

Management Accounting Concerning Inter-Organizational Relationship¹⁾

— Literature Review —

Junya Sakaguchi *

This study is to examine what sort of studies have been accumulated on Inter-Organizational Management Accounting which has attracted attention in recent years, on the basis of the existing studies in the USA and Europe. The result of the examination clarifies that relevant studies have changed their tendency from paying attention to Japanese-style management to strengthening their conscious examination of the relationship with the past management accounting studies.

Keywords: Inter-organizational management accounting,
inter-organizational cost management system,
inter-organizational management control, transaction cost and trust

1. Introduction

Management accounting has treated various kinds of themes such as standard cost management, budget management, profit plans, business decision-making, capital investment decision-making, cost planning, ABC, ABM, BSC and MPC. However, these themes have had in common the fact that they focused mainly on a single corporate organization. Against this, in recent years research into management accounting focusing on the relationship between independent corporate organizations, that is to say, inter-organizational management accounting, has been accumulated, centering in the management accounting research journals in the USA and Europe. In addition, inter-organizational management accounting is now recognized globally as one of the themes of management accounting as seen from the fact that the AOS (Accounting Organizations and Society) and MAR (Management Accounting Research) published special editions in 2004 and 2006 respectively.

In consideration of the above, in this study I sorted out inter-organizational management accounting in the USA and Europe, and clarified what sort of research had so far accumulated. Concretely, I sorted out the inter-organizational management accounting in the USA and Europe, into the practice noting period (Section 2), the transitional period (Section 3), the study accumulation period (Section 4). Section 5 shall treat the presentation of the summary of this study and future issues.

* Associate Professor in Accounting at Kansai University [mailto: t060029@ipcku.kansai-u.ac.jp]

2. Practice noting period (– 1994)

Japanese enterprises achieved an overwhelmingly superior position in competition from the latter half of the 1980s to the beginning of the 1990s. Behind this, the management of Japanese enterprises was widely examined in the first half of the 1990s. In this examination, there are purchase management practice and the close buyer and supplier relationship. Concerning the purchase management practice of Japanese enterprises, the facts are that the ratio of purchase parts expenses are greater than that of enterprises of the USA and Europe and that not only manufacturing entrustment but also development entrustment of customized parts is carried out (Asanuma, 1985a, 1985b and 1989), etc. In addition, concerning the close buyer and supplier relationship, the facts are that information provision and human resources provision are actively carried out, compared to enterprises in the USA and Europe (Cusumato=Takeishi, 1991, Helper, 1991, Nishiguchi, 1992) and that these relationships contribute to the superior position of Japanese enterprises in competition.

The attention to management of Japanese enterprises had an influence on research into management accounting in this period. In other words, studies, where close inter-organizational relationship of Japanese enterprises was noted and the superiority and novelty of the inter-organizational relationship was pointed out, were announced in the first half of the 1990s. For example, Munday (1992) has pointed out that Japanese enterprises tend to demand provision of more cost information than British enterprises and US enterprises on the basis of a questionnaire survey on British suppliers. On the other hand, Cooper called cost reduction activities by collaboration with suppliers at the development stage inter-organizational cost management in its series of studies, and has pointed out that this system supports cost competition of Japanese enterprises.

Above all, a lot of publications concerning a series of studies by Cooper on inter-organizational cost management came out in this period. For example, Cooper (1994a) has mentioned that Citizen Watch carries out cost reduction demand with suppliers and that in cases of non-achievement, support is given, and Cooper (1994b) has also mentioned that Komatsu has regular meetings with the development staff of suppliers. In addition, Cooper=Yoshikawa (1994a) has mentioned that Kamakura (provisional name), which is a small-scaled automobile parts supplier, provides information to its main automobile parts suppliers, and Cooper=Yoshikawa (1994b) has mentioned that Yokohama (provisional name), which is its main automobile parts supplier, carries out negotiations on quality, function and prices with automobile assemblers, and that it carries out design examination beyond the wall of the enterprise organization including automobile assemblers and small scaled automobile parts companies. Furthermore, Cooper=Yoshikawa (1994c) has mentioned that Tokyo (provisional name), which is an automobile assembler, and a supply chain comprising Yokohama and Kamakura makes the target cost price per product unit set by Tokyo its purchase price.

As above, the feature of management accounting focusing on the inter-organizational

relationship in this period is that, as represented by a series of studies by Cooper, it was influenced by the trend of emphasizing the superiority and novelty of management of Japanese enterprises and provided management accounting studies of the close inter-organizational relationship as new study material. However, inter-organizational management accounting in this period did not fully examine the relationship between the focusing on the inter-organizational relationship and the management accounting studies carried out by then.

3. Transitional period (1994–2000)

Cooper's studies concerning inter-organizational cost management were announced also in and after the mid 1990s. However, there was a tendency that Cooper did not accumulate new cases in its studies in this period, but tended to sort out the cases that it had studied. For example, Cooper (1995 and 1996) has mentioned on the basis of its preceding study cases that Japanese enterprises did not adopt a competitive strategy where they aimed to avoid competition and acquire a sustainable superior position in competition but adopted a confrontation strategy where they aimed to confront with competition and acquire a temporarily superior position in competition, and Cooper also has mentioned that inter-organizational cost management can be located as one of the cost management tools which support confrontation strategy. In addition, Cooper=Slagmulder (1999) expanded the discussions of inter-organizational cost management centering on the development stage until then into the manufacturing stage and inter-organizational interface.

Furthermore, because Japanese style management was positively introduced into overseas Japanese enterprises and US and European enterprises in this period, studies on the close inter-organizational relationship of overseas Japanese enterprises and US and European enterprises were announced. For example, Carr=Ng (1995) has mentioned that Nissan UK handled cost reduction activities in the development stage with local suppliers, and that some suppliers started to carry out open-book accounting with Nissan UK through these activities. In addition, Ittner et al. (1999) have pointed out that where buyers and suppliers were in a close inter-organizational relationship, selection and monitoring practices of suppliers contributed to the performance of buyers, on the basis of a questionnaire survey on automobile companies and computer companies in the USA, UK, Germany and Japan. Also, on the basis of questionnaire surveys and interview surveys towards purchase transactions of the US automobile companies, Anderson et al. (2000) have empirically examined the features concerning the close inter-organizational relationship such as the facts that 1) the more complicated parts, the greater tendency of outside placement, 2) the higher the mutual dependency between systems, the smaller number of suppliers are selected, and 3) outside placement does not lead to ex-post opportunism compared to internal manufacturing.

On the other hand, research that examines how inter-organizational relationship should

be treated as a theme of management accounting field has started to come up in this period. This trend started in the discussion concerning the view of traditional management control concept accompanied by environmental change in Otley(1994) and in the discussion concerning the change in hierarchical organization and issues of management accounting research in Hopwood (1996). This is particularly notable in Gietzmann's research. Gietzmann (1996) has pointed out on the basis of literature review and questionnaire surveys that the feature of the close inter-organizational relationship represented by Japanese enterprises is seen in European enterprises, and that problems of inter-organizational relationship can be taken up as control problems under incomplete contracts on the premise of limited rationality and opportunism in transaction cost theories. Furthermore, he has asserted that it is necessary to understand control problems between organizations not as a typical short-term financial results oriented type control but longer term innovation promoting type control.

As above, in the inter-organizational management accounting in this period there co-existed management accounting which focused on the close inter-organizational relationship of Japanese enterprises, and overseas Japanese enterprises and the US and European enterprises which were affected by them and pointed out its superiority and novelty, and that which examined how to take up inter-organizational relationship as a theme of management accounting research with the use of knowledge of the past management accounting research and adjacent domains. Co-existence of different studies of this type was a feature of this period. In addition, it can be said that studies carried out by Otley and Hopwood which suggested that the inter-organizational relationship problems were not decision-making problems but problems of design and operation of management control, and those carried out by Gietzmann who attempted to use a transaction cost theory are of importance in the sense that they largely influenced the inter-organizational management accounting research after that.²⁾

4. Research accumulation period (2000 –)

The suggestion that inter-organizational relationship problems can be treated as problems of the design and operation of management control will lead to the advent of studies presenting control patterns between organizations in and after 2000 and those examining influential factors of control patterns between organizations. It can be said that the studies of van der Meer-Kooistra=Vosselman are such a trigger. Van der Meer-Kooistara=Vosselman (2000) decided inter-organizational relationship problems to be problems of design and operation of management controls between organizations, and simultaneously presented their three control patterns, which were the market based pattern, the bureaucracy based pattern and the trust based pattern. This enabled them to take up diversified inter-organizational relationship as study materials of management accounting. In addition, they mentioned that control patterns between organizations vary depending on the enterprise on the basis of these three patterns, adopting a case of a Dutch petroleum

company. Furthermore, they have pointed out that transaction cost theories and trust are useful as knowledge to examine these control patterns.

Several such studies presenting control patterns between organizations started to appear in this period in addition to the studies of van der Meer-Kooistra=Vosselman. Concretely, they are 1) Speklé (2001) who classified management control patterns within organizations and between organizations from the viewpoint of programmability, idiosyncrasy and impactedness of information, 2) Langfield-Smith=Smith (2003) who have mentioned the change process of a control pattern between organizations of an Australian electric enterprise with reference to the classification of van der Meer-Kooistra=Vosselman (2000), 3) Cooper=Slagmulder which has mentioned the relationship between inter-organizational relationship and inter-organizational cost management, using 7 Japanese enterprises' cases, by classifying suppliers into 4 from the viewpoint of buyers' support at the development stage and 4) Hakansson=Lind (2004) who have mentioned the co-existence of diversified control patterns within organizations and between organizations, on the base of a Swedish electric and telecommunication enterprise's case. Langfield-Smith=Smith (2003) are especially worth noting in that they have emphasized the importance of trust in design and operation of management control between organizations by mentioning that trust was the basis even after the control pattern between organizations changed from the trust based pattern to the bureaucracy based pattern.

Studies on design and operation of management control between organizations are accumulated in the form of examination of influential factors. For example, Dekker (2003) has pointed out that the preparation of agreements concerning investment burden and information usage by buyers affects positive information provision from suppliers, with the use of cases of logistics cost reduction in British retailers. In addition, Dekker (2004) has mentioned that the application of formal control putting emphasis on the results and behaviors between organizations is alleviated by social control, with the use of safety equipment procurement at a Dutch railway company. Furthermore, Seal et al. (2004) have mentioned the importance of accounting information and the roles of the division in charge of accounting in the control between organization through a case of a British electric maker. Dekker (2004) is interesting in the sense that, taking up competence trust and goodwill trust of Sako (1992) in the component elements of social control, he has mentioned the importance of competence trust and goodwill trust in design and operation in management control between organizations and examined the relationship between trust and control as one of them alleviates the application of the other, etc.³⁾

Additionally, there are studies on design and operation of management control between organizations that were carried out by Mouritsen et al. (2001) which have mentioned, referring to a case of two Danish small-scaled high technology companies, Tomkins (2001) who has mentioned on the basis of literature review, Baiman=Rajan (2002) who has examined the applicability of the past management accounting research concerning the design of an incentive system under incomplete contracts, and Anderson=Dekker (2005) which have

clarified that control patterns between organizations vary depending on the extent of ex-post transactions problems, on the basis of a questionnaire survey. Tomkins (2001) is particularly worth noting in the sense that it has presented that the relationship between trust and information is not a problem of a simple proportion by saying that information volume provided by a trade party forms an inverse U letter form when trust increases.

As above, the feature of the inter-organizational management accounting in this period is that the diversified inter-organizational relationship including close inter-organizational relationships is the subject of examination, in line with the direction of taking up the problems of inter-organizational relationships as problems of design and operation of management control between organizations. In other words, many cases of research were accumulated in this period, where the inter-organizational relationship was considered to be one of the themes of management accounting research not as a decision-making problem but as a management control problem and various types of control patterns and influential factors between organizations were examined with the use of transaction cost theories and trust. In addition, this study trend is the current main stream of inter-organizational management accounting studies in the US and Europe, which can be seen from the fact that van der Meer-Kooistra=Vosselman (2006) have pointed out the importance of trust and diversity of control patterns. The special edition of MAR beginning with van der Meer-Kooistra=Vosselman (2006) suggests that there is a possibility that such a stream will lead to future application of new social theories to statement and cases of the situations where diversified control patterns co-exist.

5. Conclusion

The inter-organizational management accounting has shifted from the stage of noting novel and superior management of Japanese enterprises to the stage of examining it as one of the themes of management accounting research, and it is currently handling the inter-organizational relationship as a problem of design and operation of management control between organizations. Figure 1 shows the brief summary of literature review in the past.

In this way, inter-organizational management accounting has changed from research where novelty and newness was sought to research where the relationship with the past research was sought, that is to say, from research that states practice to one that explains practice. However, the current research is the somewhat superficial statement of the contents of examination items and the relationship between examination items, because although they are widely recognized as one of the new research themes, they tend to concentrate on the analyses of specific enterprises using transaction cost theories and trust simply. It can therefore be considered to be necessary to pay attention to knowledge of purchase management practice and inter-organizational relationship which triggered the advent of inter-organizational accounting such as the statement concerning outside order placement of development works, statement concerning competence trust by Sako, and statement

Figure 1 Development of inter-organizational management accounting (prepared by the author)

| | Practice noting period – 1994 | Transitional period 1994 – 2000 | Research accumulation period 2000 – |
|-----------------------|--|--|--|
| Summary | Introduction of practice | Introduction of practice/ explanation of practice | Explanation of practice |
| Method | Mainly cases (Education and practice) | Mainly cases (Practice and research) | Mainly cases (Research) |
| Subject | Mainly Japanese enterprises | Japanese enterprises and US and European enterprises | Mainly US and European enterprises |
| Fundamental theory | Nothing in particular | (Transaction cost) | Transaction cost Inter-organizational trust (Structuralism) (Incentives) |
| Basic concept | Newness and novelty | | Relationship with past researches |

concerning manufacturing cost reduction and skill building competition by Asanuma, in order to overcome the current main research problems.

Notes

- 1) This research is one in which additions and revisions were made to the research of Sakaguchi (2006)
- 2) Gietzmann=Larsen (1998) who paid attention to the capability of suppliers and Seal et al. (1999) who paid attention to accounting information carried out research where influential factors of inter-organizational relationships were taken up in this period.
- 3) Otherwise, Kajüter=Kulumama (2005) carried out research where factors giving influence to control patterns between organizations are sorted out.

Reference

- Asanuma, B. 1985a, The Contractual Practice for Parts Supply in the Japanese Automotive Industry, *Japanese Economic Studies*, Summer: 54-78.
- Asanuma, B. 1985b, The Organization of Parts Purchases in the Japanese Automotive Industry, *Japanese Economic Studies*, Summer: 32-53.
- Asanuma, B. 1989, Manufacturer-Supplier Relationships in Japan and the Concept of Relation-Specific Skill, *Journal of Japanese and International Economics*, 3: 1-30.
- Anderson, S. W., D. Glenn and K. L. Sedatole. 2000. Sourcing Parts of Complex Products: Evidence on Transactions Cost, High-Powered Incentives and Ex-Post Opportunism, *Accounting, Organizations*

- and Society* 25 (8): 723-749.
- Anderson, S. W. and H. C. Dekker. 2005. Management Control for Market Transactions: The Relation Between Transaction Characteristics, Incomplete Contract Design, and Subsequent Performance, *Management Science* 51 (12): 1734-1752.
- Baiman, S. and M. V. Rajan. 2002. Incentive Issues in Inter-Firm Relationships, *Accounting, Organizations and Society* 27 (3): 213-238.
- Carr, C. and J. Ng. 1995. Total Cost Control: Nissan and Its U.K. Supplier Partnerships, *Management Accounting Research* 6 (4): 347-365.
- Cooper, R. 1994a. *Citizen Watch Co, Ltd: Cost Reduction for Mature Products*, Boston, Harvard Business School Case Series 9-194-033.
- Cooper, R. 1994b. *Komatsu Ltd.(A): Target Costing System*, Boston, Harvard Business School Case Series 9-194-037.
- Cooper, R. 1995. *When Lean Enterprises Collide: Competing through Confrontation*, Boston, Harvard Business School Press.
- Cooper, R. 1996. Costing Techniques to Support Corporate Strategy: Evidence from Japan, *Management Accounting Research* 7 (2): 219-246.
- Cooper, R. and R. Slagmulder. 1999. *Supply Chain Development for the Lean Enterprise: Interorganizational Cost Management*, Portland, Productivity Press.
- Cooper, R. and R. Slagmulder. 2004. Interorganizational Cost Management and Relational Context, *Accounting, Organizations and Society* 29 (1): 1-26.
- Cooper, P. and T. Yoshikawa. 1994a. *Kamakura Ironworks Co, Ltd*, Boston, Harvard Business School Case Series 9-195-056.
- Cooper, R. and T. Yoshikawa. 1994b. *Yokohama Co, Ltd. (A): The Yokohama Production System*, Boston, Harvard Business School Case Series 9-195-070.
- Cooper, R. and T. Yoshikawa. 1994c. Inter-Organizational Cost Management Systems: The Case of the Tokyo-Yokohama-Kamakura Supplier Chain, *International Journal of Production Economics* 37: 51-62.
- Cusumano, M. A. and A. Takeishi. 1991. Supplier Relations and Management: A Survey of Japanese, Japanese-Transplant, and U.S. Auto Parts, *Strategic Management Journal* 12 (8): 563-588.
- Dekker, H. C. 2003. Value Chain Analysis in Interfirm Relationships: A Field Study, *Management Accounting Research* 14 (1): 1-23.
- Dekker, H. C. 2004. Control of Inter-Organizational Relationships: Evidence on Appropriation Concerns and Coordination Requirements, *Accounting, Organizations and Society* 29 (1): 27-49.
- Dyer, J.H. and W.G. Ouchi. 1993. Japanese-Style Partnerships: Giving Companies a Competitive Edge, *Sloan Management Review* Fall: 51-63.
- Gietzmann, M. B. 1996. Incomplete Contracts and the Make or Buy Decision: Governance Design and Attainable Flexibility, *Accounting, Organizations and Society* 21 (6): 611-626.
- Gietzmann, M. B. and J. G. Larsen. 1998. Motivating Subcontractors to Perform Development and Design Tasks, *Management Accounting Research* 9 (3): 285-309.
- Håkansson, H. and J. Lind. 2004. Accounting and Network Coordination, *Accounting, Organizations and*

Management Accounting Concerning Inter-Organizational Relationship

- Society* 29 (1): 51-72.
- Helper, S. 1991. How Much Has Really Changed between U.S. Automakers and Their Suppliers?, *Sloan Management Review* Summer: 15-28.
- Hopwood, A. G. 1996. Looking across Rather Than Up and Down: On the Need to Explore the Lateral Processing of Information, *Accounting, Organizations and Society* 21 (6): 589-590.
- Ittner, C. D., D. F. Larker, V. Nagar and M. V. Ragan. 1999. Supplier Selection, Monitoring Practices and Firm Performance, *Journal of Accounting and Public Policy* 18 (3): 253-281.
- Kajüter, P. and H.I. Kulumala. 2005. Open-Book Accounting in Networks: Potential Achievements and Reasons for Failures, *Management Accounting Research* 16 (2): 179-204.
- Langfield-Smith, K. and D. Smith. 2003. Management Control Systems and Trust in Outsourcing Relationships, *Management Accounting Research* 14 (3): 281-307.
- Mouritsen, J., A. Hansen and C. Ø. Hansen. 2001. Inter-Organizational Controls and Organizational Competences: Episodes around Target Cost Management/Functional Analysis and Open Book Accounting, *Management Accounting Research* 12 (2): 221-244.
- Munday, M. 1992. Accounting Cost Data Disclosure and Buyer-Supplier Partnership: A Research Note, *Management Accounting Research* 3 (3): 245-250.
- Nishiguchi, T. 1992. *Strategic Industrial Sourcing: The Japanese Advantage*, New York, Oxford University Press.
- Otley, D. 1994. Management Control in Contemporary Organizations: Towards a Wider Framework, *Management Accounting Research* 5 (3/4): 289-299.
- Sakaguchi, J. 2006. Sosikikankankei to Kanrikaikei (Inter-organizational Relations and Management Accounting), Working Paper at Graduate School of Kansai University (in Japanese).
- Sako, M. 1992. *Price, Quality and Trust: Inter-Firm Relations in Britain and Japan*, Cambridge, Cambridge University Press.
- Seal, W., J. Cullen, A. Dunlop, T. Berry and M. Ahmed. 1999. Enacting an European Supply Chain: A Case Study on the Role of Management Accounting, *Management Accounting Research* 10 (3): 303-322.
- Seal, W., A. Berry and J. Cullen. 2004. Disembedding the Supply Chain: Institutionalized Reflexivity and Inter-Firm Accounting, *Accounting, Organizations and Society* 29 (1): 73-92.
- Speklé, R. F. 2001. Explaining Management Control Structure Variety: A Transaction Cost Economics Perspective, *Accounting, Organizations and Society* 26 (4-5): 419-441.
- Tomkins, C. 2001. Interdependencies, Trust and Information in Relationships, Alliances and Networks, *Accounting, Organizations and Society* 26 (2): 161-191.
- van der Meer-Kooistra, J. and E. G. J. Vosselman. 2000. Management Control of Interfirm Transactional Relationships: The Case of Industrial Renovation and Maintenance, *Accounting, Organizations and Society* 25 (1): 51-77.
- van der Meer-Kooistra, J. and E. G. J. Vosselman. 2006. Research on Management Control of Interfirm Transaction Relationships: Whence and Whither, *Management Accounting Research* 17 (3): 227-237.