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Management controls in an apparel group: an institutional theory perspective

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Abstract

Purpose – The purpose of this paper is to explore how management controls in an organization take shape amidst the tensions between external institutional forces and the internal dynamics arising from the different powers and interests of managers as well as from intra-organizational norms, rules and taken-for-granted assumptions.

Design/methodology/approach – Adopting an interpretivist stance, this study employs the embedded (nested) case study approach drawing evidence from an apparel group which consists of a head office and four clusters. Theoretically, the paper is informed by institutional theory, and particularly draws on concepts such as organizational field, ceremonials, rational myths, isomorphism, institutional logics and loose coupling. It is further complemented by strategic responses of Oliver (1991), as well as materials and discursive elements in elaborating how external pressures influence control practices of an organization, and how internal actors strategically respond to those pressures in balancing external legitimacy and internal efficiency requirements.

Findings – The field-study findings reveal that management controls of the case-study organization have taken shape amidst external pressures, specifically from customers and internal dynamics such as interests of key actors, who strategically respond to external pressures and head -office specifications.

Research limitations/implications – Situating management controls within external pressures and internal dynamics, the findings of this study have implications for research on organizational heterogeneity, and it offers learning points for managers in formulating management controls by balancing conflicting internal and external pressures.

Practical implications – In reality, practicing managers are faced with conflicting logics arising from external pressures and internal dynamics stemming from different power- and interest-holding managers as well as intra-organizational norms, rules and taken-for-granted assumptions in their everyday encounters in organizations. This study provides some pointers for such practicing managers in designing and implementing management control systems by effectively balancing these opposing influences and formulating systems suited to the circumstances of a particular organization.

Originality/value – Moving beyond the widely held narrow conceptualization of institutional theory akin to (external) isomorphism and organizational conformity, this paper brings out organizational heterogeneity through the active agency of actors in terms of their power, interest and proclivities as well as their use of organizational norms and rules in responding to such external institutions.

Keywords Institutional theory, Institutional logics, Management controls, Materials and discursive elements, Nested case study, Organizational actors' strategic responses

Paper type Research paper

1. Introduction

Management controls have become one of the most intensively investigated strands in management accounting research (Merchant and Otley, 2007). It consists of a wide range of formal and informal approaches and mechanisms used to regulate the behavior of members of an organization (Chenhall, 2003). Formal controls include organizational structure, reward systems, budgeting, standard operating rules and procedures, strategic planning systems, and operational controls, while informal controls consist of leadership style, culture, values and norms (Macintosh, 1994). In the literature, management controls have been viewed through different perspectives: sociological, organizational performance and

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information management. While the sociological perspective views management controls as a process which influences employees of the organization to implement organizational strategies, the organizational performance perspective explains management controls as a means used by an organization to achieve determined goals with minimum resources by regulating organizational members (Anthony and Govindarajan, 1998). The information management perspective views management controls as an information system which links managers and employees of the organization (Simons, 1995). All in all, these perspectives view management controls as tools designed to assist managers' decision-making needs (Chenhall, 2003).

A stream of past research posits that management controls are influenced by environmental (external) forces (Anthony and Govindarajan, 1998; Brignall and Modell, 2000; Collier, 2001; Cowton and Dopson, 2002; Modell, 2001; Uddin and Tsamenyi, 2005), while a further body of literature shows that the power struggles of different (internal) groups in organizations influence such controls (Barley and Tolbert, 1997; Burns and Scapens, 2000; Chenhall, 2003; Lukka, 2007). Despite the above, how management controls are designed and implemented through the interactions between these external and internal deliberations has received only limited attention from scholars. Addressing this omission in the extant literature and bringing together these two stands of research, this paper elaborates on how the design and implementation of management controls in an organization take shape amidst the tensions between external institutional forces and the internal dynamics arising from the different powers and interests held by internal managers as well as from intra-organizational norms, rules and taken-for-granted assumptions. In doing so, we draw empirical data from an apparel group in Sri Lanka.

Theoretically, this paper leans on institutional theory, and particularly draws on concepts such as organizational field, ceremonials, rational myths, isomorphism, institutional logics and loose coupling. While institutional theory has primarily informed studies on institutional stability (Lounsbury, 2002, 2008; Scott, 2001), organizational heterogeneity is becoming a new strand of institutional research (Cruz *et al.*, 2009; Greenwood *et al.*, 2002; Kraatz and Moore, 2002; Lounsbury, 2002, 2008; Scott, 2001; Seo and Creed, 2002). Such research attempts to focus on actors and their influence, rather than on studying isomorphism and symbolic conformity (the widely claimed perspectives of institutional theory). Premised upon organizational diversity and agency, studies such as by Cruz *et al.* (2009) and Hopper and Major (2007) argue that the institutional field comprises multiple logics (external institutional logics and internal efficiency logics). For instance, Hopper and Major (2007) explain that a Portuguese telecommunication company implemented activity-based costing as a means to improve the competitiveness and efficiency logics of the company, but its adoption also involved mimetic, coercive and normative factors, while Cruz *et al.* (2009) elaborate on how and why a joint venture organization's managers introduced variations in management controls in institutionalizing global management control systems imposed by its global corporation (logics of global corporation). Further, Lounsbury (2008) directs neo-institutional research toward incorporating broader institutional dynamics (logics) and microdynamics in understanding organizational systems. Although in line with the direction of Lounsbury (2008), our paper is different from that of such prior studies by explicating not only that an organization is influenced by different conflicting logics in an institutional field, but also that in order to deal with these logics, organizational actors employ different strategies (by drawing from Oliver, 1991) within the organization. Furthermore, this paper elaborates on implementing those strategies, how key organizational actors use different materials and symbolic elements (Jones *et al.*, 2013; Thornton *et al.*, 2015) such as organizational culture, norms, values and discourses and ultimately how they impact on management controls in an organization. This has not been the focus of past studies.

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Therefore, this study contributes to the existing literature on neo-institutionalism and logics through theoretical proliferation[1]. In the current body of literature the strategic behavior of organizational actors in response to different logics is explained only as resistance, institutionalization or loose coupling (Oliver, 1991; Orton and Weick, 1990), while our paper brings additional theoretical principles such as materials and discursive elements (Thornton *et al.*, 2015; Zilber, 2008) to external and internal influences and strategic responses of Oliver (1991). By doing so, this study sheds light on how external institutions impact on the management controls of an organization, how internal actors strategically respond to those institutions and how they use materials and discursive elements in order to deal with those environmental institutions in shaping management controls. Such an inquiry is important because when organizational actors encounter these multiple external and internal logics, conflicts and tensions emerge giving rise to divergent practices within organizations. Our empirical site is a group of companies (an apparel group) suitable for this study as it depicts the presence of such multiple logics, responses and materials as well as discursive elements.

The significance of the study is twofold: first, it illuminates how management controls take shape amidst the tensions between external institutional forces and internal dynamics arising from different positions of power and interest held by internal managers as well as from intra-organizational norms, rules and taken-for-granted assumptions which is an emerging perspective in management control research. It thus contributes to the management control literature by explicating how controls operate amidst social and political influences as well as power and conflicts which is an under-researched area (Cowton and Dopson, 2002; Hewage, 2012). Second, this paper extends the use of institutional theory in management control research by positing "agency" to be an active ingredient which should be blended with organizational conformity to external institutions. This paper draws from the institutional logics perspective (Friedland and Alford, 1991), strategic responses of Oliver (1991) and materials and discursive elements (Thornton *et al.*, 2015; Zilber, 2008) as a holistic theoretical approach, and sheds light on how external institutions impact an organization, how internal actors strategically respond to those institutions and how they use materials and discursive elements (Jones *et al.*, 2013) in order to deal with environmental institutions.

The remainder of this paper is organized as follows: first, a review of literature reveals the possible co-existence of external forces and internal dynamics in the design and implementation of management controls. This is followed by key theoretical arguments. Next, the design of the study, an embedded case approach, is presented. Thereafter the findings of the study are presented followed by a discussion. The paper concludes with its contribution to knowledge, practice and direction for future research.

2. External institutions, internal dynamics and management controls

How organizational practices (including management accounting) change with legitimacy requirements and the organizational context has been examined by various researchers (Covaleski *et al.*, 1993; Greenwood *et al.*, 2002; Kholeif *et al.*, 2007; Scapens, 1994). Capitalizing on institutional theory in accounting, researchers suggest that external forces (coercive, normative and mimetic pressures) influence the design of a particular accounting system (Hoque and Hussain, 2002; Hussain and Gunasekaran, 2002; Kasumba, 2013). External factors such as technology (Chenhall, 1997; Kalagnanam and Lindsay, 1999; Young and Selto, 1991) and national culture (Harrison, 1992; Snodgrass and Grant, 1986) also influence management control. Internal forces such as interest and power of key leaders also determine the design and implementation of a management accounting practice. Supporting this assertion, accounting researchers claim that accounting system implementation or change has been impacted by internal power and politics mobilization (Burns, 2000;

Burns and Scapens, 2000; Wickramasinghe *et al.*, 2008). For example, Burns and Scapens (2000) have examined how actions of individual members are shaped by external institutions. However, they also note that the actions of institutions can also be challenged by individual members' interest and power. This reflects the ability of individual members either to introduce, reject or accept new institutions (practices), or behave in a ceremonial way (window dressing). Thus management controls in an organization are subjected to internal dynamics such as power and the subjective meaning of actors leading to conflicts.

Although prior studies in isolation have investigated various aspects of the external environment and management control systems, how key actors' interests, power and their proclivities shape management controls in an organization amidst the tension between rationalized institutions in the environment and internal efficiency requirements, and strategies of organizational actors and their use of materials and symbolic elements has not been the focus of past research. The current study seeks to address this omission.

3. Theoretical lenses

This paper is informed by institutional theory and concepts such as organizational field, ceremonials, rational myths, isomorphism, institutional logics and loose coupling. It is further complemented by Oliver's (1991) strategic responses and materials and discursive elements (Jones *et al.*, 2013; Thornton *et al.*, 2015).

3.1 Organizational field and isomorphism

Organizational field refers to "organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio and Powell, 1983, p. 148). Institutional theorists posit that organizations are passive entities that seek for legitimacy by confronting environmental pressures (DiMaggio and Powell, 1983, 1991; Meyer and Rowan, 1997; Scott and Meyer, 1991). The congruence between organizational arrangements and institutions in society is explained through the process of isomorphism (DiMaggio and Powell, 1983). Therefore, organizations adopt practices which are isomorphic with the external environment. Thus intra-organizational structures and procedures are largely shaped by external institutions which consist of cognitive, normative and regulative structures. In DiMaggio and Powell's (1983) words, "coercive isomorphism stems from political influence and the problem of legitimacy; mimetic isomorphism resulting from standard responses to uncertainty; and normative isomorphism, associated with professionalization" (p. 150). As a result of this isomorphism, institutional orders are created and in conformity with the social order, internal structures and procedures reflect rules, procedures, myths and norms that are prevalent and generally perceived to be "right" by society (Meyer *et al.*, 1983). For this reasons institutional theory has been criticized for its inability to provide a space for agentive behavior (Barley and Tolbert, 1997; Friedland and Alford, 1991; Hirsch and Lounsbury, 1997; Scott, 2008; Thornton *et al.*, 2015). As Hirsch and Lounsbury (1997, p. 408) noted "we also highlight what we believe to be the major 'lacuna' in new institutional theorizing: agency."

3.2 Institutional logics and loose coupling

To provide a broader, conclusive perspective on agency, the logics perspective is included from the work of Friedland and Alford (1991). "Logics represent a frame of reference that conditions actors' choice for sense making, the vocabulary they use to motivate action, and their sense of self and identity" (Thornton *et al.*, 2015, p. 2). It further explicates how organizational field is embedded in broader societal value systems and how changes of societal value systems either change the dominant logics of the field or how multiple logics

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co-exist and compete for attention (Thornton and Ocasio, 2008; Thornton *et al.*, 2015). These logics can emerge from the external environment (Selznick, 1957; Thornton *et al.*, 2015) or intra-organizational sub-groups (Cyert and March, 1963). Past studies reveal that the simultaneous existence of these multiple logics (external and internal) lead to conflicts and contestations within organizations as actors resist the institutionalization of external pressures in order to pollinate efficiency requirements (Battilana and Dorado, 2010; Zilber, 2002) or to coexist (McPherson and Sauder, 2013). Therefore, to resolve these two different standpoints, researchers have been investigating individual organizational responses to multiple institutional logics (Schäffer *et al.*, 2015).

In exploring how actors resist institutionalization in search of organizational efficiency, research (see Anderson, 1992; Dirsmith *et al.*, 2000; Hinings *et al.*, 2003) has been grounded on the concept of loose coupling of Orton and Weick (1990). This emphasizes that an organization can engage in loose coupling when their elements are distinct (independent) but responses are linked to others. This indicates a separation between activities required to conform to external legitimacy and those used internally to manage organizational day-to-day activities (Orton and Weick, 1990), or division between formal and actual operations (Nor-Aziah and Scapens, 2007).

According to Meyer and Rowan (1977, pp. 341-342):

> To maintain ceremonial conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures and actual work activities.

3.3 Strategies of actors and relative role of materials and discursive elements

This paper integrates "the strategic responses of institutional processes" of Oliver (1991) with the institutional isomorphism and logics perspectives. Oliver (1991) states that organizations actively resist through proactive manipulation instead of passive conformity institutional pressures imposed on them. An organization when faced with conflicting institutional demands (from external institutions and internal efficiency requirements), may attempt to compromise with external constituents (Oliver, 1991).

This paper further explains how organizational actors use materials (structures and practices) and discursive elements (ideations and meanings) in formulating their strategic responses (Jones *et al.*, 2013; Thornton *et al.*, 2015). While symbolic aspects refer to ideations and meanings, material aspects of institutions refer to organizational structures and practices which are more visual than symbolic elements (Thornton *et al.*, 2015). Zilber (2008) states that symbols are embodied in structures and practices and that structures and practices may affect the meaning of symbols showing an intertwined relationship. Several studies (DiMaggio and Mullen, 2000; Zilber, 2002) show how the same institutional practice can instill different institutional effects due to the responses of different actors. Jones *et al.* (2013) state that although normative, coercive and cognitive aspects of institutional logics have been discussed in the literature, they have been overlooked in studies on material dimensions. Therefore, the current study explicates the relative roles of material elements with discursive elements: shared systems of meanings and understandings in relation to strategies of organizational actors.

Capitalizing on these theoretical insights and drawing empirical evidence from an apparel group in Sri Lanka, this study explores how conflicting multiple logics come together with the strategic responses of organizational actors and their use of materials and discursive elements by bringing together theoretical aspects of organizational field, isomorphism, institutional logics and loose coupling, as well as Oliver's strategic responses and materials and discursive elements (Jones *et al.*, 2013; Thornton *et al.*, 2015) in order to develop a better understanding of design and implementation of management control in the case organization.

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4. Research context and design

The context of this study is Alpha, an apparel group, which consists of a head office, four clusters (A, B, C and D), and their sub-units (see Figure 1 for the organizational chart). These clusters report to the head office of the company and each cluster is headed by a chief executive officer (CEO), who is appointed by the board of directors (organizational records). It is a non-listed, privately owned entity which manufactures intimate apparel, sportswear, performance wear, and swimwear and provides specialized Information Technology solutions to the apparel and footwear industry worldwide. Alpha is positioned as one of the world's most recognized designed-to-delivery solution providers in the realm of apparel and textile manufacturing. Its major customers are the UK and the USA. It was established in the 1980s with 25 employees and currently employs around 12,000 employees in the four clusters, and in the head office. The head office provides directions and guidelines to clusters (organizational records).

This group was selected for the current study for two reasons: first, although within the same group, the clusters have their own power and interest due to different key actors (leaders); second, clusters have their own intra-organizational structures and procedures (rules and norms). Therefore by selecting this group for the study, it is possible to explain different responses to similar external or head office institutions due to different intra-organizational dynamics.

This paper adopts the embedded single case study approach (Yin, 2014). According to Saunders *et al.* (2008), even though a single case is studied, if the research phenomenon is examined in a number of logical sub-units, it could be labeled as an embedded case study. Initial interviews were conducted with key members of the finance divisions of the clusters

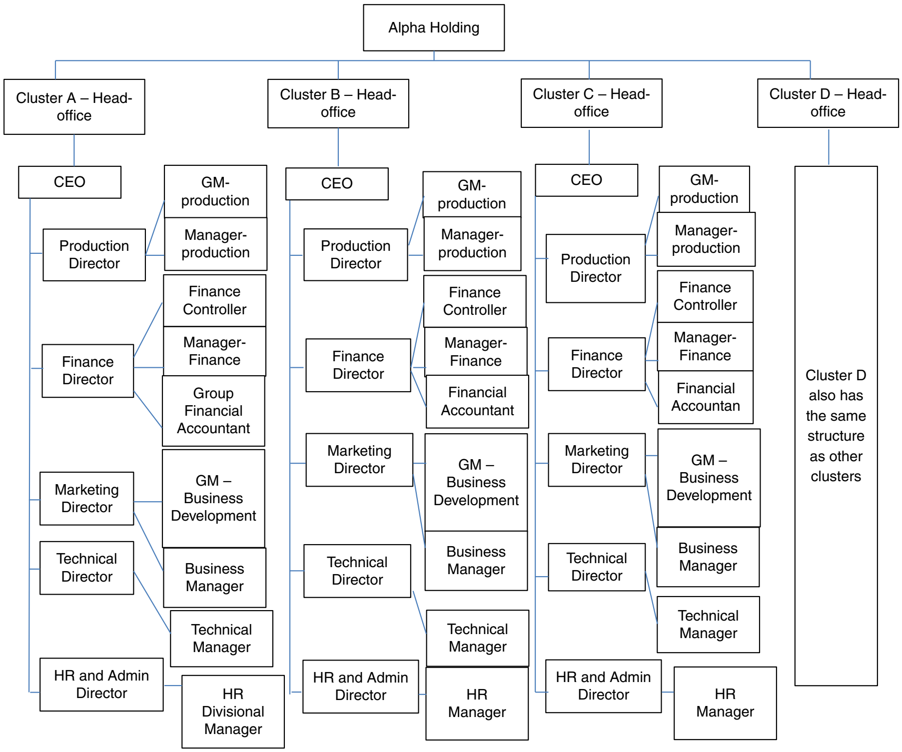

Figure 1.
Organizational chart

and head office because they are responsible for design and implementation of management controls at Alpha. Thereafter, interviews were extended to other areas such as human resources management, production, audit and general management as initial data revealed that key members of these areas are also involved in the design and especially, implementation of management controls at Alpha. In total, 22 interviews were conducted with key organizational members of divisions (finance and non-finance) and the head office (see Table I for interviewee details). Each interview lasted between 45 minutes and 1 hour and 15 minutes. The interviewees were selected for the study because they functioned as key decision makers and implementers at Alpha, according to the organizational chart. The interview data were transcribed verbatim, and coded with a previously developed list of codes, while also allowing for the emergence of unknown codes. The data were analyzed by organizing them into tables followed by searching for themes in the organized data. The data were then displayed in a matrix, grouping together similar themes. Evidence from the interviews was reinforced by informal conversations carried out with employees while they were at work floors of different cluster locations.

Following Guba (1981) and Lincoln (1995) in achieving credibility in the study, member checking and peer debriefing were employed. Interviewees read the interview transcripts, identified some misinterpreted areas and suggested changes; all such suggestions were incorporated in the study.

5. Field-study findings

This section presents the field-study findings at Alpha. It first presents an overview of Alpha's management controls. This is followed by a depiction of the organizational field of Alpha, its customers, suppliers, regulative agencies and the influence of the head office on cluster operations. Finally, it presents the findings in relation to actors' responses to external and head office pressures, followed by how actors use culture, rules and procedures and discourses in responding to those pressures.

5.1 Management controls at Alpha

Management controls emerged in the company in the 1990s and gradually improved, for instance, with links to vision, mission, strategy and long range plan (LRP) of Alpha (company documents).

The vision of Alpha explicates that it strives to be one of the best intimate wear producer in the world. This is elaborated in the LRP which is a forecast for the next five years' operations. Through this, the company articulates the annual budget for a year which includes details of major projects. These projects are converted into a policy objectives matrix, which are monitored through key performance indicators (KPIs). Alpha has two types of KPIs: operational-level KPIs and impactful KPIs. The former shows whether the company is in line with the pre-determined targets of the year or not, and the latter explains whether the business is progressing year by year from one level to another. A senior member of the planning team elaborated on this as:

> Operational level staff doesn't understand the vision […] What we do is, we develop strategies. For example, one of our strategies is productivity enhancement through the kaizen culture. We use it and through LRP for a specific year we break to the PO matrix, different strategies and then narrow down to KPIs.

Supporting this, a plant manager of Cluster A noted how the attention of lower level team members is gained to achieve pre-determined KPIs:

> The expected Labour Turnover Ratio (LTO) is communicated to us by the production general manager and we communicate it to our team members. We communicate to them that if you

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Job position	Key responsibilities	Duration of the interview
Cluster A		
Head of Group Risk and Controller	Reports to the owners of the business and responsible for risk mitigating and controlling financial operations, and is a control designer for the whole organization	55 minutes
CEO	Reports to the owners of the business and responsible for the whole operations of the cluster. Is directly engaged in control designing	1 hour and 10 minutes
Finance director	Is the head of the finance division and reports to the CEO of the cluster	1 hour and 15 minutes
Finance controller	Is directly reporting to the finance director of the cluster and is a control designer of the cluster	1 hour and 12 minutes
Finance manager	Is responsible for the finance operations of the cluster and reports to the finance director and finance controller of the cluster. A control implementer of the cluster	45 minutes
Group financial accountant	Is a middle-level manager and reporting to the financial manager of cluster. An implementer of decisions taken by the top layer of the organization	1 hour
Plant manager	Is responsible for the operations of a plant of cluster and directly reporting to the production general manager of the cluster and is mainly a control implementer	45 minutes
Divisional HR manager	Is responsible for managing HR-related functions and is directly involve with control designing of the cluster	45 minutes
Production general manager	Is directly reporting to the production director of the cluster and is directly engaged in control design of the business	50 minutes
Internal audit manager	Is responsible for internal audit operations of the cluster and reporting to the group risk and controller and responsible for implementation of controls designed by the head office	45 minutes
Cluster B		
Finance director	Is the head of the finance division of the cluster and directly reporting to the CEO of cluster	1 hour and 15 minutes
Finance controller	Is directly reporting to the finance director of cluster. A representative of top managerial layer of the cluster	45 minutes
Group financial accountant	Is a middle-level manager reporting to the financial manager of cluster. An implementer of decisions taken by the top layer of the organization	55 minutes
Production general manager	Is directly reporting to the production director of the cluster and is directly engaged in control design of the business	40 minutes
Production director	Is directly reporting to the CEO of the cluster and is directly engaged in control design of the business	50 minutes
Cluster C		
Finance director	Is the head of finance division of the cluster and directly reports to the CEO of cluster. A representative of top managerial layer and a control designer of the cluster	45 minutes
Finance controller	Is directly reporting to the finance director of cluster. A representative of top managerial layer of cluster	50 minutes
General manager	Is directly reporting to the CEO of the cluster and is directly engaged in control design and implementation of the cluster	1 hour
Finance manager	Is responsible for the finance operations of the cluster and reports to the finance director and finance controller of the cluster. A control implementer of the cluster	1 hour and 5 minutes

Table I.
Interviewee details

(*continued*)

Job position	Key responsibilities	Duration of the interview
Cluster D		
Finance director	Is the head of finance division of the cluster and directly reports to the CEO of cluster	45 minutes
Production director	Is directly reporting to the CEO of the cluster and is directly engaged in control design of the business	45 minutes
General manager	Is directly reporting to the CEO of the cluster and is directly engaged in control design and implementation of the cluster	40 minutes
Finance manager	Is responsible for the finance operations of the cluster and reports to the finance director and finance controller of the cluster. Mainly a control implementer of the cluster	55 minutes

Table I.

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> improve this, you will have your head count throughout the year and you will get an attendance bonus. If the entire team is present at the work floor, we meet our productivity targets and in return, they will get productivity-based incentives.

Within this management control development process, the head office plays a directive role. The finance director of Cluster A mentioned that "the head office plays a directive role in setting up the budget and other control mechanisms." Adding to this, the group financial accountant of Cluster A stated that the company had to send its financial pack every month to the head office and it is reviewed by the head office with the main board. The head office has a risk and controlling team headed by a risk and controlling director, which formulates policies and procedures and checks the monthly financial packs of clusters. The head of finance of each cluster also sits with the committee to decide on policies and procedures for the company in terms of finance. Once it is approved, SBUs are supposed to follow it.

5.2 Organizational field of Alpha

The apparel field in Sri Lanka has become the highest industrial employment generator and the highest foreign export earner of the country and produces a wide range of international branded clothing such as Victoria's Secret, Liz Claiborne, Pierre Cardin, Nike, Gap, etc. (Board of Investment Sri Lanka, 2009). Even though it has become the major contributor to the gross domestic product of the country, currently it face issues such as the Generalized System of Preferences (GSP plus) which provides "preferential traffic treatments to certain products that are imported from designated developing countries" (Congressional Research Service, 1997, p. 2, report to Congress) and Trans Pacific Trade Partnership Agreement. In respect of this, the CEO of Cluster A mentioned:

> Global competition and GSP plus will impact the country by another nine months, and the Trans Pacific Trade Partnership (TPTP) which includes 11 countries including us, and if it goes, all these countries have to pay taxes to the US. If that happens more than 60% of Sri Lankan apparel exporters will fail.

Adding to this, a finance director went on to say:

> The economic environment of the country is also not supportive of the apparel sector because other industries such as tourism and hospitality are growing. Therefore, finding labour in the industry will be difficult after around another five years.

The finance director of Cluster A provided further insights:

> Due to the labour issue in the apparel sector in Sri Lanka, if we don't go towards proper management and controlling strategies and innovation, we can't sustain. We have to definitely rely on the high end customers and not on cost competitiveness. The Company has to compete with

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> Cambodia and Vietnam, where labour cost is low and in Sri Lanka we do not have a competition because we are always ahead in terms of quality and innovation.

Furthermore, the finance controller of Cluster C mentioned that backward integration is also not practical in the industry and the company purchases only 30-40 percent of materials from Sri Lanka and the balance is from the eastern countries.

These discourses explicate the organizational field of Alpha, which comprises branded foreign customers who are mainly based in western countries and resources and suppliers mainly from eastern countries. Competition is less from the other apparel manufacturers in the country, the main regulative impact is also from the global environment, and the impact from the local government is less due to the importance given to other industries in Sri Lanka.

Being a multinational apparel group, the case organization is compelled to implement customer specifications, and this has implications for the entire organizational structures and procedures. In this respect, the production director of Cluster D recalled:

> Our customers are very keen about our practices. We provide leading brands to the world. Thus, they expect certain behaviors from their vendors, especially ethical considerations, compliance considerations. They want to have comfort in their mind, ensuring that they are working with an ethical and financially viable company.

Further insights were provided by the divisional HR manager of Cluster A:

> From the customer perspective, what they want is compliance with local law, internal laws, and the order depends on the compliance level. If you achieve more, better orders, if we have achieved less, low business.

It became evident in the course of the field work that in order to maintain such customer compliance levels, Alpha follow best practices such as Kaizen through consultants from the best industries in the world. The finance director of Cluster A shared his view, noting that:

> It is good to always have non-industrial experts to get an opinion. We never take apparel experts to get consultancy services because they also think in the same way that we think.

Thus, being a market leader, they expect to step into the level of world class manufacturing by being trend-setters for other local industries. While the company follows both local and international best practices, greater emphasis is given to global best practices as they strive to be a world class organization. Therefore controls and best practices at Alpha emerge and develop in light of customer compliance requirements.

Since Alpha serves the international market, the company has to be focused on quality and innovation in order to survive. Therefore, the strategy of the company is to bring expert myths to the organization. To do so, the owners of the company obtain consultancy services from experts in other industries. In the case of Alpha, best practices have reached at two levels: for the conglomerate they are brought in through consultants, and for each of the clusters best practices are diffused through either the head office or directly through consultants. Being a market leader of the industry, Alpha always obtains consultancy services from renowned non-related industries in the world regarding best practices. For example, the finance controller of Cluster A asserted:

> The way we get the external practices is through consultants. Usually we get the best things of the country and the world through expert guidance […] When it comes to policy, we take the service of […] [some local expert firms], but when it comes to strategy, we get the support of consultants from Toyota, Japan. We always get some specialized persons to bring us best practices.

One of the senior members of Cluster D recalled: "They come and give concepts. They suggest control mechanisms and new practices. We get those concepts tailor-made to our requirements, and come up with our own controls." These consultants are brought to the company by the owners and the head office. One group financial accountant noted, "He [one of the owners] sets the drive for the entire organization. For example, he wanted to this organization to be […] [a particular system] driven" and he supported the process by hiring the best consultants in the world. As finance manager of Cluster C mentioned:

> We have a professor from the United Kingdom who is helping us in setting our strategies and a consultant from the United States of America who is helping us on our Long Range Planning and process mapping.

Adding to this, production general manager of Cluster A mentioned that corporates have their MOS (Alpha's own operating system) consultant, a foreigner, who visits the factories and provides directions about operational controls and management. In terms of accounting and controlling aspects PricewaterhouseCoopers, USA, is being consulted.

To face the competition from low cost, international apparel producers such as China and Vietnam, the company has re-directed its focus from low-cost to high-technology products. As production general manager of Cluster B mentioned:

> We mainly consider global competition. Since we can't compete with the cost, we try to compete through high tech, complex technological products. Others can't do it, because they are value-based products. Therefore, we re-direct the business through these value-based products through LRP, proper budgeting and establishing correct KPIs.

Production director of Cluster D too explained how competitive pressures are taken into consideration by key decision makers of the organization, noting: "I do a lot of market research on a regular basis such as intimate market analysis, wearable technology analysis. These give some indications about competition."

He further provided an example as follows:

> For example, in the intimate wear market it shows who the best customers in this market are. Without knowing these we can't strategize or budget. We have to know our market space, segmentation, value proposition, what is your relationship with the customer, what is your revenue and cost streams in budgeting, who are the suppliers to strategize. Then, if you are in the bra business, global bra market, and then we need to understand what the next level technology is because we can't compete by producing the same bra with the same technology because of the rivalry. Then those things, we strategize, develop KPIs and implement.

These discourses explain that in the case of Alpha, the coercive pressure is from the customers, the normative pressure is mainly from the consultants who are brought into the organization by owners and that the company has moved away from low-cost production since it cannot compete and the current competitive pressure is from high-technology producers.

5.3 Responses of cluster-level actors to external and head office pressures

As the ability to secure orders from international customers determines the survival of the case firm, key internal actors are not powerful enough to challenge those institutions. Thus, actors attempt to consciously change existing systems in relation to management controls by determining KPIs and providing a rationale to change. For example, the finance director of Cluster D stated:

> Before onboarding a supplier, they come and do an independent audit. This has a significant impact on our systems and procedures. When we are making decisions regarding control mechanisms, these customer requirements become constraints or considerations.

Supporting this, the divisional HR manager of Cluster A mentioned:

> Our culture is taking customer requirements as positive aspects, because when they audit, we improve. Normally, we ignore certain things when there is no demand or pressure. But, when we know that we have a demand from customers, we design and implement those things.

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The finance controller of Cluster D further asserted:

> Customers are involved through compliance standards which impact on our LRP, thus on the budget. Customers have their own specifications regarding the factory and it is very tough because a third party comes for an audit every year. In this industry, that is the game.

These discourses indicate how customer pressures have become coercive pressure, impacting on organizational structures and procedures. On the other hand, if there are actors who are able to play with their interests, they tend to review existing rules and routines and evaluate whether they challenge new rules and determine whether new rules should replace the existing rules and routines. According to the field study data, this happens at Alpha in relation to expert myths. For example, the finance director of Cluster A spelt out:

> From what consultants suggested, we see how it differs from existing systems and how change is important, but if there is a difficultly in making a change to existing systems and if it is essential to change as well, I properly communicate to the people; otherwise, we try to compromise.

The finance director of Cluster A provided further insights into this:

> […] we had about 25 strategies in our long-range plan. Last year we got a consultant from Toyota Japan. We sat for two days and we brought it down to six. When he pointed out that 25 was too high a target for six CEOs to manage, then we realized it. But we don't accept what the consultant says as it is because they are not aware of the practices we follow. So, we always compromise and decide.

Adding to this, the internal audit manager of Cluster A stated:

> I think if you don't have expertise, it is better to hire somebody from outside. But I am skeptical about it because they are paid but they don't have enough experience about the business operations of the company.

These discourses are indicative of the key actors' disagreements with expert myths and the ability to exert power in line with their interests in determining a particular system and procedure within the organization. When there is an option to select a practice, best practices and other new controlling mechanisms are subjected to the key actors' interests. The field-study findings also indicate that Alpha has taken into consideration the pressures from high-technology producers in the world but not the apparel producers of the country.

Within the context of this external environment of Alpha, the head office plays a directive and monitoring role to the clusters. For example, the internal audit manager of Cluster A spelt out that "there is a direct head office involvement in cluster operations through policies and procedures." It has two divisions: corporate finance and internal control unit. While the internal control unit defines the accounting policies and procedures, corporate finance provides other policies, procedures and especially parameters for the budgets. The field-study finding revealed that the head-office influence has been increasing over the last few years and is likely to further increase in the future. The finance manager of Cluster D asserted, "I think they are trying to have tighter control over SBUs. I would say it is not so good for cluster operations because they impact on our operational activities."

While the head office provides a directive role, SBUs carry out treasury activities, customers and operational activities. Since, the clusters are different in terms of type of production, size and especially the power of the leaders, the responses of different clusters to the head-office requirements are different. While clusters search for legitimacy from the head office, it is apparent that key actors such as CEOs, directors and managers attempt to exert their power, interest and proclivities according to the efficiency requirements in clusters. The finance director of Cluster A asserted:

> We must comply with head office requirements. But I take my own decisions. For example, say my approval limit is $50,000 and the policy is that FD [Finance Director] can't go beyond that. But, I say

> no and go up to even $100,000 and take responsibility for it. They provide guidelines, but I change them according to internal operations requirements and I take responsibility for it. Otherwise, it is hard to run the business with cluster requirements.

To follow the head-office guidelines and assumptions, cluster heads compromise budgetary requirements, avoid or sometimes manipulate cluster data to ensure that their operational efficiency is achieved. As the internal audit manager of Cluster A recalled, "We do some tinkering with cluster data to prevent unnecessary involvement by the head office and try to show that we are within the given parameters."

Supporting the above findings, the response from the finance controller of Cluster A was:

> Most of the initiations are taken from owners […] the head office is trying to implement those ideas equally in all the clusters. But, it won't work out always. We have high negotiation power because of the nature of the business and especially because of the leadership. The leaders' way of dealing and their capability determine what to accept what to compromise and accept, and what to reject.

These discourses reveal the key actors' ability to exert power in line with their interests in determining a particular system and procedure within the organization. When there is an option to select the practice, best practices and other new controlling mechanisms are subjected to the key actors' power and interest. This indicates that internal actors play a significant role in determining the internal processes and systems of the entity. Key managers' understanding, developing trust with the owners and subordinates, and the leader's power and high negotiation capability determine what to accept, accept with modifications, what to reject and how a particular implementation takes place. The data collected from the head office revealed that the head office identifies the requirement to standardize controls across all individual clusters. On this respect, the head of Control and Risks noted: "People are the direct product of the control environment, the tone the top sets." Opposing this view, at the cluster level, it is evident that the controls determined by external institutions and head office interact with the power and interests of cluster-level key actors due to cluster-level efficiency requirements, which ultimately determine how control systems get shaped.

5.4 Materials and discursive elements: organizational culture, rules and procedures and discourses

Key actors at Alpha use informal actions and influence patterns rather than formal mechanisms in order to implement management controls for their efficiency requirements. For example, the finance controller of Cluster A revealed that the term "control" is never used in their business vocabulary because the term never works in his cluster. He noted:

> We never call "control" for controls. I think that is management of best practices or something like that. Main thing is people. Even if you have 1,000 controls, you need to have people, who follow the controls, with some sense, with some understanding about how you do it. If they just do it no point […] When it comes to control, people have to get involved.

It thus became apparent from the interview data that actors develop a certain vocabulary and understanding which have become the norm among key leaders of the organization. As a result, informal actions and relationships are more powerful than formal procedures in the firm. On a positive note, the finance director of Cluster C described how people accept new rules and routines due to these informal relationships. He added:

> Adopting a new practice or a rule depends on how you manage it. How you communicate, educate people. For example, when I joined the business six years ago, budgetary control systems looked as something cumbersome to follow. What we did it was we got people involved in the process and explained to them why we need it, and how it can help them. People engagement is the key to successful change.

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Supporting this, the finance controller of Cluster A noted:

> So as a leader in charge of controls, I always ask for improvements. It comes from the leadership. As managers, we must show that we are open to change and encourage others to change it. I really oppose the word "control." The word control should change to the "people side of management" or something like that.

The foregoing evidence also suggests that the involvement of key actors to be crucial to successful implementation of organizational practices. The production director of Cluster B asserted:

> When I implement control mechanisms what I usually do is, even if I have some control mechanisms in mind, I call the respective managers, and I will first give them the background and ask them what we shall do for this issue to monitor this. Then, they give their ideas and I also suggest my idea and come up with a new solution. It prevents control from becoming my control. It becomes ours. It is the best way to drive the control mechanisms. Otherwise, they do not believe in control mechanisms.

In summary, the field-study findings reveal that management controls at Alpha are shaped amidst both external pressures (specifically customer pressures) and internal dynamics such as the interests of key actors, who strategically respond to external and head-office pressures and they use culture, practices and narratives in designing and implementing management controls.

6. Discussion

This study examined the possible co-existence of external institutions and internal dynamics in the design and implementation of management controls in an apparel organization in Sri Lanka. The case findings revealed that the owners of Alpha are more inspired by best practices of other industries the world over than by its activity sector due to the requirements of global customer specifications. This explains that Alpha attempts to deal with pressures in the apparel sector by acquiring practices outside its organizational field. This is a rather different finding to the key arguments of DiMaggio and Powell (1983, 1991) and Meyer and Rowan (1997).

Alpha strives to meet customer compliance requirements. However, if organizational rules and procedures and key actors are more powerful, it attempts to compromise on customer specifications. Further, actors always compromise on consultants' specifications (expert myths) and their requirements. In order to face competitive pressures, it had moved from low-cost competitive markets to high-tech markets. In relation to head-office specifications, cluster heads are most likely to engage in active organizational resistance as claimed by Oliver (1991). The extant literature posits that when external pressures and internal technical or efficiency pressures coincide, external pressures are most likely to get institutionalized within the organization (Hopper and Major, 2007). However, the current study found that internal actors attempt to resist those external and head-office pressures by employing actors' interests, values and proclivities, and these findings are consistent with those of Cruz *et al.* (2009). The findings further revealed that acquiring external customer-related pressures in search for legitimacy supports to the enhancement of the efficiency or technical requirements of the organization. In other words, Alpha deals with multiple logics (efficiency or technical and institutional) simultaneously by inculcating actors' interests, power and proclivities. These findings support the assertions of institutional theorists that legitimacy (institutional) and technical (efficiency) pressures can be confronted simultaneously in organizations (Friedland and Alford, 1991; Hirsch and Lounsbury, 1997; Thornton *et al.*, 2015; McPherson and Sauder, 2013) and that agency of actors need to be at the forefront of institutional theory (Barley and Tolbert, 1997; Hirsch and Lounsbury, 1997; Hopper and Major, 2007).

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This case further explains that the head office guides cluster actors' decision making and behavior, but on the other hand, constrains their action (Lounsbury, 2008; Scott, 2001). Therefore, a loosely coupled system is the most likely response to head-office pressures, expert myths and competitive forces in order to deal with organizational efficiency logics as found by a few researchers (Anderson, 1992; Dirsmith *et al.*, 2000; Hinings *et al.*, 2003). As Orton and Weick (1990) emphasize, an organization can engage in loose coupling when it is independent or enjoying some degree of independence but still responds to others. This indicates a separation between activities required conforming to external legitimacy and those used internally to manage organizational day-to-day activities. In Alpha too, external and head-office pressures and cluster activities were connected (clusters attempt to work or demonstrate that head-office guidelines are met, and in terms of external pressures, customer specifications are met, expert myths are considered and mimetic pressures are managed), but still, distinctive because actors bring in their interests to enhance the efficiency logics through their power and proclivities. Therefore, this study provides dimensions of both connectedness and distinctiveness. It further explicate that actors' power, interest and proclivities are active ingredient in designing and implementing management controls and this is rather different from conventional institutional theory-bent accounting research (see Seo and Creed, 2002; Dillard *et al.*, 2004).

While this paper elaborates on how organizational actors behave strategically in response to competitive pressures, expert myths and head-office specifications, it further notes how actors strategically change existing control mechanisms with the use of material elements such as culture, practices (existing rules and norms) and with the use of discursive elements (such as not to "treat controls as controls"). Such meanings are inculcated into their culture and have led to considering controls as a collaborative effect in order to avoid rejection. This explains that practices and symbols are intertwined and constructive of one another (Thornton *et al.*, 2015; Zilber, 2008).

7. Conclusion

This study explored how management controls in an apparel group (which consists of a head office and four clusters) take shape amid the tensions between external institutional forces and internal dynamics arising from different power and interest held by internal managers as well as from intra-organizational norms, rules and taken-for-granted assumptions. The widely held view in institutional theory assumes that organizations passively conform to coercive, normative and mimetic pressures in the environment. In contrast, this paper posits "agency" as an active ingredient which should be blended with "structure" to provide a more complete explanation of shaping organizational structures and procedures (including control systems).

This research thus contributes to extending the use of institutional theory in management control research by bringing in a number of theoretical facets such as organizational field, ceremonials, rational myths, isomorphism, institutional logics and loose coupling, strategic responses of Oliver (1991) and materials and discursive elements into a single study, thus providing a holistic understanding of how this multiplicity of facets plays a significant role in the design and implementation of management control in organizations. Viewing management control design and implementation from such a holistic approach incorporating internal and external dynamics reveal that organizations depict more heterogeneity in their practices due to powerful, performance-oriented actors. Hence, our findings open up new research areas for further exploration of organizational heterogeneity rather than a narrow conceptualization of institutional theory akin to isomorphism and organizational conformity.

This research also has implications for practice. In reality, practicing managers are faced with conflicting logics arising from external pressures and internal dynamics stemming

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from different power- and interest-holding managers as well as intra-organizational norms, rules and taken-for-granted assumptions in their everyday encounters in organizations. This study provides some pointers for such practicing managers in designing and implementing management control systems by effectively balancing these opposing influences and formulating systems suited to the circumstances of a particular organization. Future researchers are urged to explore the applicability of this broad theoretical lens in other studies.

Note

1. "An elaboration with the distinction that a major theoretical leap is achieved with the introduction of additional concepts and theoretical principles" (Berger and Zelditch, 1993, p. 3).

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