The contingency theory of management accounting: achievement and prognosis

David T. Otley
Department of Accounting and Finance, University of Lancaster, Lancaster, U.K.

ABSTRACT

Contingency theories of management accounting have become a current vogue but have produced few significant new results. By surveying the development and content of these theories it is argued that they have been based on an inadequate and insufficiently articulated model. An improved model, based on ideas of organizational control and effectiveness, is put forward which suggests appropriate directions for future work that will be both perceptive and cumulative.

The use of a contingency framework for the analysis of management accounting information systems is a recent vogue. Although contingency formulations were developed in the organization theory literature in the early to mid-1960s there was no reference to contingency theory in the accounting literature before the mid-1970s. However, during the past five years it has come to dominate the published work on the behavioural and organizational aspects of management accounting. This rapid rise and apparently widespread acceptance of a new theoretical framework requires examination to establish whether it represents an important advance in understanding or is merely a passing fad.

In this paper the contribution made by contingency approaches is reviewed and assessed by reference to what is considered to be a minimally necessary framework for the construction of a true contingency theory. It is argued that the contingency approach is an important development in the theory of management accounting, but that it requires both improved conceptual clarity and the use of different research methodologies to those commonly reported. Firstly, the main features of the contingency approach

and its application to accounting control systems are examined by considering some situations where contingency theories have emerged from the interpretation of research data. Secondly, the content of current contingency theories of management accounting, both empirical and theoretical, is outlined and assessed by reference to a framework for evaluation based on an organizational control perspective. Finally, the implications of this perspective for research are discussed.

THE CONTINGENCY APPROACH

The contingency approach to management accounting is based on the premise that there is no universally appropriate accounting system which applies equally to all organizations in all circumstances. Rather, it is suggested that particular features of an appropriate accounting system will depend upon the specific circumstances in which an organization finds itself. Thus a contingency theory must identify specific aspects of an accounting system which are associated with certain defined circumstances and demonstrate an appropriate matching.

Although the contingency framework is new, management accounting has long recognized its inter-relationship with organizational and behavioural factors, as is exemplified by Horngren's (1972) exhortation to the effect that

the design of a (management accounting) system and the design of an organizational structure are really inseparable and interdependent.

Unfortunately he gives no practical guidelines as to how this joint design task should be undertaken. A more recent text by Dermer (1977) explicitly adopts a contingency framework emphasizing that:

the design of any planning and control system is situationally specific. The intent of this text is not to tell a system designer what should be done; rather, it is to convey the fact that there are a number of possibilities that might be done in any particular situation. . . . This text squarely faces the uncertain and contingent application of most of the activities and techniques which make up the planning and control system.

But although relevant contingencies are specified and some of their implications explored, few practical guidelines are given as to their impact on accounting system design. The contingency approach is invoked, so it seems, in order to cover up some of the embarrassing ambiguities that exist in the universalist approach.

Neither is the research literature of greater help. Although empirical studies exist they are vague as to the links between specified contingencies and appropriate accounting systems design, as is demonstrated later. The radical change in emphasis observed over the past five years is thus disturbing in that the insights obtained do not appear to be capable of conversion into practical design guidelines. The idea that 'it all depends'