

Comparative insights into management control practices in two Sri Lankan banks in the public and private sectors

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Introduction

The past several decades have seen an elevated interest in the design and operation of management control systems (MCS) in organizations in both the public and private sectors. Initial insights into management control date back to the pioneering work of Robert Anthony, whose classic definition was, 'management control is the process by which managers ensure that resources are obtained and used effectively and efficiently in the achievement of the organization's objectives' (Anthony, 1965, p. 27). Over the years, the notion of 'management control' has attracted a wide range of connotations and progressed amid the plethora of definitions. From a technical point of view, MCS are seen as analytical and calculative processes used to make decisions and achieve organizational objectives, which are focused on accounting-based controls such as budgeting (Otley, 1994, 1999). From a more contemporary sense, management control encapsulates not only formal, financially quantifiable information for managerial decision making; instead, it embraces broad-scope information with the emphasis on the entire organization and the longer term (Chenhall, 2003). Seen in this light, MCS are socially constructed phenomena within the particular context in which they operate, while being subject to wider social, economic and political pressures (Berry *et al.*, 1985). Such a view captures the interdisciplinary nature of management control and echoes that MCS cannot be seen purely as technically rational activities divorced from broad societal relationships or from the actions of actors and other forces. The current chapter shares such sentiments.

Quite apart from the above, a review of past MCS studies reveals that a relatively large body of research views management control from the eyes of the manufacturing sector (Abernethy & Lillis, 1995; Hoque & James, 2000), and that research confined to service organizations is rather limited (Chenhall, 2003; Lowry, 1990; Modell, 1996). In recent years, the service sector, especially the banking industry, has long been considered as an important vehicle for sustainable economic growth in developed and developing countries. This chapter seeks to contribute to the body of knowledge on MCS research drawing empirical evidence from the Sri Lankan banking arena. Even though the significance of banking operations is acknowledged, and control practices have become a central issue in the research

agenda in management accounting, there are many unasked, unexplored or under-explored research questions in relation to the banking industry. Little is known about how management control is translated into practice in public- and private-sector commercial banks, and whether control practices in public-sector banks differ from those in the private sector. We aim to fill in this apparent gap in prior research using two commercial banks in Sri Lanka.

The open economic regime operating in Sri Lanka since 1977 enabled the private sector to play a more dynamic role in the economy as a whole, and in the sphere of commercial banking in particular. As for the commercial banking arena, the neo-liberalized era witnessed the entry of a number of foreign banks and domestic private banks to the industry. To keep up with this emerging competitive environment, state-owned banks focused on commercially oriented and customer-focused banking business, in addition to their customary social and development banking services geared towards local businesses and the rural community. Commercial banks occupy a predominant place in the Sri Lankan financial system (Dassanayake, 2000), and within the composition of the financial services sub-sector licensed commercial banks (LCBs) form the largest component. For a relatively small nation of 20 million people, Sri Lanka has a high number of LCBs, and the contemporary Sri Lankan banking industry represents an arena in which both public- and private-sector players are brought into a single competitive footing. One may claim that 'the industry is over-banked', although there is significant concentration. Among the 22 LCBs, only the six largest (two public and the 'big four' private) banks have established their presence across the entire nation, with most of the other banks operating only within the more economically prosperous areas.

The rest of the chapter is structured as follows. First, 'Status Quo of Management Control Research in the Banking Sector' provides a glimpse of the status quo of management control research in the banking sector by highlighting the insights from prior research and identifying gaps in extant literature. Then, 'Methodology' presents the methodology, while a comparative analysis capitalizing on field study evidence is offered in 'Towards a Comparative Analysis'. Finally, 'Research Implications and Conclusions' depicts the research implications, conclusions and contributions along with lessons and insights for practicing managers and corporate strategists of banks and other organizations.

Status quo of management control research in the banking sector

The current body of literature has seen the publication of several studies of management control in the banking arena. The works of Berry *et al.* (1991), Cobb *et al.* (1995), Helliard *et al.* (2002), Hussain and Hoque (2002), Norris (2002) and Soin *et al.* (2002) are significant here.¹ Despite the issues explored and the differing settings, they share the commonality of foregrounding control issues of banks.

In terms of topics, despite the focus on ABC (e.g. Innes & Mitchell, 1997; Norris, 2002; Soin *et al.*, 2002), surprisingly few prior attempts have been centred on the balanced scorecard (BSC) (see Aranda and Arellano, 2010; Braam & Nijssen, 2004; and Davis & Albright, 2004 for some exceptions). Further, notwithstanding the existence of several studies using multiple cases (McNamara & Mong, 2005, which encompasses two banks/a mobile telecommunication company; Hussain & Hoque, 2002 on four Japanese banks; Berry *et al.*, 1991, and Norris 2002 founded on the UK context), there is limited discussion of management accounting in banks involving a public- and private-sector comparison. Given the contextual

differences, much could be added by focusing on this area. While a limited number of in-depth case studies exist, previous work has been set at a single level (e.g. branch, departmental or organizational). Contextually, the countries of origin of prior studies are diverse, primarily from the UK, with US, Italy, Finland, Sweden, Japan and Brazil, among others.

While such endeavours are worthy of respect, further research issues await to be explored within management accounting scholarship. For instance, the translation of management control into practice in public- and private-sector banks has not been the focus of prior attempts. Drawing empirical evidence from two comparative case studies (one of the two state-owned banks and one of the 'big four' private-sector banks) cascaded down to the Sri Lankan context for illustrative purposes, this chapter sheds light on how public- and private-sector commercial banks designed, operated and used formal MCS to manage their day-to-day operations. Although operating in the same industry, encountering a similar competitive landscape, there are inherent differences between the public and private sectors, and the working environments of the two banks are deemed to be different. Such differences are thought to have ramifications for MCS as well.

Methodology

This chapter delves into the dynamics of the formal control systems in place in the two banks, how key members in the institutional and organizational fields shape the design and operation of their control practices, to what extent the information generated by control systems meets the needs of external constituents and organizational managers at various hierarchical levels, and to what extent the institutional differences between the two distinct sectors, public and private, produce differences in MCS. These deliberations are explored using the Sri Lankan banking context for illustration, and leaning primarily on the theoretical templates of actor-network theory (ANT), supplemented by new institutional sociology (NIS). ANT² is used to explore how the design and operation of MCS are shaped by actions of key actors and the relational networks formed therein, while the NIS perspective is used to understand how various isomorphic pressures drive organizations to implement and use a particular control system (DiMaggio & Powell, 1983; in accounting research, see e.g. Carpenter & Feroz, 1992, 2001; Covaleski & Dirsmith, 1986, 1988a, b, 1991; Shapiro & Matson, 2008). By drawing insights from the theories of ANT and NIS, which complement each other (see Hoque *et al.*, 2013), this chapter shows how the dual facets, internal actor-networks (micro) and external institutional influences such as government regulation, mimic forces and normative pressures (macro) are intertwined in the formation, operation and use of MCS.

Data collection was conducted in two phases: (i) a pilot study and (ii) a main study. An interview guide (see Appendix 19.1) was formulated with some open-ended questions covering broad areas of interest such as historical and background knowledge of the two banks, their processes, and nature of their MCS. This was used in the pilot study. As the study progressed in the main stage, these interview questions were continually refined to capture emerging issues at the two sites. What emerged from the pilot study interview data was that in Bank Alpha budgeting remained the solitary means of management control, and that Bank Omega had moved through several phases of management control. Accordingly, during the main phase in Bank Alpha, questions were aimed at uncovering budgetary control practices, and in Bank Omega, the interviews mainly revolved around identifying the rationale for changing forms of management control.

The data were mainly gathered via in-depth interviews with people drawn from diverse portfolios (including accounting, marketing, human resources and operations) as well as

different hierarchical levels in the corporate ladder (such as senior management, regional/area managers, branch managers and functional managers) across different locations (at head office, regional/area offices, branches). Across the pilot and the main studies, 31 interviews at Bank Alpha and 30 interviews at Bank Omega were conducted. Complementary to these interviews, several officials in external institutions related to banking such as the Central Bank of Sri Lanka (CBSL) and the Institute of Bankers of Sri Lanka (IBSL) were also contacted. As emerged from these interviews, their influence on management control of commercial banks is marginal. Nevertheless, these discussions facilitated obtaining important information regarding the nature of the industry, regulation, policy issues, competition among commercial banks and insights into comparison of public versus private.

Interview data were supplemented by perusal of various documents. This ranged from annual reports and web pages of the two banks and press releases to an array of internal documents, such as monthly management accounts, internal memos, office instruction circulars, budget procedures, variance analysis reports, board papers, annual budget, corporate plan, branch performance report, expenditure report and BSC reports. Further, libraries of the CBSL and IBSL were visited and an analysis of related documents, banking magazines, journals and books was carried out.

The next section offers a comparative analysis capitalizing on evidence from the two banks.

Towards a comparative analysis

The focal point of this section is to tease out the similarities and differences in control practices in terms of design and operation issues, their uses, as well as mapping out the present focus and future route to MCS in the two banks.³ It sheds light on questions such as

- How has the contextual variance between public and private influenced control practices?
- To what extent do organizational actors in different stratus of management and external institutional forces influence control practices?
- Does traditional budgetary control gain a prominent foothold in organizational planning, controlling and decision making processes?
- Does budgetary control give way to more contemporary strategic performance measurement systems such as the BSC, or do traditional budgeting practices become interwoven with contemporary techniques?

The selection of these two banks is justifiable given their significant presence in the commercial banking industry of Sri Lanka, as two of the six largest players. They operate under common traditions and concerns, within the same regulated banking environment in Sri Lanka, encountering a similar competitive landscape. Nevertheless, there are inherent differences in the organizational and institutional environments, as one (Bank Alpha) is in the public sector, while the other (Bank Omega) is in the private sector.⁴ As a state-owned bank, Bank Alpha confronts the task of balancing the multiple aims of maintaining profitability, Bank Alpha confronts the task of balancing the multiple aims of maintaining profitability, serving the community and contributing to national economic development. As a private-sector bank, Bank Omega is driven primarily by the profit motive (maximizing shareholders' wealth), although it also contributes to the national economic development via paying taxes and generating employment. A salient feature that distinguishes the two cases is therefore their ownership structure. Contrasts are also evident in the areas of human resources, trade

union influences, decision making and customers' perceptions. Given such differences, how MCS function in public- and private-sector banks within their broader social and institutional environments is the focus of this section.

A snapshot view of the comparative findings that emerged through data collected via 67 in-depth interviews (with various managers across different strata of the two banks and key informants from external institutions pertinent to the banking industry) and documentary analysis is shown in Table 19.1 and discussed in turn.

Control mechanisms deployed

Table 19.1 depicts the similarities and differences between the control mechanisms of the two banks. Bank Alpha shows how a budgeting system could encounter gradual improvements, whereas Bank Omega portrays how management control could be a cyclical process, moving through budgeting and BSC, undergoing a series of distinct phases.

In the early stages, Bank Alpha was attuned to comparing its performance against the prior year on an ad hoc basis, with a view to improving the previous year's results. With the accelerated competition in the 1980s, however, the bank was under pressure to improve its efficiencies, towards which goal an important response was the launch of the budgetary control system. Since then, it has progressed with incremental improvements in design, operation and uses, due to the efforts of members of the finance and planning division. Budgets add to the regime of command and control culture, and constrain freedom and autonomy, which is typical in the public sector, and evidently in Alpha.

Bank Omega originally set its sights on management control through traditional budgeting (phase one in Table 19.1). After recognizing the pitfalls of this financial performance-based MCS (budgeting system), it later shifted to a BSC in the belief that it would yield benefits, as demonstrated in numerous studies.⁵ The receptiveness of key personnel to new techniques became a further compelling reason. The BSC was the main control mechanism during phase two. It evolved under the patronage of the ex-MD and the expertise of a renowned foreign consultant in the business of the BSC. For the ex-MD, the BSC project was seen as a sound choice for producing better performance management, and engagement of a major international consultant was paramount in bonding others towards it. The implementation of a new management technique is a costly exercise (McCunn, 1998; Rigby, 2001), requiring top management support and generous resources (Hoque, 2003; Kasurinen, 2002), and the ex-MD was willing to make this investment.

Budgetary control coexisted during phase two, although became secondary to the BSC, and served as an aid to it. This also shows that while some organizations (such as Alpha) may opt for a single control mechanism (such as budgeting), others (such as Omega) may deploy multiple means (such as budgeting and BSC). In the event there are multiple control systems, it is important that there is coherence between the BSC and other systems (such as budgetary control) and that the messages conveyed are consistent. Although hailed as a masterpiece with the blessing of the ex-MD, the reign of the BSC was short lived. For a control system such as BSC to be tenable, the underpinning actor-network needs a certain level of take-up where apathy, resistance and dissent are overcome, and various interests of actors intersect (Latour, 1996). In Bank Omega, this occurred only in the short term. In the long term, the organization moved back to budgeting, given its members' resistance to the BSC and as desired by new entrants to top management. That step heralded phase three of management control. This sequence reinforces the contention that controls introduced for rational economic purposes can evolve into very different purposes, accompanying various issues

Table 19.1 Comparative findings of management control in Bank Alpha and Bank Omega

Bank	Phase	Period	Control mechanisms in place	Design and operation of management control		Use of management control information	Current status	Future direction
				Key internal actors	Key external forces			
Bank Alpha	No clear phases or periods of MCS, control mechanisms progressed through gradual improvements		Budgetary control	DGM-Finance and Planning, AGM-Budget and Strategic Planning, Manager-Budgetary Control	Coercive pressures (compliance with state policy), normative influences (ICASL, local universities)	Budgets used for external legitimacy and for internal management control at the top management level (partial use diagnostically and interactively)	Dominance of traditional budgeting	Refinements to budgetary control and a possible shift to BSC
Bank Omega	Phase One	Inception to 2003	Budgetary control	Manager-Finance	Normative influences (local universities)	Ad hoc use of budgets for internal management control (partial use diagnostically)	Dominance of traditional budgeting	Refinements to budgetary control and a possible shift to the BSC
	Phase Two	2004 to 2008	Mainly BSC, secondarily Budgetary control	Former MD, Strategic Planner, foreign consultant	Normative influences (BSC diffusion programs, academic and professional bodies)	Mainly BSC used for internal management control (partial use diagnostically and interactively)		
	Phase Three	2009 to date	Budgetary control	CFO, Manager-Finance, Manager-Planning	Mimic behaviour (ex-employer of CFO)	Budgeting used for internal control (partial use diagnostically and interactively)		

(Wickramasinghe *et al.*, 2004), and that conflicting interests and values can lay technologies open to challenge and transformation. Hence, no solution (for example a control system) becomes permanent, as some prominent managers can exert influence more effectively than others at various periods. Design and operation of control systems in the two banks are the focus of the next section.

Design and operation issues

Important differences were found in the areas of design and operation of MCS in the two banks. As a state-owned enterprise (SOE), Bank Alpha typically used formal systems and procedures, which were extended to the accounting arena for budget designs. Although such a formal structure existed on paper, actual practice did not fully resemble it. Budget preparation deadlines were not rigorously enforced, and not all managers enthusiastically contributed towards the budgetary process. Apart from this, its budget design was subject to coercive isomorphic pressures from the owner/government, due to external legitimacy concerns (DiMaggio & Powell, 1983).

In sharp contrast, as typical to the private sector, Bank Omega exhibited fewer restrictions and its board of directors was at liberty to make its own decisions, including in accounting-related matters. In the absence of specified procedures supported by documentary evidence, its MCS design featured changing forms across time, as desired by powerful actors such as the former MD and the current CFO. Under the previous management, the MD (himself an accountant) had been instrumental in forming control practices in the bank. Not only did he initiate the BSC, it took shape as he intended. On the other hand, the budgetary control system prevalent from 2009 mirrored the aspirations of the CFO.

Of further interest, the case data exhibited how academic and professional backgrounds of key actors in finance and planning areas were instrumental in shaping MCS in the two banks. In Bank Alpha, the advocates of budgeting such as DGM-Finance and Planning, AGM-Budget and Strategic Planning and Manager-Budgetary Control were chartered accountants, members of the Institute of Chartered Accountants of Sri Lanka (ICASL), and/or holders of accounting/business degrees from local universities. The CFO and the Manager-Finance of Omega, also promoters of budgeting, were business graduates from local universities. This was at variance with the background of the champions of its BSC project, the ex-MD and the ex-Strategic Planner. While the former possessed the Chartered Institute of Management Accountants (CIMA) and ICASL qualifications, the latter held multidisciplinary skills with qualifications in marketing, banking, MBA, in addition to a local university degree. This raised the following questions: are the management faculties of local universities and the main local professional accounting body (ICASL) diffusing the same message that budgeting should predominate? In contrast, did the CIMA qualification of the ex-MD, and the multidisciplinary skills of the ex-Strategic Planner motivate them to look beyond budgeting? The situation also showed how normative influences from academic and professional institutions can become intertwined with actors' deliberations, as academic and professional backgrounds of key organization members were instrumental in shaping management control into their various forms in the two banks.

The budgeting system held different degrees of importance for different managers of Alpha, as the two groups, members of finance and planning and the branch/area managers, had opposing priorities. In the eyes of the former, it was of utmost importance. As the coordinators of the process, the overall responsibility for budgets was vested in their hands. They exhibited a deep-seated interest, as coming up with a 'good' budget was a medium to

demonstrate their worth and to shine among peers. For the latter, smooth running of the branch/area took precedence over budgets. Although accustomed to the term 'budget', they did not necessarily share positive sentiments nor did they extend full efforts towards the budgetary process. Exacerbating this situation was their lack of budgeting expertise, as many had secured their positions through seniority (experience) rather than academic merit. While branch managers lacked deep understanding to formulate a good budget, area managers had inadequate knowledge to perform a proper review of it. Notwithstanding the availability of local information at the branch level, it is debatable to what extent such insights were reflected in the budget. The reality was that the branch managers created *something* in the name of *budget* ritualistically because they *had to do so* and forwarded it to their superiors (area managers), which got passed on to the next level without any value addition. Although budget results are suggested as a better basis for evaluating performance than past results, over three decades ago Wildavsky (1979) remarked that the largest determining factor of the size and content of a year's budget is the previous year. Similarly, budgeting at the branch and area levels turned out to be constructed incrementally, proceeding from a historical base.

The low interest of the branch/area managers also does not come as a surprise as although they were expected to give input, the budget ultimately imposed was that desired by the head office (finance and planning). This at times turned out to be wholly different from that initiated at the local level, as the centralized 'top-down' budgeting system handed power to the finance and planning division to *cut and chop resource allocations* as well as to *enhance budget targets*. While claims were made that the head office 'always increases targets', certain others were of the view that the head office 'simply does not accept the branch budget'. A few others maintained that rather than being mutually agreed the budget targets were imposed in an autocratic fashion with branches not consulted in the process. Such negative sentiments, although not shared by all, were expressed rather strongly by some. Conceptually, although the structure was in place, thorough engagement of various managers was not visible in Bank Alpha. Faced with such a scenario, observed practice was that the budgeting tasks were vested in the hands of accountants in the head office. This was nevertheless interpreted by some as 'control' rather than 'coordination' of the budget.

Differences existed between the words of accounting and non-accounting managers regarding the 'control role' of the finance and planning division. In contrast to the view of certain branch managers, members of finance and planning described their grounds for altering the budget 'as coordinators of the process', in recognition of the need to fall in line with government expectations and management pressure for higher achievement. Despite such rationales, the head office 'coordinated' or 'controlled' budget attracted minimum attention from branch/area managers as well as from functional heads, who interpreted that it was in the 'powerful hands of finance and planning people'. Nevertheless, across the bank budgeting was accepted as a fact of life and a taken-for-granted course of action.

In Bank Omega, a BSC operated under the previous management. Various managers were brought into the BSC system through compulsion rather than any convincing logic, and it was not powerful enough to bind these various actors to launch a successful scorecard for long-term sustainability. If the underlying actor-network holds, the technologies (in this instance the BSC technology) would continue across time and space (Latour, 1987). However, Bank Omega's BSC found little resonance beyond the early network. Instead, a budgeting network is currently taking shape, led by the new CFO; time will tell its fate. Tensions between these networks were manifested in the words of various managers.

Literature has indicated that the design and operation of accounting systems carry implications for ensuing power relations among managers (Abernethy & Vagnoni, 2004;

Christiansen & Skærbæk, 1997; Hopper & Major, 2007), as became evident through the budgeting and BSC systems in the case banks. The disparity in the constitution of the finance and planning function is noteworthy here. In Bank Alpha, the economic research division was engaged in the macro-economic analysis connected to the preparation of the corporate plan and the budget. Management control and therefore the design and operation of budgets were handled by the finance and planning division, more specifically unified in the hands of a budgetary control unit within it. The tasks carried out by the economic research division and the finance and planning division were dissimilar and non-overlapping, and that mitigates any avenues for power struggles.

On the other hand, within Bank Omega in the initial stages (late 1980s to early 1990s), management control had a low priority. Later on (in 1996), while the (current) Manager-Finance was put in charge of management control, he instigated enhancements to control mechanisms (budgeting), learned from his accounting studies at a local university. Nevertheless, the introduction of the BSC in phase two not only brought in new calculable spaces, but it also altered the existing power relations of actors. While the BSC became a main concern for the management, especially for the ex-MD, as its facilitator the Strategic Planner gained supremacy vis-à-vis the Manager-Finance. During this era, the two divisions, strategic planning and finance, were in command of budgeting at various times, as directed by the management. Therefore, issues cropped up relating to 'who does what' at different occasions in time. The finance and planning function scattered across several divisions leading to overlapping tasks and role ambiguity was at the heart of such (implicit) struggles. In phase three not only was the BSC abandoned, but also the ex-Strategic Planner was moved off the finance and planning arena; a *new* planning department was established and budgeting was assigned to the finance division, although temporarily. These structural changes created a tacit form of power struggle between the ex-Strategic Planner and the *new* Manager-Planning, as well as between the ex-Strategic Planner and the Manager-Finance.

Organizational control systems, such as budgeting and BSC, are implemented by managers who occupied significant positions in organizations, and negotiated their interests to build alliances to support their beliefs. Only a budgeting network existed in Bank Alpha. Both a budgeting and BSC network were seen in Bank Omega, instigated from different agendas of different managers, who strove to tie other actors to relational networks of support. Whereas the budgeting network survived, the BSC network was obstructed by other managers who did not buy into that idea, as the solidification of a MCS such as budgeting or BSC is linked to the ways in which an organization's insiders avoid controversy and conflict, and draw support from key others. Bank Omega's BSC episode reflected a problem in bringing various managers on board and the ensuing silent struggle between its advocates in strategic planning at one end, and branch, regional managers and departmental heads at the other. For the former, BSC was a way to expand their empire and proclaim their worth; for the latter, the key concern was the business of banking, and plausibly the BSC was met with a low level of acceptance. Strategic planning operated in a separate territory with its own distinct identity, promulgating slogans such as *beyond budgeting* and *strategy focused organization*. Between these territories, rivalries existed, as evident in their body language.

Control systems get transformed as desired by powerful managers (the former MD and the current CFO), who maintained their version of what was apt in terms of management control (BSC and budgeting, respectively). The enthusiasm of the ex-MD gave rise to the BSC; his disappearance and the appearance of a CFO who displayed faint interest in the BSC contributed to its subsequent fall. This gave way to a budgeting system borrowed from the ex-employer of the CFO, exhibiting strong mimicry behaviour. Sustainability of a particular

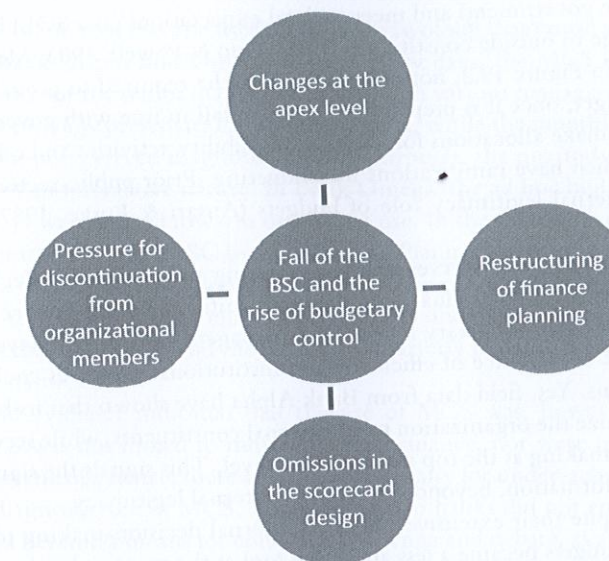


Figure 19.1 Observed reasons behind the fall of the Balanced Scorecard and the rise of budgetary control

MCS would depend on the efforts and power of the proponents of the various MCS. In Bank Omega, apart from the advocates of the BSC, other managers constituted a force in the opposite direction for its discontinuation, and proposing budgetary control, which became more powerful over time. To revitalize management control in the bank and to move forward, it was recognized that a department by the name of planning was needed. With the backdrop of strained relationships, to regain organizational-wide acceptance, the finance and planning function was restructured. In the restructure, a manager aligned to the thinking of the CFO was brought in and the Strategic Planner was moved off the territory of finance and planning. Four dimensions have emerged as critical to understanding the demise of the scorecard and the rise of budgeting, as presented in Figure 19.1.

To sum up, amid its inability to reconcile the viewpoints of diverse managers and technical flaws in the design, the BSC network in Bank Omega was not sustained. Exacerbating this, it did not accommodate the interest of the dominant new entrant, the CFO, who provided an alternative advocating the current budgeting system, which was more powerful than that of promoters of the BSC. It was also more appealing to the interests of the majority of branch/regional and functional managers, who were unconvinced about the merits of the BSC and hence dissociated from the BSC network. The BSC thus represents a project in decline and has come to resemble 'a utopia in the etymological sense, like an idea that has no place to land' (Latour, 1996, p. 120).

Use of management control information

From the standpoint of use, management control information is used by organizations to legitimize their existence via conformity to institutional rules and norms, and internally as a tool for organizational managers. Budgetary control system of Bank Alpha serves these dual roles; First, as typical to a large SOE, it created budget numbers to satisfy external legitimacy

requirements (of the government) and meet societal expectations (as a SOE) by portraying a positive public image to outside constituents (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). As depicted in Figure 19.2, not only is Bank Alpha required to provide information for the national budget, once it is prepared, it needs to fall in line with government's development initiatives, make allocations for social responsibility activities and offer concessions to the economy, which have ramifications for budgeting. Prior public-sector literature has highlighted this external legitimacy role of budgets (Ansari & Euske, 1987; Covaleski & Dirsmith, 1983, 1988a, 1991).

Second, the budgeting system serves strategic planning and controlling decisions of managers at the apex level through gradual improvements initiated by the finance and planning division, by way of regular budgetary reports and management forums. Meyer and Rowan (1977) suggested that coexistence of efficiency and institutional pressures could give rise to possible contradictions. Yet, field data from Bank Alpha have shown that its budgeting system served to legitimize the organization to its external constituents, while serving the quest for internal decision making at the top management level. This signals the significant use of budgetary control information, beyond a symbol of external legitimacy.

Paradoxically, despite their extensive use as an internal decision-making tool at the top management level, budgets became a less attractive tool at the practice level, as area/branch managers and functional heads of Bank Alpha did not actively participate in the budgeting network. In their minds, budgeting was of little use in everyday banking operations. Any use made of budgetary figures appeared to be of passive and ritualistic nature, to abide by top management (head office) directions by filling in routine budget reports, while they relied on experience and gut feeling in decision making at the local level.

A different scenario was observed in Bank Omega. As a private-sector entity, it had no statutory obligation to submit regulatory information to the state; its management control data generated through budgets, and the BSC was hardly used for external legitimacy, although it was extensively used internally.



Figure 19.2 Budgets for external legitimacy: Bank Alpha

In terms of internal use, the uses of MCS are twofold: diagnostic and interactive (Simons, 2000). In Banks Alpha and Omega in their glory days, the MCS exhibited some form of these dual uses for the senior management, through various management control reports and performance review presentations. In Bank Alpha, while the monthly and quarterly budgetary control reports served diagnostic control purposes, the quarterly budget review presentation was of an interactive nature. In Bank Omega, the ad hoc budget reports generated in the early days were geared towards diagnostic use. In the second phase, the monthly performance monitoring via the BSC by the Strategic Planner mirrored connections to diagnostic orientation, while the BSC presentations to corporate management featured some ties to interactive use. In the latest scenario, the monthly and quarterly budget reports represented a degree of diagnostic use, and the extensive quarterly budget forum was to an extent of an interactive nature.

The field evidence indicated that the use of MCS was, however, fragmented in both banks. MCS was not linked to individual performance, nor were promotions correlated to target achievements; hence, there was a lack of penalty for under-achievement, which diminished the diagnostic use of MCS. Further, the two banks did not endorse that management control data became a means for continual challenge and debate, as at the MCS presentations managers simply accepted the wisdom of the top management and the finance division rather than questioning them. This diminished use of MCS interactively. Seen in this light in both banks, MCS had not reached the level of a complete diagnostic and interactive method.

Prior research has noted that the use of management control ranges from mostly diagnostic to a combination of diagnostic and interactive (Henri, 2006). Likewise, Bank Alpha initially used budgeting as a diagnostic control tool for top management and over time also as an interactive control tool through the quarterly review presentations. In Bank Omega, the ad hoc budget reports in phase one, where actual results were measured, compared with budgets, and corrective action was prescribed, represented solely diagnostic use. The subsequent use of control information for managerial decision making through the BSC and budgeting in phases two and three, respectively, resembled a combination of diagnostic and interactive uses. Complementary use of these dual levers of control such as observed in the two case banks has been advanced by a number of past researchers (Henri, 2006; Tuomela, 2005; Widener, 2007). For Henri (2006), diagnostic and interactive uses of management control represent complementary and nested functions, which need to be used jointly to manage inherent organizational tension between the freedom to innovate and predictable goal achievement. In a Finnish case study, Tuomela (2005) reported on the diagnostic and interactive use of the BSC. Widener (2007), who drew survey data from 122 CFOs, highlighted the need to use performance measurement systems both diagnostically and interactively to realize their full benefits. Diagnostic control systems facilitate the efficient use of management attention, while interactive systems consume management attention (Widener, 2007). In the two banks under study, while the monthly budget/variance reports to the board provided a snapshot view of performance, and became a means to track, review and support the achievement of predetermined goals, the quarterly presentation was time-consuming, given its focus towards discussion between managers. The findings presented here also correspond to the views of Henri, who claimed that these twin uses work simultaneously, but for different purposes.

Striking similarities in the uses of MCS are also visible in these two cases as follows: (a) there was an interplay between the uses of MCS information from an internal front, both diagnostically and interactively; (b) MCS use began as a diagnostic tool and later developed to both a diagnostic and an interactive tool; and (c) such use had limits.

To recap, the foregoing comparative analysis suggests that the procedural nature of the public-sector bank prompted laid down procedures for budget designs, whereas the absence of strict procedures meant that control systems in the private-sector bank were designed and operated as desired by its top management. The diverse use of management control information in the two sites was again partly attributable to the differences in the institutional settings, such as the dual use, external and internal in the former, compared to only internal use in the latter. It is also worthwhile to note here that the circumstances that led to such differences in MCS, apart from contextual variances between public and private, were also due to the deliberations of powerful organizational members and the alliances formed.

Current focus and future agenda

Although the differences form the main stream of this comparative analysis, there are also visible commonalities amid these differences. The current status in both banks resembles the dominance of budgeting, while their future directions rest on refinements to budgetary control and a possible shift to the BSC, as turned to next.

Reinforcing the sentiment that 'although sometimes criticized as being 'past its sell-by date', budgetary control systems still provide a unique contribution to the assessment of overall performance at the aggregate level' (Otley, 2006, p. 305), budgetary control occupies centre stage in both banks. Yet the events and conditions that led to this scenario in the two cases differ. In the absence of contemporary techniques, such as BSC being implemented in its entire history, budgetary control in Bank Alpha evolved through incremental improvements over a period of around three decades under the coordination and control of the finance and planning division. In Bank Omega, budgeting regained ascendancy following an unsuccessful BSC episode, and given the ideology of the new and powerful actor, the CFO. As a champion of budgeting, his pathway to success, to be in line with the bank's more successful competitor, his former employer, lay in a *simple* budgeting system.

All in all, one of the most intriguing themes to emerge through this comparative analysis is that budgetary control plays a pivotal role in the organizational landscape. This leads one to reflect on why it is so persistent. At this juncture, it's appropriate to quote from Wildavsky:

Every criticism of traditional budgeting is undoubtedly correct. It is incremental rather than comprehensive; it fragments decisions, usually making them piecemeal; it is heavily historical, looking backward more than forward; it is indifferent about objective. Why, then has traditional budgeting lasted so long? My answer is: because it has the virtues of its own defects.

(Wildavsky, 1986, p. 327)

In common with Wildavsky (1986), Bank Alpha attributed merits such as simplicity, easiness, controllability and flexibility to the continuity of traditional budgeting. Similar justifications favouring budgeting were offered by those opposing the BSC and proposing budgeting in Bank Omega. This analysis reinforces the contention that the answer to the question 'is the annual budget really dead?' (Ekholm & Wallin, 2000) is negative.

Despite the above, amid criticisms about budgeting as an 'unnecessary evil' (Wallander, 1999), and calls for 'beyond budgeting' (Hope & Fraser, 2000), two trends have emerged: (1) incremental improvements to budgeting, and (2) the use of alternative techniques such as the BSC. Interestingly, in parallel with such sentiments, further enhancements towards

better budgeting, and a probable move to the BSC, were on the future agenda of both banks. The discussion to follow sheds light on this.

Apart from the current powerful presence of budgetary control, the desire to continue with it in the future was echoed by members at the apex level of the case banks, who stated that they intended to continue with budgetary control, albeit with potential refinements. For instance, both banks were working their way towards introducing an individual performance-based reward system. Nevertheless, respecting such efforts, it is claimed that none of better budgeting approaches provides a complete solution (Neely *et al.*, 2003), and arguably the BSC has 'something to offer' (Otley, 1994). In a similar vein, encouraged by the recent successful completion of its computerization project, several senior members of Bank Alpha pronounced their receptiveness towards new control tools such as the BSC. At Bank Omega, although the BSC has currently been shelved, some senior officials expressed interest in reintroducing it in the future.

A common ground is thus visible with the two banks contemplating a possible shift to the BSC in the future. Perhaps it is premature to pass judgment on this, and it remains to be seen whether it will materialize. It nevertheless lends support to previous research that has suggested that organizations need to augment the budget process with other approaches (Libby & Lindsay, 2010), and it reflects the growing receptiveness to movements such as beyond budgeting (Neely *et al.*, 2003). If this happened, for Bank Alpha, it would be perceived as a move towards a *better and a balanced* mode of control. For Bank Omega, it ought to be a *better BSC, a development over its former version*. Arguably, management control is a cyclical process moving through various modes of control. This seems justifiable as long as the lapses in previous phases are ironed out in the spirit of continuous improvement and better control is achieved. The cyclical nature is especially evident within the backdrop of today's severe competition and rapidly changing business environment, where a given state of a practice, including MCS, cannot be taken as optimal. It also reinforces that accounting is not a static phenomenon (see Hopwood, 1987).

The preceding comparative analysis offers extensions, complementary and conflicting insights into MCS in the two banks. BSC was claimed as a development (extension) over budgeting, and management control in Bank Omega extended a step further to the BSC. Complementarity was evident as the status quo in both banks demonstrated dominance of budgeting, and the future direction rests on further improvements to budgets and a probable move to the BSC. Differences occurred to the extent that Bank Alpha exhibited solely budgetary control, whereas Bank Omega featured dual modes of control, budgeting and BSC. Thus, beneath the facade of diversity, there was also an element of unity between the MCS in these two comparative cases.

Research implications and conclusions

This comparative analysis carries academic merit as well as practical relevance. Next, we turn to the important research implications it offers to literature, practice and future research, while ending with concluding remarks.

Implications to theory and literature

Theoretically, this research is inserted within two streams of literature, principally ANT with additional insights drawn from NIS. By combining actors' engagement with broader institutional concerns, the research illustrates how these dual theories together offer wider

insights into the dynamics of management control in the banking setting. As the main theoretical lens of the study, ANT was useful in providing explanations of how powerful actors and the relational networks formed therein shaped control mechanisms (see Alcouffe *et al.*, 2008; Sandhu *et al.*, 2008 among others). However, ANT needed extension to incorporate the external institutional pressures (such as coercive, mimic and normative) that influence MCS. In this regard, NIS was instrumental (DiMaggio & Powell, 1983). For Bank Alpha, a SOE, coercive influences from the government became significant in budget design, and budgetary control information was significant as an external legitimacy device. In Bank Omega, the BSC project was subjected to normative advice from consultants and professional associations, and the current budgetary system exhibited mimetic behaviour on the part of the CFO to copy his ex-employer bank. Therefore, the design, operation and use of MCS in the case banks were not solely attributable to actions of actors; instead, an array of external institutional forces also became relevant. This chapter thus forms a possible dialogue between ANT and NIS, and shows that the two theories complement each other (also see Hoque *et al.*, 2013), and how integration of actors' deliberations with external institutional pressures is tenable.

This chapter, while specifically located within the budgeting and BSC literature, contributes to management accounting scholarship in a number of ways. It enhances understanding of the functioning of budgeting and BSC in business organizations. The level of concern about budgeting in practice suggests its potential for continual scholarly research. Although organizational budgeting practices have been extensively studied over the past several decades (e.g. Christiansen & Skærbæk, 1997; Hoque & Hopper, 1994; Tsamenyi *et al.*, 2002), what makes this study noteworthy is that it provides empirical evidence as to the predominance of budgeting, despite the presence of new MCS. This is important in the contemporary corporate arena that is bombarded with fashionable management techniques such as the BSC.

As for the BSC, prior studies have focused mainly on its technical properties (see Malmi, 2001; Nørreklit, 2000), and several have adopted large-scale, survey-based methods (see Hoque & James, 2000; Speckbacher *et al.*, 2003). In contrast, this chapter has shown how meanings attached to the BSC and the form it takes are the result of the interplay between heterogeneous actors, networks formed and external institutional forces within particular contexts. Such a contextually rich explanation of the research phenomenon has theoretical value (Vaivio, 2007). In terms of use, this chapter extends the results of past researchers on the dual use of MCS, diagnostically and interactively in tandem (Henri, 2006; Tuomela, 2005; Widener, 2007).

Practical implications

To articulate the differences in control practices and to derive lessons therefrom, although this study has garnered evidence from two Sri Lankan banks, of which the precise circumstances are unique, the similarities and differences observed in the design, operation and use of control systems carry wider practical implications. At the level of practice, this research thus provides a number of pointers as to how control systems can be developed and practised through mechanisms such as budgeting and BSC, and establishes some lessons which are likely to be relevant to practicing managers and corporate strategists of not only banks but also of other organizations.

Despite its high profile in academic and professional circles, the BSC was not sustained at Bank Omega. The field encounters portrayed how the BSC, which was at one point

perceived as a *useful technology*, later became a *problematic technology*. Organizations often embrace Western management techniques such as the BSC, backed by powerful internal actors and the facilitation of reputed external consultants. Similarly, the top management of the bank approached the technique of BSC in the belief that it could be successfully implemented if sufficient effort was mobilized and if the *correct* path was followed. This view, however, proved illusory, and the story of the BSC of Bank Omega was essentially a tale of failure. This has direct practical relevance. It illustrates that in the absence of effective change management, techniques like BSC will not be sustained, and that concepts proposed in practitioner-oriented normative literature, although seemingly attractive, can be problematic when striving to make them operable and can turn into unpredictable pathways. There is often a gulf between the theoretical merits and practical implementation experiences of such techniques (Hope & Fraser, 2000), and the theoretical merits are not always realized in practice. The case of Bank Omega has rediscovered this. Despite the initial enthusiasm, the BSC was not implemented in a way that was desirable or aligned to the expectations of the branch/regional and functional managers within the particular setting of the bank. The BSC has been withdrawn, and the bank has now bounced back to a budgetary control system. Hope and Fraser argued that most scorecards collide rather than connect with the budgetary system; arguably this was so in Bank Omega. Possibly as a result of such collision, the BSC departed and budgeting was sustained. If there was a real connection, both devices could have prevailed in the long term.

This chapter confirms some known behavioural consequences of implementing new tools, and reminds practicing managers that adequate planning *beyond the technical* is needed to reduce dysfunctional effects, such as non-cooperative behaviour and resistance to change. It suggests that rather than being fascinated by new tools, attention needs to be on the *mode of implementation* as suited to the idiosyncrasies of the organizational context as implementation of new techniques gets transformed into different forms in different contexts.

There is also a prevalent view that it is impossible to predict the value of the BSC before its implementation (Ahn, 2001), and that no simple delineation exists of the achievement or failure of such a program. Like any other new technology, the BSC needs to be assessed for its capabilities in each scenario (Andon *et al.*, 2005), and once embarked upon, its actual implementation and use tend to be a balancing act between different conflicting interests and dilemmas (Johanson *et al.*, 2006). The BSC may attract unease and doubt, and is unlikely to be imported in ready-made textbook form. Rather than imposing the orthodox BSC model, it needs to be made to work in a particular context. The shift from traditional (budgeting) to contemporary (BSC) modes of management control in Bank Omega was planned to enhance organizational effectiveness. However, the BSC project became problematic in the particular context of Bank Omega. If Western management techniques are to be infused into a local setting, it is necessary to examine their suitability, as they may lack universal validity across different cultures. Uncritical acceptance of such concepts may contradict deeply embedded viewpoints of the local social system (Nanayakkara, 1992, 1997), and the original BSC framework might therefore need to be amended during implementation to suit local conditions. This is a lesson for organizations embarking on such projects, across the world.

Implications for future research

This study could be extended along several dimensions. First, it would have been preferable to have more cases, and potential researchers might be inspired to do so. While this research drew from the Sri Lankan context for illustrative purposes, it opens up concomitant scope

for future researchers to explore how these findings could be replicated in other settings (see Vaivio, 2007) in the realm of banking and beyond. Second, although the insights afforded by the two cases suggested that implementation of MCS is a cyclical process, as this study was limited by time constraints, the on-going negotiations and bargaining could not be observed over time. Extending the study chronologically would provide scope for future research to cast further light on this cyclical process. Third, evidence presented here has highlighted how budgeting practices become intertwined with contemporary techniques such as BSC, and how budgetary control maintains a prominent foothold in organizations. Future researchers are thus encouraged to look at the interplay between budgeting and BSC in banks as well as other organizations. This would deepen understanding of the functioning of single versus multiple forms of management control. Fourth, the analysis in this chapter was focused primarily at the organizational level, i.e. how control was exercised in two banks. Extending the line of inquiry of Bank Omega, the diffusion of BSC as a global technology at a broader level, and in Sri Lanka in particular, warrants investigation from future researchers.

Concluding remarks

Recapitulating the deliberations from the foregoing sections, the following conclusions are postulated. First, this chapter reinforces the prevalence of various modes of control such as budgeting and BSC in contemporary organizations. It also shows the predominance of budgetary control, and concludes that *budgeting is not dead* and that *budgeting will never die*. The evidence further suggests that MCS is a cyclical process moving through various modes of control, such as budgeting and BSC, as desired by powerful members in the organizational landscape across time. The fate of new control systems is fragile and temporary. They are neither predetermined nor possess any inherent qualities. Thus, remnants of an old technology can be rediscovered and reused after a long dormant period (Vaivio, 2007). Networks integrate, disintegrate and may reappear, when the circumstances change, or when a different set of powerful actors emerges (Chow *et al.*, 2010). A system deemed to have disappeared at a specific point of time might be made to work again. Thus one cannot dismiss the possibility of BSC reappearing in the future as the prime control tool in Bank Omega.

Second, it concludes that the design and operation of control systems are not merely technical phenomena. Instead, they represent broader struggles between various actors, and concentration purely on the technical aspects is inadequate in the quest to understand the functioning of such systems in a given context. The research highlights the importance of discovering the key human and non-human actors behind the process, relationships between various actors and how they come together in building networks of support, as a means to better comprehend the design, operation and the fate of control systems (such as BSC and budgeting) in terms of how and why they become a failure or success. It also illuminates how an organization's MCS become isomorphic with the external institutional environments (DiMaggio & Powell, 1983). Thus, it is concluded that organizational actors and external institutional forces become intertwined in the design and operation of MCS, and that the two theories of ANT and NIS can be brought together to yield a wider and plausible explanation of the functioning of control practices in organizations.

Third, parallel to other public sector accounting research, this study portrays the use of management control information for external legitimacy for SOEs. It also depicts the use of such information for the internal decision making of the top management as a diagnostic and

interactive tool in both the public and private sectors. Fourth, it is discerned through this research that the circumstances which produce differences in design, operation and uses in management control, apart from contextual variances between public and private, are also attributable to differences in key actors, their reactions to control systems and the nature of relational networks formed. This reinforces the contention that context matters, and raises doubts as to the universal applicability of a particular control tool, as MCS are phenomena that are economically as well as socially and politically constructed, and cannot be divorced from the context within which they operate. Seen in this light, the insights afforded through this chapter should be interpreted in light of the *contextual ramifications* of the particular banks, but those contextual ramifications may extend well beyond the divergence between *public* and *private*.

Appendix 19.1

Interview questions

- 1 What does management control mean to you?
- 2 What are the management control systems used in the bank?
- 3 What is the role of management control systems?
- 4 Are there any positive or negative influences from the labour union for the functioning of management controls?
- 5 What do you think about management control practices of the bank? Are they successful and effective? Give reasons for your answer.
- 6 What prompts your organization moving towards new managements accounting practices?
- 7 Does regulation influence your organization's managements accounting practices?
- 8 Do you have formal procedures for performance measurement and management control? Can you describe the procedures? Are they successful? If yes, how? If no, why not?
- 9 Who is involved in the process of developing performance measurement and management control?
- 10 Are you using other organizations' managements accounting practices as a model for your organization? Why?
- 11 How are the performance measurement and management control reports prepared? Who are involved?
- 12 Have employees attended training with regard to performance measurement and management control? What type of training have they attended? Who has received training? Is it compulsory?
- 13 Do you have a separate division/unit to handle the management accounting function? Who is the head of the management accounting function? How many people are there in the division/unit? To whom does this division report to?
- 14 What are the functions or roles of the members in this division/unit? Does your division/unit need additional expertise?
- 15 Do you have specific criteria in selecting personnel for this division/unit? What is their educational background? What relevant experience do they have?
- 16 Are there any members of professional associations in this division/unit? If yes, is it important to have such people?
- 17 How do you work with other departments in the organization in collecting information on performance measurement and management control?

- 18 To what extent does the top management use budgetary control and variance analysis as a control mechanism?
- 19 How are divisional budgets prepared? Are there any influences on this?
- 20 How do you use budget information for your day-to-day activities?
- 21 Do you think that it is important to meet budget targets? Why?
- 22 Has the bank implemented new management accounting practices such as the BSC in the recent past?
- 23 Who initiated them? Are they successful?
- 24 What are the factors that have contributed to the success or failure of new management accounting practices?
- 25 Who supported the practices and who opposed them? How was staff resistance (if any) dealt with?
- 26 What are the barriers/difficulties faced in the implementation of new management accounting techniques such as BSC?
- 27 What was the role played by the top management in implementing new management accounting practices?
- 28 Do you think that the nature of the industry the business is operating in makes particular demands on the management accounting practices?
- 29 If the bank has adopted new management accounting practices, what is the position of the previous budgetary control system after the implementation of the BSC? Was it replaced or does it form a part of the BSC?
- 30 What are the factors (internal as well as external) that influence the bank in adoption of new management accounting practices?

Notes

- 1 This list, although illustrative, is not exhaustive.
- 2 ANT was pioneered by Michel Callon, Bruno Latour, and John Law (see e.g. Callon, 1986; Latour, 1987; Law, 1991), and subsequently used by several accounting researchers including, Alcouffe, Berland, and Levant (2008) and Briers and Chua (2001).
- 3 This chapter is premised upon two comparative banks (case studies), related to the private and public sectors in Sri Lanka, and these findings cannot be generalized to a wider population. Generalizability is not the goal of case study research, and it is not a concern of this chapter as well. Thus, insights obtained from these banks are not necessarily relevant to the study of MCS in banks in general.
- 4 Real names of the banks are not divulged and are designated as Bank Alpha and Bank Omega to preserve their confidentiality.
- 5 While the BSC has migrated to many countries around the world, it made significant inroads in the Sri Lankan setting from the late 1990s. A large number of local companies had attended seminars where it was attractively packaged and marketed by various consultants and institutions such as CIMA, Sri Lanka Division and Distant Learning Center, Colombo.

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