

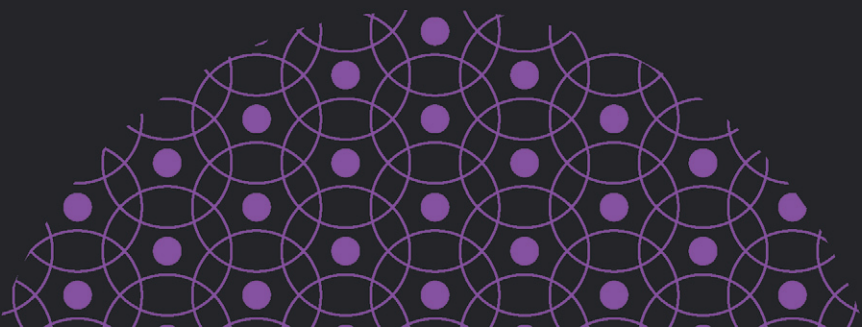


EMERALD POINTS

**INTEGRATING  
PERFORMANCE  
MANAGEMENT  
AND ENTERPRISE  
RISK MANAGEMENT  
SYSTEMS**

Emerging Issues and Future Trends

**ROSANNA SPANÒ  
CLAUDIA ZAGARIA**



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Emerging Issues and Future Trends

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emerald  
**PUBLISHING**

United Kingdom – North America – Japan – India  
Malaysia – China

Emerald Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2022

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**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-80117-152-6 (Print)

ISBN: 978-1-80117-151-9 (Online)

ISBN: 978-1-80117-153-3 (Epub)



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INVESTOR IN PEOPLE

*This book is the result of a common effort and a common research pathway of the two authors, which started as master students and continued along the pathway of their PhD and subsequent academic career. There are, therefore, a number of people, too many to be listed without risking boring the reader, to whom the authors owe extreme gratitude and who were highly influential to their personal and scientific growth and maturation.*

*Nevertheless, also considering that this book has been realized over a period of worldwide crisis and danger due to the COVID-19 pandemic spread and that it required time and dedication to be taken away from our affections, this time our heartfelt dedication is to those we love most, Federica who is already here and Eleonora who is about to arrive.*

*Naples, January 7, 2022*

*Rosanna Spanò and Claudia Zagaria*

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# INTRODUCTION

This book is rooted in the inconclusive debate addressing the long-called and yet-not-achieved integration between performance management and enterprise risk management systems. The aim is to offer a novel understanding of the multifaceted shades that surround this complex domain. In particular, the book moves from the idea that the main limitations so far refer to the jeopardization of extant contributions, the lack of a fully holistic perspective of analysis and interpretation, and the need to more closely look at the potential opportunities and threats that in the current VUCA (volatile, uncertain, complex, and ambiguous) world derive by issues referring to ethical concerns and accountability pressures, power dynamics, social and sustainability implications, and technological impacts.

In this book the integration between performance management and enterprise risk management systems is addressed in a wider manner. The attempt is to deepen the theoretical debates and the multiple practical and policy interventions, highlighting elements of overlaps and gaps, and fostering a more systematic effort toward the embeddedness of unified routines and behaviors. The necessary premise, on this regard, is to look at performance management and enterprise risk management systems as logics rather than functions, as languages rather than tools, devoting major attention to soft variables in addition to the already largely commented upon hard ones.

We contend that full comprehension of these dynamics taking place is now paramount from both the theoretical perspective and the practical and policy-making sides.

The first chapter explores the issues relating to the evolution of performance management systems so far mainly addressing the management accounting research field and tracing the shifting patterns in theory and practice that took place over the last 40 years. Special attention is thus devoted to detecting the causes triggering innovations in the field over times and the implications of such changes in terms of actors, tools, and change pathways. In the end, the chapter comments upon the most interesting yet unanswered questions that have recently come to the attention of scholars and practitioners. The chapter benefits from several practical examples reported across

the issues analyzed, in order to offer bases for immediate operationalization of the theoretical concepts mentioned.

The second chapter focuses on the issues relating to the evolution of enterprise risk management systems so far tying together the fragmented discourses variously arising in the accounting, auditing and management accounting research fields over the last 30 years. Special attention is thus devoted to detecting the causes triggering innovations in the risk management approaches over times and the implications of such changes in terms of actors, tools, and change pathways. In the end, the chapter comments upon the most interesting yet unanswered questions that have recently come to the attention of scholars and practitioners. The chapter benefits from several practical examples reported across the issues analyzed in order to offer bases for immediate operationalization of the theoretical concepts mentioned.

Finally, the third chapter, drawing on the issues raised in Chapter 1 and Chapter 2, deepens the relationship between performance management and enterprise risk management to better tap into the issues concerning the integration of these two still separated domains.

In this regard, we put forth a more holistic view, suggesting a possible way forward to achieve an enterprise risk performance management system. In this chapter we make explicit a novel focus that sees performance management and enterprise risk management systems as logics rather than functions, as languages rather than tools, devoting major attention to soft variables in addition to the already largely commented upon hard ones. Also, the novelty of the chapter lies in its attempt to fully embrace in our views the impacts of crucial and up-to-date matters relating to ethical concerns and accountability pressures, power dynamics, sustainability implications, and technological impacts.

Thanks to this approach, we are able to take an original perspective in the analysis offering the basis for reflecting upon the importance and strategic relevance for any entity of a dynamic, flexible and discursively agreed enterprise risk performance management system to deal with the current economic, social, environmental, political, and regulatory landscapes. The chapter benefits from several practical examples reported across the issues analyzed in order to offer bases for immediate operationalization of the theoretical concepts mentioned.

The book proposes a novel approach to the understanding of the managerial issues that currently worry companies worldwide, dealing with a quickly transforming environment. It tries to tie together more systematically debates that are apparently still compartmentalized, which, however, need to be integrated and comprehended as a whole to support the business continuity in this new era. In so doing, the book acknowledges that there is a need to build a

bridge between theory and practice, and therefore provides a rich analysis to support and complement the issues raised. In doing so, the book systematically address the issues relating to the integration between performance management and enterprise risk management, also encompassing possibly impacting factors, usually only slightly touched upon in journal articles. In addition, the book benefits from a rich and profound literature and other documents and reports, offering an investigation that goes beyond the typical approaches to the topic to date, and highlights behavioral dimensions previously not systematically disentangled. Finally, the book offers a profound theoretical systematization – to date unavailable – that is strongly compelled with relevant practical and policy implications, sometimes neglected in the field. This aspect is extremely relevant also for students and practitioners interested in gathering a fuller view of the phenomena investigated, as the issues addressed are to date only slightly touched upon and partially developed in multiple different sources.

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# PERFORMANCE MANAGEMENT SYSTEMS: EMERGING ISSUES AND FUTURE TRENDS

## 1. PREFACE

Focusing on the issues of management accounting or management control change implies considering that the field, devoid of exhaustive answers and axiomatic foundations, dynamically and constantly evolves over time, and has progressively expanded its boundaries to encompass additional yet necessary dimensions of interpretation.

At the beginning, management control was mainly rooted in a mechanistic view of the company and was interpreted as responding to quantitative-monetary information needs, which would support the pursuit of corporate objectives through an efficient and effective use of resources (Anthony, 1965). In a nutshell, management control was born around the 1950s as the right arm of accounting, at a time when there was an almost obsessive need to quantify company life, a need heartened by the idea that only what was objectively measurable could be relevant within the company, and therefore managed. The objective of such a system consisted of assessing the quantitative differential of the achievement of corporate objectives; that is, it meant measuring in purely numerical terms – for example, using financial indicators – the deviation from the estimated performance results. In terms of terminology, the discourses on “management accounting” and “management accounting systems” were mainly dependent upon accounting control logics strongly tied with the financial reporting and the budget, and still separated from the upper floors of strategic planning. As the international economic and social landscapes evolve, the perimeter of management control begins to expand,

emancipating itself from the narrow accounting area and integrating the qualitative reasoning needs, hitherto ignored by management. This change of perspective is consequent, among other things, to some financial scandals of international resonance and corporate failures, which occurred between the end of the 1990s and the beginning of the new century, which highlighted all the inherent weaknesses of corporate governance.

The 1990s therefore marked the progressive passage of management accounting from a quantitative approach in measuring the deviation from the expected return to a causal approach, which means questioning the determinants behind these deviations and reconciling qualitative performance elements useful for decision-making processes, thus overcoming the presumed dichotomy between planning and control.

The evolution of the environmental and internal scenarios of the organization reveals an increasingly complex, dynamic, uncertain world, which shuns objective calculation, transcending its boundaries, and which requires greater flexibility from the company. The globalization of markets, the advancement of information systems, the development of new technologies, the exponential increase in competition, a greater emphasis on the consumer, outsourcing processes and corporate downsizing are just some of the phenomena that pave the way for a broader meaning of management control, as a “package” of techniques, tools, and logics that no longer constitutes a mere accounting matrix and which replaces the perspective of feedback control with ongoing monitoring, constituting a whole encompassing system of performance measurement and management.

On this ground, the following sections attempt to review and systematize the extant literature and practice contributions to identify patterns of development and change in the debate. Furthermore, there is an attempt to focus on the possible effect of raising forces on these pathways of change, commenting upon the most interesting yet unanswered questions that have recently come to the attention of scholars and practitioners.

## 2. THE PATHWAY TO PMS: A REVIEW OF THE LITERATURE

Management accounting is a constantly evolving field of research, and change is in itself an aspect that has pervasively characterized the studies in question over time, to the point of giving rise to a genuine, separately identifiable strand.

This research usually observes and discusses, among other things, the more or less abrupt transformations affecting management accounting, offering analyses and explanations of the underlying causes and noting the effects these changes have on business practices (see for a comprehensive understanding Wickramasinghe & Alawattage, 2007).<sup>1</sup>

This is not the place to go into detail on such investigations, but rather to mention some relevant aspects at a cognitive level that have marked the main stages of evolution of management accounting, changing its content and orientation over time. In a similar vein, the following section reviews the development of management accounting from the perspective of practice.

The original core of the field under scrutiny can be traced back to cost accounting, which was established with a view to seeking an accurate and precise measure of cost in absolute terms.

A first modification leads to cost information that is relatively conditioned by the aim to be pursued (Horngren, 1975). Its importance in supporting management is increasingly recognized and a managerial emphasis is affirmed, leading to a renewal of the entire accounting function within the company, with a significant enrichment of the contents and tools used (consider, for instance, the evaluation of individual divisions or units or the need to provide a measure for inter-company transfers).

All of this soon went far beyond the limited area of costing and gradually moved toward the adoption of the broader and more appropriate label, still in use today, of management accounting (Wilson & Chua, 1993).

The first winds of change in the area, which marked the path of change and the transition from a traditional perspective to a logic oriented toward a more effective support to the decision-making process can be dated back to the so-called classic tripartition proposed by Anthony. In his model, managerial activities take a wider stance and are segmented into strategic planning, management control, and operational control (Anthony, 1965).

This scheme has been widely used and has long been the cornerstone around which management control studies have developed, not only internationally but also in the national context. Such a conception of control is based, albeit implicitly, on a predominant view of the company as a closed and stable environment. Control is seen as an instrumental tool for the implementation of strategies; it tends to be static and characterized by a clear division between the

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1 There are also contributions aimed at systematising the subject, identifying some key factors in the process of change in *management accounting such as, for example, the actors, the object, the forms, the underlying rationale, space and time*, through which the phenomenon can be more neatly observed. For a more in-depth examination, see Busco, Quattrone, and Riccaboni (2007).

management and operational dimensions, and therefore only marginally capable of redirecting the strategy that is assumed as given (Langfield-Smith, 1997).<sup>2</sup> It is a structure that is indeed suited to the manufacturing company, highly hierarchical, moving in reference scenarios that are not very perturbed, mainly based on quantitative-monetary parameters (in the case of management control) and on quantitative-physical indicators (for operational control), with an almost exclusive emphasis on programmable activities. Given these undeniable limitations and the threats of a quickly evolving economic landscape, academic studies that have discussed the inadequacy and necessity of overcoming the classical approach toward value creation (Franco-Santo & Otley, 2018) have emerged quite numerously.

Among the main limitations found, in addition to those already mentioned above, there is the inability to grasp the synergies between the strategic and operational dimensions, also in the light of an excessive emphasis on the formalization of control, rather than on its pervasiveness with respect to business processes, as well as the inability to reconcile flexibility and dynamism of the company (Gupta, Smith, & Shalley, 2006; Raisch & Birkinshaw, 2008; Speklé, van Elten, & Widener, 2017) as an open system (Anthony & Young, 2005).<sup>3</sup> Thus, the need to go beyond the classical meaning of control has been strongly decreed (Otley, 1994), first of all with the aim of mitigating the clear dualism between the strategic and operational logical moment, given the many limitations regarding the possibility of objectively distinguishing clear and absolute boundaries.<sup>4-5</sup>

There is also a growing consensus that control should not be limited to the mere verification of compliance with predefined parameters of efficiency but should rather extend to the monitoring of internal and external conditions that

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2 The author makes clear that the issue of strategies remained de facto detached from the debate on controls, with all the limitations that this entailed, also in terms of the operationalisation of both elements, until the early 1980s.

3 The vision expressed by Anthony (1965) has been the subject of criticism and substantial revision by, among others, Kaplan and Norton (1996). Moreover, the overcoming elements have been taken up and commented on numerous times also by recent doctrine, highlighting the evolutionary prospects of the subject.

4 The author is among the international scholars who point out that the classical meanings of control had to change in order to adequately respond to the new conditions posed by the market in the 1990s.

5 In fact, it is noted that any attempt at separation, even if acceptable on a cognitive level for the need of explanatory clarity and logical sequencing, proves to be of limited innovative capacity, since an integration criterion must be sought to overcome the errors, inconsistencies, gaps and distorting effects that segregation between the core relating to the definition of objectives and the core concerning the implementation of the same - two sides of the same coin - would entail.