

## THE ROLE OF FORESIGHT ACTIVITY IN MANAGEMENT ACCOUNTING AND CONTROL: A CONTINGENCY APPROACH

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### ABSTRACT

This study aims to determine the connection of foresight activity with management accounting and control in achieving organizational goals by using a contingency approach. Contingency theory related to management accounting, control, strategy, structure and performance paradigm is a synergy between strategy and organizational structure that aims to maximize performance in response to internal and external factors. Contingency theory considers that an organization is a function of several factors that are simultaneously influenced by external environmental factors and other factors. The data was obtained from empirical studies of previous studies from 1980 to 2014. The results of empirical studies revealed that (1) empirical research on management accounting and control using a contingency approach was 236 studies. (2) the contingency approach in the foresight activity study found only 31 studies. The results of this study found that there is a relationship between foresight activity and management accounting and control. Organizational success in system design, strategy formulation, strategy implementation, strategy evaluation until improvement or change in strategy is supported by foresight activity. In addition, Foresight activity focuses on achieving long-term corporate goals

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**Keywords:** Foresight activity, management accounting and control, contingency theory

### INTRODUCTION

Research in the field of management accounting began to develop in the 1980s. Initially management accounting research was conducted by conducting surveys, descriptive studies and case studies. However, case studies conducted by researchers have not provided an explanation of initial theoretical development with the results obtained in the study (Otley, 2016). Besides, empirical research is only used to know perception about gap between theory and practice. Researchers began assessing the gap using organizational and social theory, particularly contingency theory in management accounting research (Bromwich and Scapens, 2016).

The contingency theory proposed by Otley (1980) is a contingency approach on the premise that no accounting system is universally applicable and is established for all organizations in all condition. The existence of the development of accounting system. The use of contingency theory in research over the last four decades (1980 to 2014) has resulted in many contingency variables (Otley, 2016). The emergence of various contingency variables provides an opportunity for researchers to develop knowledge in the field of management accounting and control. One of the unique contingency variables in management accounting research is foresight activity.

Since the late 1980s, the term foresight has been used to improve activities by improving input on the long-term future of an organization (Keenan et al, 2003; Rohrbeck and Schwarz, 2013). According to Makridakis (2004) the role of foresight is to inform top managers in policy making by looking at the future of the company with different views and understanding the possible application of implications for technological and social developments.

The purpose of this study is connecting foresight activity with management accounting and control in achieving organizational goals. and to strengthen the theoretical study that foresight activity is not a forecast in management accounting and control, but is a future-oriented strategy of the organization.

This study uses qualitative research by way of conducting theoretical studies of several empirical studies over the past 25 years. Empirical research data in the form of journals and proceedings from the database of University of Airlangga Surabaya by accessing [www.lib.unair.ac.id](http://www.lib.unair.ac.id).

## LITERATURE REVIEW

### **Contingency Theory**

The central theory that dominates management accounting research, management control systems, and strategy management is the theory of content. Quoted from Otley's (1999) research, the theory of contingency in management accounting shows that there is no universally applicable management control system, but the selection of appropriate control techniques depends on the circumstances surrounding a particular organization. The purpose of the main contingency variable is the strategy and objectives to be achieved by an organization. Not only those objectives that focus on the outcomes to be achieved, but the organization must also act in determining the criteria for contingencies that have been made to be evaluated (goodness or fit). Each controlled system requires objectives and targets whose

performance can be assessed (Otley and Berry, 1980). There is no special contingency formula needed to anticipate different goals in involving the selection of different performance measures and controls (Otley, 1999).

Cenhall (2003) observes that research on contingencies over the years has been important to consider the extent to which progress has been made in developing empirical literature that links management control systems with contextual factors (environment, technology, organizational structure, organizational size, strategy and organizational culture). The functional contingency approaches of some studies (eg, Otley 1980 and Berry; Langfield-Smith, 1997) assume that Management control systems and strategy (MSS) are adopted to help managers achieve some of the organization's desired outcomes or organizational goals.

### **Foresight Activity**

Foresight activity encourages a collective form of learning that is highly dependent on the cognitive policy of foresight attitudes, especially through questions about the provoked individual perceptions. Foresight activities involve intense management and resources in organizations to perfect foresight as a strategy, with the aim of exploiting long-term opportunities through science, technology and innovation from the public as consumers (Bootz, 2010). In addition, foresight is seen not only as a means to reflect the strategic orientation, but is used as a tool for collective mobilization that has the potential to affect all corporate resources. Thus, foresight activities are understood as the ultimate process that can control collectively within the organization, from analyzing the situation to integrating new strategies within the organization.

Traditionally one of the main areas of foresight is science and technology (technology foresight). According to Vecchiato and Roveda (2010) foresight technology is widely used in marketing research and the social sciences that analyze any changes in consumer lifestyle behavior that may impact the future needs of customers due to the expansion of new technologies. Georghiou and Keenan (2006) evaluated foresight activities. Evaluation is based on behavioral concepts, reasons of failure and success of strategy. Using case of foresight activities in England, Germany and Hungary. The results suggest that foresight cannot be fully evaluated independently from its context, foresight is reinforced by the emergence of complex science and systems that can assist organizations in executing strategy.

## RESEARCH METHODS

This study uses qualitative research by way of conducting theoretical studies of several empirical studies over the past 25 years. Empirical research data in the form of journals and proceedings from the database of Universitas Airlangga , Surabaya by accessing [www.lib.unair.ac.id](http://www.lib.unair.ac.id).

## RESULT

### Contingency Theory in Management Accounting and Control

The notion of contingency theory in management accounting began to develop in the 1970s in an attempt to explain current accounting practices. Contingency theory greatly influences the organizational structure that best suits certain circumstances. Contingent variables are used to describe management accounting and control systems within an organization (Otley, 2016). Research conducted by Hopwood (1974) has shown that, the design of management accounting and control systems is closely related to the organizational structure of the company.

**Table 1 : Use of contingent variables in management accounting research**

Name of the journal	Number
Accounting, Organizations and Society	66
Management Accounting Research	57
British Accounting Review	22
Journal of Management Accounting Research	13
Accounting, Auditing and Accountability Journal	9
European Accounting Review	9
Accounting and Business Research	7
Information and Management	4
Strategic Management Journal	4
Administrative Science Quarterly	3
Journal of Management	3
Total	236

Source: Otley (2016)

Otley (1980) provides an explanation of the contingency theory in management accounting, that: "a contingency theory must not identify the specific aspects of an accounting system which are associated with certain defined circumstances and demonstrate appropriateness." (P.413). Almost all research in management accounting is essentially contingent in that it seeks to

find the most appropriate strategy for a particular organization in specific circumstances (Otley, 2016).

### **Contingency Theory in Foresight Activity**

Contingency theory considers that the success of the organization in implementing the strategy depends on the environment and condition of the organization. Foresight activity is a strategy that serves as a view to achieve the vision and goals of a company that is long-term depending on the organization internal and external conditions. Jänkälä (2010) argues that foresight activity is a strategy that is able to see the future activities of the organization. Because in general organization are planning future oriented, ability to appreciate, learn as well as innovate about new ideas for future business (Wilenius, 2008).

Foresight activity focuses on achieving long-term organizational goals. According to Rohrbeck and Kum (2017) foresight activity can help organizations break away from dependence on pathways, assist in decision-making processes, and ultimately enable superior organizational performance improvement. The relationship of foresight activity to contingency theory lies in the measurement of strategy. Amsteus (2008) measured the foresight activity contingency approach, (1) degree of analyzing present contingencies and degree of moving the analysis of present contingencies across time, (2) degree of analyzing a desired future state or states a degree ahead in time with regard to contingencies under control, and (3) as degree of analyzing courses of action a degree ahead of time to arrive at the desired future state.

**Table 2 : Use of contingent variables in foresight activity research**

<b>Name of the journal</b>	<b>Number</b>
Foresight Journal	2
Technological Forecasting & Social Change	18
Business Strategy Series	3
Energy Policy	1
Journal of Management	2
Journal of Business Research	1
Futures	1
Procedia	3
Total	31

Source: Research Data, processed (2017)

## DISCUSSION

### Foresight Activity in Management Accounting

Since the late 1980s, the term foresight has been used to describe activities by improving input on the long-term future of an organization (Keenan et al., 2003; Rohrbeck and Schwarz, 2013). According to Makridakis (2004) the role of foresight is to provide information to top managers in policy making by looking at the future of the organization with different views and understanding the possibility of implications for technological and social developments. Tsoukas and Shepherd (2004) argue that foresight is the ability to see future developments, recognize strategies before they are applied, and understand the characteristics of social currents that are likely to have an impact, because foresight is not a predictive ability. Every organization always makes predictions, the implementation of foresight is a strategy for organizations to reduce the action to make predictions. Therefore foresight activity is the ability to run the future strategy activities with the goal of preparing the future of the organization wisely.

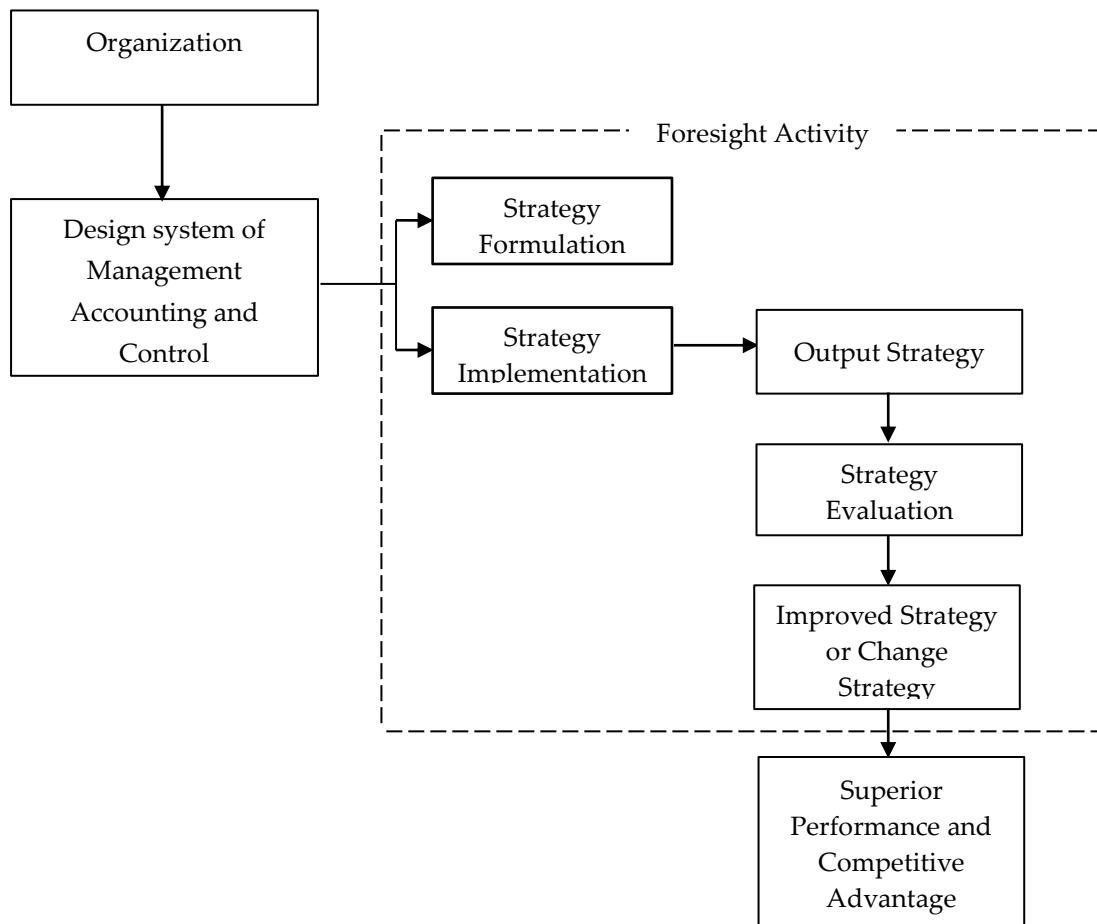


Figure 1 The role of Foresight Activity in management accounting

Foresight activity is seen as a strategy because it is an integral part in achieving organizational goals. According to Slaughter (1997) strategic foresight activity is the ability to create and maintain various high quality views and implement an organization-wide strategy. for example, bad conditions typing, policy guidance, strategy form, market exploration, and new products and services.

Strategic foresight activity involves understanding the future and applying future-oriented insights into strategic activities in an organizations decision-making. In general, strategic foresight has two roles: (1) observing, understanding and capturing factors that tend to encourage future change, and (2) addressing those changes by determining appropriate organizational responses (Iden, 2017).

Foresight activity is a strategy that serves as a view to achieving long-term vision and organizational goals that depend on the internal and external conditions of the Organization. Jänkälä (2010) argues that foresight activity is a strategy that is able to see the future activities of an organization. Because in general organizations are planning future oriented, ability to appreciate, learn as well as innovate about new ideas for future business (Wilenius, 2008).

Rohrbeck and Schwarz (2013) conducted a study of the value of strategic foresight implementation contributions made to major European companies, the results provide an understanding that, overall, the implementation of strategic foresight can provide value to contributions to organizations and individuals (managers), when applied well then the company can expect perfect perception, increased ability to make strategic changes, and enhancement of capabilities for the improvement of organizational learning capacity.

## **IMPLICATIONS**

The importance of management accounting and control system design has an impact on strategy formulation, strategy implementation and strategy evaluation in achieving organizational goals. However, success in implementing the strategy depends on both internal and external organizational conditions, so that contextual factor support is needed to support the successful implementation of the strategy. The contextual factor in question is foresight activity.

## CONCLUSION

The contingency approach can address various issues within the organization. The importance of contingency variables leads organizations to achieve organizational goals. The empirical research of management accounting and control gets special attention on the use of contingency theory in research, it is proved that there are 236 studies from 1980 to 2014 that relate contingent variables to management accounting and control. In addition, contingency variables begin to shift in researches on foresight.

The emergence of research on foresight associated with contingent variables, can provide great opportunities for researchers in the field of management accounting and control. foresight activity can be viewed as a strategy, because it can provide information to the organization in assisting decision-making and improve strategies in general to encourage the growth/improvement of organizational performance, and is considered to have a more accurate description of the company's current environment and the future of the organization.

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