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Structure and Agency in Management Control Research: A Theoretical Integration

Sujeewa Damayanthi
Tharusha Gooneratne

Abstract

This paper attempts to provide a theoretical explanation on how management controls in an organization take shape amidst the pressure of external institutional forces such as coercive, normative and mimetic forces, and internal dynamics such as norms, rules, and taken-for-granted assumptions, as well as key actors' strategic behaviour. In doing so, the paper integrates Neo Institutional Sociology and Old Institutional Economics, and draws theoretical insights from the "strategic responses to institutional processes" of Oliver (1991). The paper argues that when external forces meet internal dynamics, a tension is created within an organization. The authors, drawing from Oliver (1991), further argue that key actors respond to mitigate this tension by way of acquiescence, compromise, avoidance, defiance, and manipulation, and that this holistic approach is reflected through management control practices in an organization. Thereby this paper suggests that organizations depict heterogeneity in their practices due to powerful, performance oriented actors. It highlights the need for formulating management controls by effectively balancing such opposing influences, as suited to the particular organizational circumstances amid the external institutional forces encountered.

Keywords: Management Controls, Old Institutional Economics, Neo Institutional Sociology, Strategic Responses to Institutional Process, Agency- Structure Debate.

Ms. Sujeewa Damayanthi is a Lecturer, Department of Accounting, Faculty of Management & Finance, University of Colombo. E-mail: sujeewa.dg@gmail.com

Dr. Tharusha Gooneratne is a Senior Lecturer, Department of Accounting, Faculty of Management and Finance, University of Colombo. E-mail: tharushang@yahoo.com

Introduction

Management controls consist of a wide range of formal and informal approaches and mechanisms used to regulate the behaviour 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. Informal controls include leadership, culture, values, and norms (Macintosh, 1994). Management controls¹ have been viewed differently through different perspectives; these are, sociological, organizational performance, and information management (Hewage, 2012). According to the sociological perspective, management controls is a process by which managers influence members of the organization to implement organizational strategies (Ouchi, 1977). The organizational performance perspective illustrates management controls as a distribution of means used by an organization to achieve the performance it needs, and to ascertain whether the quantities and qualities of such performances are in accordance with organizational specifications (Etzioni, 1960). The information management perspective views management controls as an information system which links managers and employees of the organization (Hewage, 2012).

While these perspectives differ from each other in several ways, what is common is that they view management controls as a passive tool (Chenhall, 2003) which is designed to assist managerial decision making, and do not focus on how management controls are designed and implemented (Hewage, 2012). In other words, they view management control as 'something that already exists' and do not explain 'how they come into being', and do not take account of human behaviour and factors outside the organizational boundaries, in spite of their recognition in human theories such as the agency theory. Possibly due to this reason, these perspectives are collectively termed the closed natural era of control research (Otley, Broadbent & Berry, 1995).

In contrast to the above perspectives in the closed natural era, contemporary researchers of management control in the open natural era (Ansari & Bell, 1991; Cowton & Dopson, 2002) have noted that human behaviour related elements as well as external environment factors are important in understanding management controls (Hopwood, 1972; Lowe & Shaw, 1968; Otley, 1978). For instance, the Foucauldian theory of power (Hopper & Macintosh, 1993), the structuration theory of Giddens (Uddin & Tsamenyi, 2005), and theories of political economy (Uddin & Hopper, 2003; Wickramasinghe & Hopper, 2005) have been used to study the influence of power

relations in management control. While the structuration theory of Giddens provides a highly abstract explanation to the structure-agency debate (Barley & Tolbert, 1997; Hirsch & Lounsbury, 1997), the Foucauldian theory of power and theories of political economy consider power related dynamics in a broader sense and at a more abstract level. These researchers believe that both wider business environment and power struggles of different groups in organizations have resulted in a tension within the organizations and that this tension, in turn, impacts on management control design and implementation (Anthony & Govindarajan, 1998). Supporting this assertion (Macintosh & Scapens, 1991), studies such as those by Chua, Lowe and Puxty (1989) and Cowton and Dopson (2002) state that management control researchers should not ignore the issues of power and conflict in organizations, and should not consider organizations as well-defined and essentially monolithic entities having agreed purposes which are the underpinning assumptions of the closed natural era (Otley, 1978). The incomplete nature of the assumptions of the closed natural area, which have gained attention in the recent past (Hewage, 2012; Uddin & Tsamenyi, 2005; Wickramasinghe & Hopper, 2005), reveals that there are areas remaining for further exploration. Put differently, these researchers take the stance that the close natural era was founded on flawed assumptions, while the open natural era has not yet provided an adequate explanation to the question as to how management controls are designed and implemented in the face of tensions between external pressures and power struggles of the different actors in an organization. This issue calls for wider approaches benefitting from social theories to better understand management control issues (Cowton & Dopson, 2002; Hewage, 2012). Therefore, as an alternative and conclusive theoretical approach, this paper brings together Neo Institutional Sociology (NIS) and Old Institutional Economics (OIE), along with the “strategic responses to institutional process” of Oliver (1991), in order to shed light on this issue.

NIS argues that organizational structure may not be merely related to the technical activities of the organization; instead, organizations look similar in their structures conforming to institutions in the environment. In contrast, OIE, the predecessor of NIS, provides a significant importance to internal stakeholders' values and interests in responding to institutions. However, what is missing in OIE theorization is a clear identification of institutional forces in the environment, which NIS identifies as coercive, normative, and mimetic isomorphic forces. In DiMaggio's and Powell's words, “coercive isomorphism stems from political influence and the problem of legitimacy; mimetic isomorphism results from standard responses to uncertainty;

and normative isomorphism is associated with professionalization” (DiMaggio & Powell, 1983, p. 150). Whereas each of these perspectives in isolation is not capable of explaining how management controls are designed and implemented, in the face of tensions between external pressures and internal stakeholders' values and interests, bringing them together into a single framework, would address this limitation. Nevertheless, OIE and NIS elaborate only “what” constitutes management controls. They are silent on the “how.” In other words, in what manner do the forces between external institutions and the values and interests of internal stakeholders interact?

A possible response to this question can be found in the work of Oliver (1991), which deals with “the strategic responses to institutional processes”. According to Oliver, actors respond strategically to external institutions. She further states that actors have five strategies when responding to external institutions, namely, acquiescence, compromise, avoidance, defiance, and manipulation. Thus, the more specific objectives of this paper are to elaborate how rationalized external institutional forces (coercive, normative, and mimetic) play a part in shaping management controls of an organization, and how key actors' interests, power and proclivities interact with rationalized institutional forces in shaping management controls in an organization.

Consequently, drawing on OIE, NIS and the work of Oliver (1991) this paper argues that through the interplay between external institutions and internal stakeholders' values and interests, management controls are designed and implemented, and that this interplay is shaped by strategic responses of key actors of the organizations. More specifically, that through the tension between external institutions, namely, coercive, normative, and mimetic, and internal dynamics such as power interests, and proclivities of key actors and their strategic responses, the management control practices of an organization are determined.

The significance of the study is twofold: firstly, it strives to understand how management controls take shape amidst the tensions between external institutional forces and internal dynamics arising from different power and interest holding internal managers as well as intra-organizational norms, rules, and taken-for-granted assumptions, which is an emerging perspective in management control research. By doing so, this study contributes to management control literature by explicating how management controls operate with social and political conditions, as well as with power and conflicts, which is an under researched area (Cowton & Dopson, 2002; Hewage, 2012). Secondly, it contributes to the discussion on the structure versus

agency debate, arguing that while social structures attempt to constrain agentive behaviours, actors attempt to influence those social structures with their interests, power and proclivities. By doing so, it responds to the call for the reconciliation of the structure-agency debate (see, Hirsch & Lounsbury, 1997; Thornton, Ocasio & Lounsbury, 2015). Supporting this assertion, Hirsch and Lounsbury (1997, p. 408) state that bringing together 'old' and 'new' (neo) "help to avoid the fallacy of higher level of abstraction in the institutional theory". In a similar vein, this paper attempts to provide an explanation as to how organizations depict heterogeneity in their practices rather than showing homogeneity as explained by NIS.

The remainder of this paper is organized as follows: The next section (section two) presents a literature review on management controls and the theories that are used as theoretical lenses, followed by the four propositions developed in the paper. Then, it elaborates the role of internal dynamics in shaping management controls, the key theoretical argument of OIE and the related proposition. Next, it presents the role of external institutions in shaping management controls and the theoretical argument of NIS. Subsequently, the key theorem of the paper is presented by integrating OIE and NIS. Following that, drawing on the "strategic responses to institutional processes" of Oliver (1991), the paper posits how organizational actors behave strategically in an organization. Thereafter, the conclusions of the paper, along with the theoretical implications and directions for future research are offered.

Literature review

Management controls as a situational phenomenon

How organizational practices, including management accounting, change across time and space have been examined by various authors (Covaleski, Dirsmith, & Michelman, 1993; Greenwood, Suddaby, & Hinings 2002; Scapens, 1994). Thus, the design and application of management accounting practice is dependent upon the legitimacy requirement, time, and the organizational context. Accounting literature (Hoque & Hussain, 2002; Hussain & Gunasekaran, 2002; Kasumba, 2013) states that external forces (coercive, normative, and mimetic pressures) control the establishment of a particular accounting system. For instance, Kasumba (2013) reveals that the local government budget of Uganda is affected by coercive pressures and is supplemented by normative pressures when creating organizational practices in local governments. Similarly, Hussain and Gunasekaran (2002) report

that external factors such as the central bank association, management competency, strategic orientation, and best practices have impacted on non-financial performance practices in the banking and finance industries. Abernethy and Chua (1996), also reveal that management control systems in an Australian hospital were mainly used to support the control mechanism which was developed for legitimacy purposes, to comply with the external environment, rather than to aid planning and controlling its internal operations. In a similar vein, Hoque and Alam (1999) conclude that in their selected case organization, TQM implementation took place due to the requirement to promote "quality" and "institutional" culture rather than for technical reasons. This indicates the possible influence of external forces in determining the design and implementation of management accounting practices in a business organization.

Not only external forces, but rather internal forces such as the interest and power of key leaders also determine the particular design and implementation of a management accounting practice. Supporting this assertion, Burns and Scapens (2000) report that there is a duality of actions and institutions. Not only do institutions determine the behavior of organizational members, but institutions are themselves the result of actions of individual members of the organization. They further state that actions are shaped by institutions, but that they can be challenged. This reflects the ability of power to either introduce or reject new institutions or accept new institutions and behave in a ceremonial way. Furthermore, accounting researchers such as Burns (2000), and Burns and Scapens (2000) claim that accounting system implementation or change has been impacted by internal power and politics mobilization and a new implementation becomes less problematic when change is compatible with existing rules and ways of thinking. Kihn (2011) also supports these findings, stating that budget target interpretations differ from one person to another, even in the same organization; even though there are similar understandings of budget targets for each person, individual level variations occur due to controllers' personal and subjective meanings. This finding indicates that the "Personal historical basis for understanding may impact a manager's interpretation of budget targets, but the interpretations can also be dynamic and change over time" (Kihn, 2011, p. 212). The author stresses the impact of internal managers' power over and interest in a certain implementation.

However, this literature indicates that management control related studies are biased, either towards internal dynamics or external forces on institutionalization of management controls. Thus, there is a need to explore management controls design

and implementation as a holistic process to understand the possible interfaces between internal and external dynamics. This paper attempts to provide such a theoretical explanation on the design and implementation of management controls.

Old institutional economics (OIE) and new institutional sociology (NIS)

The theoretical point of departure of this paper lies in bringing together two phases of institutional theory: OIE and NIS. Further, the study is indebted to the work of Oliver (1991). OIE, the first phase of the institutional theory, opposes the neo-classical economic theorizing which placed emphasis on assumptions pertaining to rationality and optimization (Wilber & Harrison, 1978). The key argument here was that formal organizational structure reflects not only technical imperatives and resource dependencies, but also institutional forces which were defined at that time as 'rule like' frameworks and 'rational myths' (Scott, 2008). This idea provided new explanations for formal organizational structure (opposing the view that the organizational structure is determined by technical imperatives and resource dependencies), and viewing the organization as a legitimate and dominant actor in modern society (Scott, 2008). This OIE argument is built on the assumption of a 'social order' or in other words, that individuals accept a shared definition of social reality. An accepted social reality is institutionalized within the formal organizational structures as members accepting the 'way things are' and the 'way things are to be done'. Meyer and Rowan defined institutionalization as a process by which social processes, obligations, or actualities come to take on a rule like status in social thought and action (1997, p. 341). Thus, this institutionalization becomes a process which absorbs a social reality into organizational structures (Meyer & Rowan, 1977). Simply put, this vein of theory argues that business practices and structures become habitual and routinized over time, and eventually comprise of generally accepted ways of thinking and doing (Hodgson, 1988; Nelson & Winter, 1982; Vromen, 1995).

The institutional theory reached an advanced phase with the ideas of NIS [DiMaggio & Powell, 1983; Meyer & Rowan, 1977]. While accepting the philosophical assumption of social order, they argued that intra-organizational structures and procedures are largely shaped by three external institutions which consist of cognitive, normative, and regulative structures. In conformity to the social order, internal structures and procedures will reflect rules, procedures, myths, and norms that are prevalent and generally perceived to be 'right' by society (Meyer, Scott & Deal, 1983).

Therefore, organizations are passive entities that seek for legitimacy by confronting environmental pressures (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1997; Scott & Meyer, 1991). The congruence between organizational arrangements and institutions in society is explained through the process of isomorphism (DiMaggio & Powell, 1983). Therefore, organizations adopt practices which are isomorphic with the external environment. 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).

Strategic responses to institutional processes

The theoretical lens of "the strategic responses to institutional processes" of Oliver (1991), states that organizations actively resist through proactive manipulation instead of passive conformity when institutional pressures are imposed on them. An organization, when faced with conflicting institutional demands (from external institutions and internal efficiency requirements), may attempt to compromise with its external constituents (Oliver, 1991). The author states that an organization could enact five types of strategic behaviours in response to the institutional environment when moving towards gaining institutional conformity: acquiesce, compromise, avoid, defy, and manipulate. Acquiescence refers to adherence to the socially accepted norms and values; here, organizations avoid strategic responses to external institutions. Compromise happens when an organization encounters conflicting institutional demands or conflicts with external institutions and internal efficiency requirements, and it attempts to bargain with the external institutions (Oliver, 1991). Avoidance is an "organizational attempt to preclude the necessity of conformity; organizations achieve this by concealing their nonconformity, buffering themselves from institutional pressures, or escaping from institutional rules or expectations" (Oliver, 1991, p. 154). With the strategy of defiance, an organization ignores environmental effects, perceiving that their influence over the organization is low, or it adopts defiance when there is a dramatic conflict between external forces and internal objectives. Finally, manipulation is the most active response to environmental expectation. At this level, organizational actors influence institutionalized values and acceptable practices in the environment.

Propositions

Internal dynamics and management controls

Emphasizing the inadequacy of the neo-classical economic theorizing, which places assumptions on rationality and optimization (Wilber & Harrison, 1978) in a central role, OIE argues that the formal organizational structure reflects not only technical imperatives and resource dependencies, but also institutional forces which were defined at that time as 'rule like' frameworks and 'rational myths' (Scott, 2008). This idea provided new explanations for formal organizational structure, and a novel basis for seeing the organization as a legitimate actor in modern society (Scott, 2008). This argument of OIE is built on the assumption of 'social order'; in other words, on the acceptance of a shared definition of social reality. An accepted social reality is institutionalized within the formal organizational structures by organizational members accepting the 'way things are' and the 'way things are to be done' which is widely known as institutionalization. Meyer and Rowan (1977 p. 341) note institutionalization as a process by which social processes, obligations, or actualities come to take on a 'rule like' status in social thought and action. Thus, this institutionalization becomes a process which absorbs a social reality into organizational structures (Meyer & Rowan, 1977). This institutionalization process has been elaborated by Burns and Scapens (2000) as happening in four stages. Firstly, the existing institutions of the organization embody prevailing institutions or taken-for-granted assumptions of the environment, and shape new rules and routines. Secondly, actors enact those routines consciously: they resist rules and routines if they challenge existing meanings and values, and these actors have sufficient resources and power to intervene in this enactment process. Thirdly, actors reproduce rules and routines, which may be a conscious or unconscious reproduction. Conscious change happens when actors have sufficient resources and rationales to question those rules and routines. However, an unconscious change is likely to happen when actors have accepted those rules and routines or they have not sufficiently understood them. Finally, actors reproduce rules and routines that are institutionalized within the organization. Accordingly, OIE depicts an agency perspective because it provides sufficient space for rational human actions of the organization. In other words, informal structures, values, attitudes, and norms of the actors and their vested interests along with a commitment to achieve the displayed goals influence the design and implementation of management control systems in organizations.

Past studies (for example, Siti-nabiha & Scapens, 2005; Wickramasinghe, Gooneratne, & Jayakody, 2008) provide empirical evidence to support the assertions of OIE on internal dynamics (interest, power and proclivities of key actors) reflected through organizational structures and procedures (such as management control systems). For instance, the study by Siti-nabiha and Scapens (2005) found that a new system of value-based management (VBM) was implemented in an organization due to external pressures, but key performance indicators (KPIs) in relation to VBM became decoupled from the day-to-day activities of the business due to internal dynamics. Furthermore, the paper by Wickramasinghe et al., (2008), on the rise and fall of a Balanced Scorecard (BSC) project in a private enterprise in Sri Lanka, has shown that a balanced scorecard project failed due to the reluctance of internal management to use it as an internal control device although it had been well received by the same internal management as a useful management device initially, due to the attempts at popularizing this technique among business leaders by CIMA Sri Lanka. Various other accounting researchers (such as Burns, 2000; Burns & Scapens, 2000) also claim that accounting system implementation or change has been impacted by internal power and politics mobilization. The study by Burns and Scapens (2000) state that while actions of individual members are shaped by external institutions, external institutions can also be challenged by individual members' interest and power. This reflects the ability of individual members to introduce new institutions/practices, reject new institutions, or accept new institutions but behave in a ceremonial way (window dressing). The study by Guerreiro, Pereira and Frezatti (2006) report that a new management accounting system in a large Brazilian bank was successfully implemented due to the involvement of key players of that organization such as members of the bank board, managers of business areas and managers of central service areas. Seen in this light, management controls in an organization are subject to internal dynamics such as power and subjective meaning of actors. (Hoque & Hopper, 1994). This can be conceptualized within OIE. Therefore, with the support of this empirical evidence and following the assertion of OIE, this paper advances its first proposition:

Proposition 1: Powerful organizational actors', group's interests, power, proclivities and existing institutional rules and norms play an active role in shaping the design and implementation of the management controls of an organization.

External institutions and management controls

NIS scholars such as DiMaggio and Powell (1983), Meyer and Rowan (1977), and Meyer et al., (1983) argue that intra-organizational structures and procedures are largely shaped by three external institutions which possess coercive, normative, and mimetic constituents. Accordingly, how organizational practices (including management accounting) change with the legitimacy requirements and organizational context has been examined by various authors (Covaleski et al., 1993; Greenwood et al., 2002; Kholeif et al., 2007; Scapens, 1994). For instance, accounting researchers suggest that these external forces influence the design of a particular accounting system (Hoque & Hussain, 2002; Hussain & Gunasekaran, 2002; Kasumba 2013). Kasumba (2013) reveals that the local government budget of Uganda is affected by coercive pressures and that it is supplemented by normative pressures. Similarly, Hussain and Hoque (2002) report that the performance measurement practices of four Japanese banks were influenced by economic constraints as the primary factor, followed by the central bank's regulatory control, accounting standards, competition, and the organizational tendency to copy best practices from others.

Conformity to 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). This is explained through the process of isomorphism (DiMaggio & Powell, 1983), which refers to the congruence between organizational arrangements and institutions in society. Except coercive isomorphism which explains that powerful regulatory actors can take initiatives, the other two forces (mimetic and normative) are aligned with the structuralist perspective that holds that social relations are patterned and constrain the free initiatives of individuals and organizations outside the particular organization concerned (Thornton et al., 2015). Accordingly, NIS embraces conformity and habitual behaviour of organizations and the material aspects of institutions: which are structures and practices. As such, the paper advances its second proposition:

Proposition 2: Rationalized institutional forces in the environment (coercive, normative, and mimetic) play a part in shaping management controls in an organization

Internal and external forces and management controls

Management accounting and controls literature also shows that one theoretical perspective (OIE and NIS) alone is incapable of providing explanations as to how external institutions are internalized in a particular organization, especially where internal agents with different motives play major roles in organizations. While OIE identifies that those choices and decision are influenced by habits, routines, taken-for-granted assumptions, power, and politics (Burns & Scapens, 2000; Molls, Burns & Major, 2006), NIS assumes that intra-organizational structures and procedures, even accounting, are shaped by external pressures which hinder the power of internal actors and institutions (Meyer et al., 1983). Bringing together these theoretical explanations, this paper argues that management controls of an organization reflect the co-existence of institutional forces and internal dynamics, especially power play and interests of key organizational actors. The study by Stergiou, Ashraf, and Uddin (2013) also show that the role of structure and agency in changing management accounting controls in a firm are a function of differently interacting structural conditions which are mediated through human agency. Studies such as those by Abernathy and Chua, (1996), Nyland and Pettersen, (2004), Siti-Nabiha and Scapens, (2005), illustrate that while budgets in organizations are used to manage different institutional requirements, budgets can be used to decouple legitimizing behaviours from day-to-day operations. This shows not only the influence of isomorphic forces on firms, but also the power of agentic behaviour in organizations. The role of structure and agency in explaining social change has not only been discussed in social science disciplines, but the importance of theoretical schemes that incorporate both structural and agential aspects of social life have also been recognized (Kakkuri & Kuorikoski, 2008; Kilfoyle & Richardson, 2011). Along with the above goals, this paper attempts to theorize both structure and agency through triangulating NIS and OIE. Adding further to this view, Ribeiro and Scapens (2006, p. 107) note that;

...we analyzed and noted the potential complementarity between two institutional theories with rather different origins and levels of analysis, but which, at least in their essence, share similar conceptual ground: NIS and OIE. Whilst on the one hand NIS provides macro-level explanations of the adoption of specific structures and procedures in organizations that operate within institutionalized environments, OIE adopts a more intra-organizational stance that seeks to shed light on processes of resistance, or on the decoupling of the formal arrangements and the actual day-to-day practices in organizations.

Hoque, Covaleski and Gooneratne (2013, p. 1188), also state that "...an advantage of theoretical triangulation and diverse research methods is the potential to provide a synergy of being mutually informative that could permit a richer portrayal of the organizational reality, revealing unique organizational issues or dynamics". In a similar vein, this paper shows the possibility of theorizing internal and external dynamics within a single theoretical platform through the integration of NIS and OIE.

The neglect of the agency perspective in NIS (although acknowledged in OIE) has made the institutional theory a target of criticism for its inability to provide an appropriate explanation for agentive behaviour in institutionalization (Barley & Tolbert, 1997; Friedland & Alford, 1991; Scott, 2008; Thornton et al., 2015). This supposition is also emphasized by scholars such as Hirsch and Lounsbury (1997). They recognize theorization of agency as a major lacuna and call for reconciliation of "new" and "old" as they think it allows better theorizing of both action and structure. We conclude with a call for reconciliation between the that we believe will allow for more complete institutional theorizing of both action and structure" (p. 408). Lounsbury (2008) also posits that the theory of isomorphism needs to be revised to account for organizational heterogeneity in order to understand institutional and organizational dynamics. Following these calls, this paper strives to incorporate agency into NIS by bringing in the touchstones of institutional theory (OIE), the classic upon which NIS is built. Therefore, this study advances its third proposition:

Proposition 3: Management controls in an organization reflect both rationalized institutional forces in the external environment and internal dynamics such as the interests, power, and proclivities of powerful organizational actors and groups, and the existing institutional rules and norms.

Organizational actors' strategic behaviour, and management controls

This section of the paper explicates "how" management controls reflect the role of organizational actors' strategic behaviour. For this purpose, the paper draws on the "strategic responses to institutional processes" of Oliver (1991), along with the OIE and NIS perspectives. Oliver (1991) argues that organizations strategically respond to institutional pressures imposed on them: an organization could be an interest-

seeking, active organization in response to institutional pressures. Supporting this argument, Edelman (1992) states that organizations attempt to secure resources, grants etc. by purposefully complying with regulations or adapting formal structures and procedures in a manipulative fashion. The study by Gooneratne and Hoque (2016) found that a budgeting system in a hybrid entity is institutionalized amidst external institutional influences, deliberations of key organizational agents, and idiosyncrasies in the competitiveness and complexity of the particular industry and the organizational setting. According to Kilfoyle and Richardson (2011), organizational actors cannot simply be defined as rational, self-interested individuals who are motivated by economic rewards and governed by contracts. There are different roles that an organizational player can assume, and those require a more open approach to analysis. They further emphasize that organizational actors are part of a social, regulatory, and historical context that affects their behaviour, and depending on the ontology adopted, may construct their organizational reality. Therefore, this paper draws on Oliver (1991) to capture actors' strategic behaviour. Oliver (1991) notes that an organization could enact five types of strategic behaviours in response to the institutional environment in order to gain institutional conformity - to acquiesce, to compromise, to avoid, to defy, or to manipulate.

The first strategy of Oliver is "acquiescence", and it takes three forms; habit, imitation and compliance. Habit refers to unconscious adherence to taken-for-granted assumptions (socially accepted norms and values), thus, reproducing practices of the institutional environment. Imitation, which is drawn from mimetic isomorphism, explains that organizational decision makers consciously or unconsciously imitate the actions of other trusted actors in the environment. Compliance, the third form of "acquiescence" is defined as "conscious obedience to, or incorporation of, values, norms, or institutional requirements" (Oliver, 1991, p. 152). This explicates the inability of organizational actors to employ strategies, given the organizational requirement to increase legitimacy, increase stability, or sustain the logic of confidence necessary to conduct organizational activities (Meyer & Rowan, 1977).

The second strategy of Oliver is "compromise" and it also has three forms; balance, pacify and bargain. In a context of conflicting institutional demands of the environment or when in conflict with external institutions and internal efficiency requirements, organizations attempt to bargain, pacify or balance with external constituents (Oliver, 1991). Balance refers to an attempt to achieve parity among external conflicting expectations and internal interests. Pacifying tactics constitute

partial conformity with expectations. For example, an organization may face a situation of increasing pressure to discontinue the production of a potentially harmful product: it may continue to manufacture the product but will allocate considerable financial resources to redesigning the product to fit institutional expectations and to promoting its subsequent safety (Oliver, 1991). Bargaining tactics involve the effort of the organization to exact some concessions from an external constituent in its demands or expectations.

The third strategy of Oliver (1991) is avoidance and this is defined as “the organizational attempt to preclude the necessity of conformity; organizations achieve this by concealing their nonconformity, buffering themselves from institutional pressures, or escaping from institutional rules or expectations” (Oliver, 1991, p. 154), and tactics such as concealing, buffering, and escaping are used to achieve this strategy. Concealing means organizations engaging in window dressing, ceremonial pretense or symbolic representation of organizational activities and disguising their actual practices. Buffering is decoupling organizational practices from external expectations in order to avoid external inspection, scrutinizing and evaluations (Pfeffer & Salancik, 1978). In the words of Meyer and Rowan (1977, p. 341), buffering is used 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”. For example, Cruz, Major and Scapens (2015) report that a joint venture Portuguese company dealt with multiple logistics (head office management controls and efficiency controls in the company) with the tactic of loosely coupled management control techniques. Pacifying means a partial conformity with the external institutions, in contrast with bargaining which refers to a more active form of compromise. Escape has two forms; either the organization alters its goals and activities, thus avoiding the necessity for conformity or moves from the domain in which the influence is exerted. This explains the possibility of actors’ engagement in de-institutionalization.

The fourth strategy presented by Oliver (1991) is defiance and it involves three tactics - dismissal, challenge, and attack. Dismissal comes about when an organization ignores environmental effects, perceiving that their influence over the organization is low, or when there is a dramatic conflict between external forces and internal objectives. In Oliver’s words, challenge is “a more active departure from rules, norms, or expectations than dismissal. Organizations that challenge institutional pressures

go on the offensive in defiance of these pressures, and may indeed make a virtue of their insurrection” (Oliver, 1991, p. 156). Attack, the last tactic of defiance, refers to an organization’s active departure from institutional expectations and pressures. This explicates the actors more active engagement in challenging and attacking external institutions.

The last strategy mentioned by Oliver is manipulation, and it is the most active response to environmental expectation and pressures. It also involves three tactics, namely, to co-opt, influence or control. As a means to neutralize institutional pressures and increase legitimacy, an organization may co-opt the source of pressure. Influence tactics attempt to exert an influence over the institutionalized values and acceptable practices of the environment, and controlling tactics attempt to exert power and dominance over the external institutions that put pressure on the organization (Oliver, 1991)

Put succinctly, DiMaggio and Powell (1983) state that organizations commonly accede to institutional pressures in the environment. An accepted social reality is institutionalized within the formal organizational structures by members accepting the ‘way things are’ and the ‘way things are to be done’. Thus, this institutionalization becomes a process which absorbs a social reality into organizational structures (Meyer & Rowan, 1977). Whereas becoming institutionalization can be judged as being successful, existing norms, rules, and taken-for-granted assumptions of the organization should accept those environmental pressures. During this process, actors’ engagement takes place at different levels under different conditions. In other words, structure and agency operate at different levels and under different conditions. If environmental pressures are very influential, powerful, or exert the threat of legitimacy, unconscious or blind adherence to those pressures take place within the organization. Therefore, the possibility of active agency (rational behaviour) hinders the structural changes that take place unconsciously. This is ‘acquisition’ as posited by Oliver (1991). On the other hand, organizations are often confronted with conflicting institutional demands or inconsistencies between institutional expectations and internal organizational objectives on efficiency. Under such circumstances, agency hinders the structure and organizational objectives, and key actors engage with their power and proclivities in designing and implementing organizational structures including management controls. Therefore, strategic responses such as compromise, avoidance, defiance, and manipulation appear in organizations, and organizational actors engage in different strategies or reflect

agentive behaviour in different degrees under different conditions. Accordingly, the paper advances its fourth proposition as:

Proposition 4: Management controls in an organization reflect the rationalized institutional forces in the environment and the interests, power, and proclivities of powerful organizational actors and groups, as well as the existing institutional rules and norms at different levels under different conditions.

Theoretical implications

This paper provides important theoretical implications for institutional theory as well as for the ongoing structure-agency debate. Given the OIE focus on agentive behaviour in response to external institutions, this paper provides an extension to NIS, identifying the possibility of the active engagement of organizational actors and their alternative strategies when confronted with institutional pressures. The Institutional theory has been criticized for its primary focus on organizational conformity to the institutional environment, and thus its inability to provide a space for agentive behaviour (Covaleski et al., 1993; Hirsch & Lounsbury, 1997; Thornton et al., 2015). Accordingly, it has been little understood why organizational heterogeneity has taken place under the same institutional forces in contrast to the widely shared wisdom of institutional theory: which is homogeneity. This paper complements the NIS perspective with OIE and Oliver's strategic responses to institutional processes, in arguing that heterogeneity can be attributed to agentive behaviour which has been influenced by actors' power, interest, and proclivities.

Managerial implications

This paper also has significant practical implications. In reality, practicing managers are faced with pressures from the external environment as well as decisions on whether to conform or not conform to those pressures by internal organizational dynamics such as norms, rules, and taken-for-granted assumption, as well as actors' own power, interest and proclivities. Seen in this light, this study provides some pointers for practicing managers in designing and implementing management control systems by effectively balancing such opposing influences and formulating systems suited to the circumstances of a particular organization.

Directions for further research

Viewing management control design and implementation from a holistic approach incorporating internal and external dynamics, reveals that organizations depict more heterogeneity in their practices due to powerful, performance-oriented actors. Hence, our paper opens up new research directions for further exploration on organizational heterogeneity rather than homogeneity, which latter is the narrow conceptualization of institutional theory akin to isomorphism and organizational conformity.

Conclusions

Drawing on the theoretical strands of OIE, NIS, and the "strategic responses to institutional processes" of Oliver (1991), this paper has attempted to explicate the possibility of active agency in terms of agents' power, interest and proclivities and their use of existing organizational norms and rules in the face of external institutions, instead of assuming that the strategic behaviour of organizations passively conforms to coercive, normative, and mimetic pressures in the environment, as posited by NIS. Thus, this paper posits that 'agency' is an active ingredient which should be blended with 'structure' to provide a more complete explanation for the determinants of organizational structures and procedures.

Note

Even though management controls comprises both formal and informal control approaches, this paper focuses on formal management accounting controls such as budgeting, standard operating rules and procedures, strategic planning systems, and key performance indicators. The study explores how key actors' power, interest and proclivities are incorporated in designing and implementing formal control approaches; in that sense it does capture the influence of informal controls on the design and implementation of formal control approaches.

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