Annual Reports of Bank Alpha (2007 and 2008) provided supportive evidence that there had been a change in the top positions such as the chairman and CEO followed by several changes in the board of directors, corporate level management and the senior management in 2008.

Since Bank Alpha is a private commercial bank, majority of the interviewees' view was that the type of MCS adopted by the organization was at the discretion of the top management. A Regional Manager commented:

> *The new CEO's thinking was the main force behind the change. During the BSC implemented period normally 2 or3 days per week the Branch Managers had to allocate their time to discuss about the BSC. So the new CEO thought that it was a waste of time. His view was that, we should keep our time free to serve our customers better, than spending time on discussing the BSC.*

Accordingly, the new CEO decided to discontinue the BSC and resorted to budgetary control from 2008 onwards. Therefore, the leadership change which occurred in Bank Alpha was directly associated with the change of MCS which occurred in form of the move from BSC to budgeting.

4.2 Role of Facilitators, Leaders and Nature of Barriers for Change

Facilitators comprise of conditions conducive to the management accounting change which are necessary but not sufficient for the change to occur (Cobb et al., 1995). Examples include the availability of adequate accounting staff and computing resources, and the increase of authority attributed to the accounting function within the organization. The change of MCS which occurred in Bank Alpha was supported by several facilitators which can be identified as familiarity with the budgeting system, the centralized information system and sufficient assistance extended through training programs and meetings.

Leaders are the individuals who played key roles in the change process, and their role is important to overcome the barriers to change (Cobb et al., 1995). When analysing the change of MCS in Bank Alpha, it was evident that leaders played a major role. MCS change was directly influenced by the change of management, especially the changes which occurred in the positions of the chairman, CEO and the GCFO. Almost all interviewees noted the newly appointed CEO as the "champion" in this change process. Further corroborating these claims the facilitator who led the implementation of BSC in Bank Alpha commented that:

> *The MCS or the PMS implemented by a Private Bank is specifically depended on the management. The managers and the CEO of that era considered BSC as the most suitable PMS for the bank. But when the management and the CEO changed, the BSC was out. The CEO who was the implementer of the BSC at Bank Alpha is the CEO of Bank Beta (another private commercial bank in Sri Lanka) at present. And the latest information shows that now they are implementing the BSC at Bank Beta. So that shows how the leader's thinking affects an organization's selection of MCS.*

Hence the leaders' perception and attitude towards a particular PMS strongly affect its implementation and continuation within an organization. Factors which hinder delay and even prevent a change such as changing priorities, staff attitude towards change, and accounting staff turnover resulting from a change of MCS, are barriers. With regard to the change of MCS in Bank Alpha, the common view of all interviewees' was that there were no barriers to this change, and all managers and the employees were "fed up" of the BSC system. For most of the branch managers this system was a "mental agony", and they wanted to get rid of it. Therefore, when the suggestion for discontinuation of the BSC and re-adoption of the budgeting system was announced, everyone was delighted and there were no barriers encountered with this change process.

4.3Momentum for Continued Change

Momentum for change is the expectation of continuing change in the future. It is the driving force which triggers anticipation of employees that in the future also, further changes (for instance related to the MCS) might occur within the organization. In this research, in light of the data gathered from Bank Alpha, the Cobb et al. (1995) model was further developed by segregating the momentum for change into three sub-categories; people, processes and external triggers, as shown in Appendix 2 and elaborated below.

People

This category includes factors related to employees and management which triggers momentum for future change. Under the organizational conditions of Bank Alpha, three factors can be identified under this category: dissatisfaction with the current MCS, employees' and top management's positive attitude towards continuous change, and future management change. Employees of Bank Alpha had positive attitudes towards budgeting and they appreciated the budgets as a useful PMS. Nevertheless, few employees expressed that in the event a superior system is available, further changes in the MCS could occur. One Regional Manager noted, "of course, budgets are very useful. But there are certain problems related with achieving the targets".

Further aRegional Manager commented on the incremental budgeting system which is operated in Bank Alpha and as a future improvement suggested the use of zero-based budgeting. He added:

> *In our bank there is a planning division. They give the parameters based on the corporate objectives and strategic plan which is forecasted for 3 years. So, what happens is based on those parameters, the regions and branches set the targets. Often these targets are set as a growth percentage added to the last year's figures. E.g. Advance growth of 30% compared to the last year. So a percentage increase from the last year may not be the correct way of doing it. According to my view, I think we should implement a zero-based budgeting system.*

Such evidence suggests that while the bank welcomed the move towards budgets, budgets too have limits and further changes in MCS could occur in the future. Employees' positive attitude towards change is reflected in the following comment by the Senior Manager–Finance.

> *I like BSC, I like budgeting. I take change very positively. I see whether it is realistic. Whether it can be implemented or whether it can be a stress for the team members. If it is a stress for the team members and if we are not gaining anything from the change then there is no use. But I am very positive towards change. Otherwise you can't survive and grow in this competitive industry.*

Similar views were expressed by some Regional Managers, branch managers and other senior executives. The following quote by one manager further illustrates Bank Alpha's receptiveness towards change:

> *Change is what any organization in the competitive market would do…The point is opening up 10 branches per day. No other bank in Sri Lanka has done it before. It clearly shows how aggressive the change process has taken place in Bank Alpha. So it shows the bank's potential to grow and change. The top management is ready to accept change and willing to take risk. Almost all of them have a very positive attitude towards change.*

Accordingly it is evident that there is certainly a momentum for future change in the bank.

When analysing the organizational changes which had occurred in 2008, it was evident that there had been a change in key positions such as chairman and the CEO together with several other changes in the board of directors. Several interviewees commented on how the momentum for change was affected as a result of this change in the management. A senior member from finance and planning remarked:

> *I think whether the MCS should change or not depends on the managements' view…..The board of directors changed, if you look at the currently appointed directors, unlike in the past years, now there is a young crowd. Actually they look at things differently. So it is a good trend. We are supported to continue changing. They are requesting us to do changes for the better. They ask us to analyse and tell*

> *them the consequences and results of implementing particular decisions. The top management has a highly positive attitude towards change. So we are motivated to keep on changing.*

As the above evidence suggests, the recent change of management which had occurred in the bank has created positive expectations that in the future there might be further changes in the MCS.

Processes

This includes factors related with processes and procedures of the organization which creates expectation that in the future also changes to the MCS and accounting might take place. When analysing the organizational conditions of Bank Alpha three factors were identified under this category, namely, the on-going strategy analysis process, process improvement ideas from employees, and the innovative information technology (IT) department.

In Bank Alpha, the strategic plan is prepared for the upcoming 3 years, taking into consideration the past and future environmental trends related to the banking industry. The discussions with the senior executives in finance and planning suggested that even though the strategic plan is prepared for 3 years, the industry trends are being regularly analysed and the required amendments are included to update the strategic plan. Meanwhile, the information extracted from the strategy analysis process is being incorporated to continuously upgrade the MCS of Bank Alpha.

Bank Alpha encourages its employees to contribute their ideas to improve the processes and MCS. According to a Regional Manager, Bank Alpha has included a system where each employee’s contribution of new ideas is measured in the performance evaluation process. As a result, the employees are highly motivated to share their ideas to improve MCS which would result in momentum for future change.

Almost all interviewees had a very positive attitude towards the facilities extended by the IT department, which provides a variety of services including maintaining archives, updating the data-base and data mining. According to the Senior Manager-Finance, IT department is the major strength behind the success of Bank Alpha. The management accountant further indicated:

> *We have an award winning IT department and we have a highly satisfying database. All the information and the archives are there in the data warehouse. So it provides us relevant, current and accurate information all the time. So as we have the power of acquiring information, it enables us to improve our MCS. So, in the future we can expect some changes in MCS.*

The centralized data warehouse facility provided by Bank Alpha was considered as an important factor which facilitates budgeting. Thus, given the supportive role of the IT department one can expect further improvements to the bank’s MCS in the future.

External Triggers

External triggers mainly include the forces external to the organization which creates momentum for future change, which are beyond the control of the organization. With regard to Bank Alpha, two factors can be identified here. They are the volatility of the environment, and relationships with the professional institutions. The financial sector of Sri Lanka is highly competitive, and this creates a volatile environment. Thus it is difficult to operate the bank, being restricted to confined boundaries and using a fixed MCS. Therefore future changes to organizational procedures and MCS would be needed.

Interviewees noted that Bank Alpha maintains corporate level relationships with professional institutions. For instance the Management Accountant expressed:

> *We have very good relationships with professional accountancy bodies such as CIMA, Institute of Chartered Accountants of Sri Lanka (ICASL) et cetera. We have several chartered accountants in this department, there are some finalists and some CIMA qualified accountants. Normally for the Finance Department we recruit degree holders specialized in accounting, CIMA qualified people and Chartered Accountants. Their knowledge is highly applied to further develop our MCS.*

It is expected that the relationships Bank Alpha maintains with professional and academic institutions such as Chartered Institute of Management Accountants (CIMA), Institute of Chartered Accountants of Sri Lanka (ICASL) and universities would create a momentum for the future development of MCS.

5. Discussion

The factors which affect the change of MCS such as motivators, catalysts, facilitators, leaders, barriers and momentum for change have been widely discussed by past researchers (e.g. Innes &Mitchell, 1990; Cobb et al., 1995; Kasurinen, 2002). Continuing from such research attempts, this study analyses the change of MCS which occurred in Bank Alpha, extending Cobb et al. model by sub-categorizing the momentum for change into three sub-categories: people, processes and external triggers.

Innes and Mitchell (1990) analysed the factors which affected the change of MCS focusing on seven firms in the electronics sector. Their study revealed five motivators namely: competitive market, organizational structure, production technology, product cost structure and short product lifecycle. Cobb et al.'s (1995) study which was based on a division of a multi-national bank identified globalization and product innovation as motivators in their research. Based on a Specialised Business Unit (SBU) of a multi-national metals group based in Finland, Kasurinen (2002) identified factors such as globalization, complex business environment, mature stage of the product life cycle and problems with the financial measures as motivators. With regard to the change of MCS in Bank Alpha, the motivators such as problems related with the former PMS (BSC, high competition in the industry, positive economic condition and top management's positive attitude towards budgeting became significant. The problems related with the former MCS (BSC) include implementation and continuation issues and employee related issues. The implementation and continuation issues were being overloaded with measurements and lack of focus to discuss and review the results of the BSC, lack of knowledge on BSC among team members, absence of clear instructions provided to carry on the BSC, not reflecting the ways and means of achieving the targets, results being subjected to manipulation, poor arrangement of meetings which adversely affect tracking and comparison of performance and lack of focus on the important aspects of the BSC. When employee related issues are concerned, unfair performance measurement criteria, high time consumption, high frequency of meetings, hassle of making presentations on BSC, employees being overloaded with work and incompatibility between the BSC and the organizational culture of Bank Alpha (due to the foreign consultant who implemented the BSC) are significant.

Catalysts are factors directly associated with the change, and correspond closely to the timing of the change. This includes poor financial performance, loss of market share, launch of competing products, arrival of new accountants, and organizational change (Innes & Mitchell, 1990). Cobb et al. (1995) noted pressures on margins, and change of management as catalysts, while Kasurinen (2002) identified factors such as business unit general manager's experience in strategy work and strategic analysis as catalysts. Similarly, the catalysts related with the change of MCS in Bank Alpha include lack of focus on the bottom line and on short-term financial results, leadership change, and stagnated profits and market share.

Innes and Mitchell (1990) note that facilitators comprise of conditions conducive to management accounting change, which are necessary but not sufficient for the change to occur. Accordingly, they identified factors such as accounting staff resources, computing resources, degree of autonomy from parent company, authority of accountants, and accommodation of statutory accounting requirements as facilitators. Cobb et al. (1995) in their study based on a division of a multi-national bank identified two facilitators; IT facilities, and accounting staff resources. Further, Kasurinen (2002) identified factors such as earlier BSC introduction, and strategically well-structured situation as the main facilitators in his study. The change of MCS which occurred in Bank Alpha was supported by facilitators such as familiarity with the budgeting system, the centralized information system, and sufficient assistance extended through training programs and meetings. Budgeting was practiced by Bank Alpha since its inception, and it existed in the organization before the BSC, during the period of the BSC and after the discontinuation of BSC. So it was familiar to everyone in the bank and they had knowledge on it. Consequently as expressed by many senior managers, the knowledge and skills possessed by the employees related to a particular MCS (i.e. budgeting) was one of the success factors which stabilize it in the particular context of Alpha. As in the case of Cobb et al.'s (1995) study, IT facilities enabled the change of MCS. The information system of Bank Alpha was accurate and efficient, and was appreciated by the interviewees as it provided necessary information for managerial decision making.

While Innes and Mitchell (1990) made no reference to leaders in their attempt to analyse the change of accounting, Cobb et al. (1995) identified leaders in their study, and suggest that leaders are important in the change process, and are important to overcome the barriers to change. This study notes that several individuals such as new board members, the new CFO and the new Divisional Financial Controller played key roles in the change process. Kasurinen's (2002) study revealed that the Divisional General Manager was instrumental in the change of MCS. Comparatively, in Bank Alpha, leaders played a major role. The change of MCS was directly influenced by the change of management, especially the change which occurred in the positions of the chairman and the CEO. Accordingly, it was evident that the decision to discontinue the BSC was suggested by the GCFO, while the required leadership and support to carry on the change was provided by the CEO. Therefore, the leadership of the newly appointed CFO and CEO played a major role in the change of MCS which occurred in Bank Alpha.

According to Cobb et al. (1995) barriers are factors which hinder, delay, and even prevent change, and include changing priorities, accounting staff turnover, and staff attitudes towards change. Kasurinen (2002) has made an attempt to further develop the Cobb et al.'s (1995) model by sub-categorising the barriers to change into three sub-categories: confusers, frustrators, and delayers. In contrast to the above studies, in Bank Alpha there were no barriers, as there was a strong dislike by the employees towards the BSC. As the findings suggested, majority of the managers had a negative attitude towards BSC, there was no objection to discontinue the BSC as the employees were looking forward to a change.

Budgets have played a prominent role in most of the organizations' systems of management control. However, the study of Hansen et al. (2003) which was based on an analysis of a variety of organizational perceptions on budgeting revealed that in spite of its wide spread use, the budgetary process is not perfect. The main criticisms of the annual budgets are its inability to signal changes in the environment (Otley, 2008) and uncertainty of forecasts (Ekholm &Wallin, 2000), and non-accounting managers are of the view that budgets perform minimal motivational role, and that in practice, targets set through budgets are difficult to attain (Tsamenyi et al., 2004). In Bank Alpha also, although the majority of employees had a positive attitude towards budgeting, few expressed negative comments consistent with the above literature on budgeting. It is expected that such negative attitudes and dissatisfaction with budgeting might create a potential change of MCS in the future.

The category of “processes” includes the factors related with processes and procedures operating within the organization which creates momentum for change. With regard to organizational conditions of Bank Alpha, three factors were identified under this sub-category, namely, on-going strategy analysis process, process improvement ideas from employees, and the innovative IT department. Bank Alpha continuously analyses its strategies. Under the strategy revolving process, the strategic plan is prepared for the forecasted immediate 3years, where it is being reviewed annually. In addition, the industry trends are being regularly analysed and, the required amendments are included to update the strategic plan. The information which is incorporated to update the strategies is used to modify and update the MCS to suit the changes of the environment.

Kasurinen (2002) has noted that relationships carried on with professional institutions to be a factor which causes momentum for change. Bank Alpha has multidisciplinary managers and employees, and it is expected that these managers incorporate this multidisciplinary knowledge in the organization’s activities. This in turn would improve the processes and MCS in the future and create a momentum for change.

6. Conclusion

The aim of this study is to investigate the change of MCS which occurred in a Sri Lankan commercial bank, Bank Alpha. The main research questions were:1) what are the changes of MCS which occurred in Bank Alpha; 2) how did various internal and external factors lead to this change; 3) how did organizational members react to the change of MCS. In addressing these research questions our attention was directed to the most recent change of MCS which occurred in the period of 2007-2008. In 2004 the bank adopted the BSC, and continued it until 2008. From 2008 onwards along with the change which occurred in the top management budgeting was readopted while the BSC was discontinued. This change was analysed using the Cobb et al.’s (1995) Accounting Change Model by identifying motivators, catalysts, facilitators, barriers to change, leaders and momentum for change associated with this change.

To elaborate, Cobb et al. (1995) identified momentum for change in developing the process of management accounting change, introduced by Innes and Mitchell (1990). They however failed to identify the individual factors which triggered the momentum for change. Kasurinen (2002) has introduced two aspects which affected momentum for change: strategy analysis process, partnership project with other organizations and institutions to improve the processes. However, he failed to systematically present the momentum for change by sub-categorizing it. In light of the data collected from Bank Alpha, in this study momentum for change has been divided into sub-categories, people, processes and external triggers. The category of “people” mainly includes the factors related to employees and management which trigger momentum for change. Under the sub-category of organizational conditions of Bank Alpha, three factors, namely: dissatisfaction with the current MCS, employees’ and top management’s positive attitude towards change and management change has been identified. The category of “processes” includes the factors related with processes and procedures operating within the organization which creates momentum for change. With regard to Bank Alpha, three factors were identified under this sub-category: on-going strategy analysis process, process improvement ideas from employees and the innovative IT department. “External triggers” are beyond the control of the organization, and mainly include external forces which create momentum for change. With regard to Bank Alpha, two factors were identified under this sub-category: the volatility of the environment and relationships built with the professional institutions.

It is expected that this revised Cobb et al. (1995) model with the sub categorization would help to more systematically present the momentum for change, while enabling in understanding the accounting change process in a more comprehensive manner, as the Cobb et al. (1995)does not fully capture all relevant aspects to the accounting change that became evident in Bank Alpha(see Appendix 1& 2).

This study makes several contributions to literature and to practicing managers. Based on the evidence gathered from Bank Alpha the Accounting Change Model of Cobb et al. (1995) was further developed by sub-categorising the momentum for change into people, processes and external triggers. The revised Accounting Change Model of Cobb et al. (1995) provides a more comprehensive way to analyse the elements of change in organizations processes, which is an important contribution to management accounting literature. The findings of this study also provide useful insights to practicing managers on handling change processes (such as MCS change) in organizations. When comparing the model with the case data, it is evident that by attempting to analyze the potential influencing forces which create momentum for change, some of the potential problems related to the change of MCS process can be avoided. Momentum for change is the positive expectation that in the future also changes related to the MCS might occur in the organization. It is a combination of positive and negative organizational conditions which affects the continuation of a PMS. Therefore, this extended Accounting Change Model of Cobb et al. (1995) which sub-categorizes the momentum for change focuses management’s attention to the organizational conditions which facilitates or interrupts the smooth continuation of the existing PMS. As a result, it can be used as a tool to provide information when implementing strategies to further strengthen the positive organizational conditions, while eliminating the associated weaknesses. In addition, it would provide some indications on a potential change of a PMS which might occur in the future. As an example, in Bank Alpha some of the employees were dissatisfied on the budgeting system. Therefore, this might be a signal of a potential change to a better MCS which the management might have to focus their attention in the future. Furthermore, future researchers are encouraged to assess the applicability of the revised Accounting Change Model of Cobb et al. (1995) in other studies.

Like any research, our study is not without limitations. This research was conducted within a limited period of time, and the focus was to explore the change of MCS which occurred during the period 2007-2008, i.e. the change from BSC to budgeting. However, subsequent to this period some other changes related to the MCS may have also occurred which could be explored by future researchers. Secondly, as interviews have been used as the main method of data collection, heavy reliance has been placed on memory recall of managers. In addition, some of the top level managers who were directly involved in this change process are not presently employed at the bank. It would have been beneficial if their comments and views were also incorporated to analyze the change process. However, due to practical reasons it was not a possibility.

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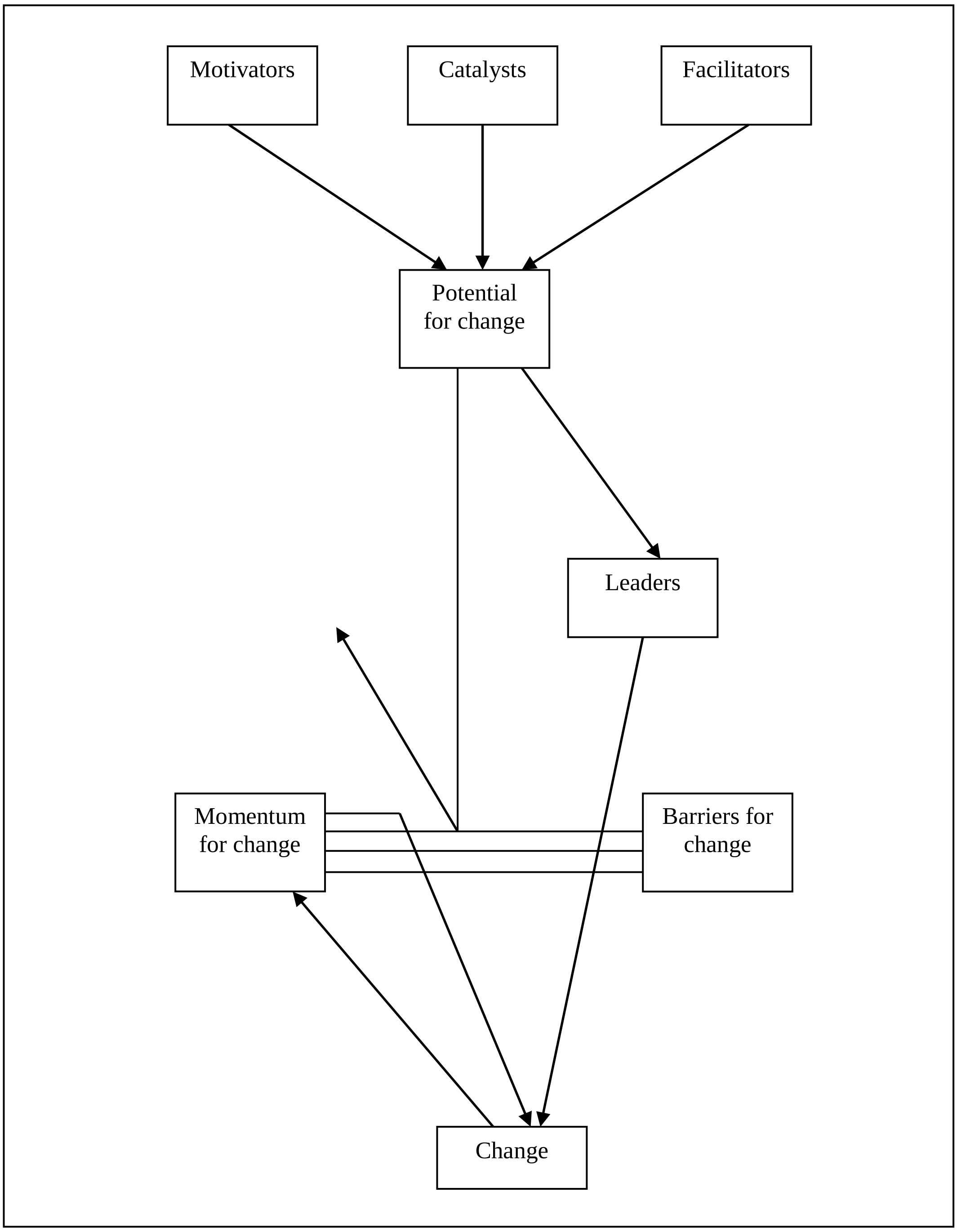
Appendix 1: Cobb et al. (1995) Accounting Change Model



Appendix 2: Revised Cobb et al. (1995) Accounting Change Model