

- Contingency theory was a recent vogue in the 1970s and early 80s
  - “during the past five years it has come to dominate the published work on the behavioural and organizational aspects of management accounting”
  - “…based on premise that there is no universally appropriate accounting system which applies equally to all organisations in all circumstances”
- “management accounting has long recognized its inter-relationship with organizational and behavioural factors” i.e. Horngren’s (1972)
- Otley found it “disturbing” that the insights in recent research at the time was not being translated into practical guidelines
- One reason for the development of contingency frameworks has been that empirical results have shown conflicting results which a universal framework could not answer
- Important contingent variables highlighted by Otley:
  - 1) The effect of technology
    - Woodward (1965) has recognized its influence on the design of internal accounting systems
    - Piper (1978) also demonstrated aspects other than production technology that have “an effect on the information that should be provided for effective performance”
  - 2) The effect of organization structure
    - Hopwood (1972) distinguished between:
      - Budget Constrained use of accounting information
        - Where meeting the budget was the single most important factor in a superior’s evaluation of his subordinates
        - Rigid
      - Profit-Conscious style
        - Where longer-run effective was also considered
        - More flexible
  - 3) The effect of environment
    - Khandwalla (1972) examined the effect that the type of competition faced by a firm had on its use of management controls
      - Price, marketing, product competition all have an impact
    - Otley (1978) distinguished between:
      - Tough operating environment
        - Difficult for a unit manager to show accounting profits
      - Liberal operating environment
        - Relatively easy to maintain profitable operations
- Another major factor which influenced the development of the contingency theory of management accounting was the prior development of the contingency theory of organisations
  - 1960’s organization theory underwent a major upheaval
    - “pioneering work of Burns and Stalker (1961)”
    - “reinforced by the work of Woodward (1965)”
    - “work by corporate strategists such as Chandler (1962) was emphasizing the relationship between the strategy an organization selected in order to achieve its goals and the organizational structure that was most appropriate for it to adopt”
  - Contingency theory was firmly established by 1970 as the dominant approach in organization theory (Child, 1977)
    - But Wood (1979) criticized this
  - Criticism of contingency theory => “does not produce consensus on what specific contingencies should result in particular configurations on accounting information”