

Chapter 1

Introduction



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Anthony (1965) considered management control as a process in which middle managers use several accounting systems, including budgets and performance evaluations, to effectively use resources within the authority given to them to achieve organizational goals and execute strategies. Since Anthony (1965), there has been an increasing number of studies in the management accounting field, leading to diversification in management control research concerning both research subjects and regions.

The scope of research has expanded from financial controls to non-financial controls. In Japan, management control research has been conducted based on the corporate practice unique to Japan, as well as research accumulated in North America and Europe. Management control has been a major research theme in the field of management accounting worldwide (Chapman et al., 2007a, 2007b).

Ample research and knowledge have accumulated since Anthony's first management control topic publication over 50 years ago. However, the recent diverse management control research has not provided sufficient clarity on the overall characteristics of management control. Therefore, reviewing the current research and practice of management control in Japan will prove useful for the future development of management control research in Japan.

In this volume, in response to the recent dramatic changes in the management infrastructure, our aim is to present to academic and business communities the management control systems of Japanese firms, based on previous studies and empirical findings on management control.

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1.1 Diversity of Management Control Research

Management control is a fundamental concept to understand planning and control activities within an organization (Anthony, 1965). According to Anthony (1965), management control is “the process by which managers assume that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives” (p. 17). Since this concept was proposed, management control (in management accounting) has become a core research theme in Europe, the United States, and Japan (Itami, 1986; Tani et al., 2010).

However, the corporate environment has changed since Anthony presented the concept of management control; therefore, studies in Europe and the United States have reexamined the concept of management control. For example, Simons (1995) proposed “interactive” control systems for top management to control managers through discussion. Additionally, Malmi and Brown (2008) expanded the management control framework by considering various control systems, including accounting as interrelated “control packages.” Some earlier studies on management accounting in Japan have also applied the newly proposed theoretical framework of management control to understand corporate practices in the face of environmental changes (Yokota et al., 2016).

Furthermore, in recent years, there has been a shift to management that emphasizes intangible assets (intangibles) over tangible assets. This shift drove the globalization of research and development; production and sales; the diversification of human resources and employment patterns (changes in the human infrastructure); sophistication of information processing, including artificial intelligence (AI) and cloud computing (changes in the information infrastructure); network organization of strategic collaboration; supply chain management; and the development of group management such as pure holding companies (change in the organizational infrastructure). The management infrastructure of firms is changing substantially in Japan and globally (Kaplan & Norton, 2001; Lev, 2001; Sakurai, 2012). These changes in the management infrastructure also affect management control: the process of planning and controlling firms’ activities (Brooke, 2012; Kolbjørnsrud et al., 2016). Therefore, to address how management control in companies responds to dramatic changes in the management infrastructure, there is a need to clarify recent trends and characteristics related to management control in Japanese firms using empirical methods such as interviews and questionnaire surveys. We believe this is a crucial academic issue in management accounting research in Japan and worldwide.

Most of the earlier studies in Japan, except for some pioneering attempts, relied on Anthony’s traditional framework consisting of phrases such as “goal setting,” “planning and budgeting,” “performance evaluation,” and “incentives” (Yokota & Kaneko, 2014; Yokota et al., 2016). Moreover, the linkage between subsystems such as “goal setting” and “planning and budgeting,” “planning and budgeting” and “performance evaluation,” “performance evaluation” and “incentives,” and “incentives” and “goal setting,” which many studies have implicitly assumed, are not necessarily self-evident. There are concerns that they have not been linked owing

to recent changes in the management infrastructure. Therefore, to respond to how management control is implemented in Japanese firms, we comprehensively examined the previous studies on management control in Japanese firms based on Anthony's traditional management process and comprehended the main arguments and limitations that are discussed. It is essential to construct a new theoretical framework more suitable for the current situation to strengthen the linkage between research and practice and increase the probability that the research will contribute to practice.

Based on this academic background, the present volume focuses on current trends in management control in Japanese firms facing dramatic changes in management infrastructure and summarizes empirical findings related to practice. The findings from the review of management control literature contrast with earlier studies. In this volume, we provide valuable information to the academic and business communities. We aim to answer the question, "How does corporate management control respond to dramatic changes in the management infrastructure in Japan?"

This volume also provides a wealth of knowledge on the trends and characteristics of management control considering the current fundamental changes in management infrastructure (human, information, and organizational infrastructure). These studies are unique for Japanese researchers as well as non-Japanese researchers. Additionally, this volume provides a concrete and usable theoretical framework to answer the question, "How is management control implemented in Japanese firms?" Therefore, we believe that it will strongly contribute to the academic and business communities.

1.2 Issues in This Volume

Management control, a concept related to the processes of corporate planning and control, is a central research theme in Europe, the United States, and the field of management accounting in Japan. Yokota—the editor of this volume and the principal investigator of this study—has focused on management control for over 20 years and has published many studies on Japanese companies. Specifically, Yokota has conducted case studies of Japanese firms and has examined the trends and characteristics of their practices (Yokota, 1998, 2015, 2016; Yokota & Kaneko, 2014). Additionally, Yokota has highlighted the general trend of management control in Japanese firms by analyzing the results of questionnaire surveys on budget and performance evaluation (Yokota & Senoo, 2012; Yokota et al., 2012, 2013).

From these research activities, it is believed that the management control framework by Anthony (1965) is limited in explaining the management process of Japanese companies because it assumes the traditional pyramidal organization found mainly in Western companies as the norm (Yokota, 1998). Additionally, as over 50 years have passed since Anthony's management control was proposed, its inadequacies have been identified through our investigation of Japanese companies.

It does not account for previous changes in corporate planning and control activities (Yokota et al., 2016).

In particular, as mentioned previously, the current diversification of human resources; globalization; the sophistication of information processing owing to the rapid development of AI and cloud computing; and the fundamental changes in management infrastructure, including the development of strategic alliances and group management, have dramatically affected corporate planning and control activities (Bartlett & Ghoshal, 1989; Brooke, 2012; Kolbjørnsrud et al., 2016). Additionally, these effects are believed to be true for Western and Japanese firms (Sakurai, 2012). Therefore, we should organize a team consisting of multiple researchers with a common awareness of the problem and employ empirical methods such as interview surveys and questionnaire surveys from various perspectives to clarify the trends and characteristics of management control in Japanese firms that are facing the change. In addition to compiling a body of such empirical findings, through comparisons with previous studies, in this volume, we investigate management control in Japanese firms and contribute to their practice.

The problems and limitations of the concept of management control proposed by Anthony (1965) have been identified in management accounting in Europe and the United States (Chenhall, 2006; Otley, 1980, 1994). Moreover, some earlier studies in Europe and the United States have presented new theoretical frameworks for management control. The three representative examples are (1) the framework by Simons (1995), which focused on the methods of control (levers) and presenting “diagnostic,” “interactive,” “belief,” and “boundary” control systems; (2) the framework by Merchant (Merchant & Van der Stede, 2007), which focuses on the object of control (objects) and presenting “results,” “behavior,” “personnel,” and “culture” systems; and (3) the concept of “control packages” (Malmi & Brown, 2008), which considers management control as the interaction of multiple controls. However, these theoretical frameworks do not directly reflect changes in the human resource infrastructure, such as diversification of human resources and employment forms; changes in the information infrastructure, such as increasing sophistication of information processing; and changes in the organizational infrastructure, such as network organization and development of group management. Therefore, they do not adequately explain the actual planning and control processes in today’s companies.

Several earlier studies have provided empirical findings on management control practices in management accounting in Japan (Takahashi et al., 2003; Yoshida et al., 2012, 2017). However, the previous studies were mainly intended to conduct a comprehensive survey of Japanese management accounting practices at a specific point in time, and cannot be said to have empirically examined the impact of the fundamental changes in today’s management infrastructure.

To resolve the above limitations, the studies in this volume focus on management control in Japanese companies, which faced drastic changes in the management infrastructure, and compare their empirical findings with those of earlier studies. Our aim is to contribute to the theory of management accounting and its practice. From

the perspective of domestic and international research trends, it is unique and will contribute greatly to the study of management control.

1.3 Structure of This Book

The following is a broad outline of the structure of this volume. First, we analyze the current Japanese and global trends in management control research to grasp the characteristics of management control research in Japan.

Next, we conduct survey research on various Japanese firms. In addition to the management control survey, we examine the results of a survey on the actual status of performance management systems (PMS), a survey on PMS in foreign subsidiaries in Japan, and a study on capital budgeting. In addition, we present the results of a quantitative analysis of investment decisions in Japan.

Then, we present four case studies of management control in Japanese companies. We analyze a case study of “balanced scorecard” (BSC) in Kirin Brewery Holdings, which is a Japanese traditional food company; a case study of BSC in Company X, a long-established snack food manufacturer; a case study of the selection of environmental performance measures in Misawa Home, a prefabricated housing manufacturer; and a case study of management control at Hoshino Resort, Co. Ltd.

From these studies, we can acquire knowledge about Japanese management control and understand how management control systems are used in Japan.

Some studies in this book were originally published in Japanese academic journals and bulletins and have been translated with corrections. The first publication of each study is indicated in the notes at the beginning of each chapter.

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