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Convergence versus divergence of performance measurement systems

Lessons from spatial variations

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Abstract

Purpose – The purpose of this paper is to report on two institutional change scenarios of performance measurement (PM) systems, namely, subversion and integration. Subversion represents insiders' use of existing institutional logic whereas integration represents insiders' use of imported institutional logic.

Design/methodology/approach – The scenarios are drawn from two case studies: BAE Systems (a large UK manufacturing company) and Alpha (a medium-sized Sri Lankan manufacturing company). The data were collected through in-depth interviews and documentary sources.

Findings – An internal “culture change programme” led to a business value scorecard (BVS) in BAE Systems, and an external knowledge diffusion programme gave rise to a balanced scorecard (BSC) in Alpha. The culture change programme was facilitated by a particular institutional logic resulting in a successful BVS practice. In contrast, at Alpha, the BSC project was externally imposed, although it was designed with the blessing of the owner-manager. This triggered internal controversies and the workforce became unreceptive. Consequently, attention was diverted to other management fads such as total quality management, Six Sigma, and enterprise resource planning but these were also short lived.

Research limitations/implications – While this paper provides evidence on practice variation and adds to neoinstitutional-based management accounting research, the empirical materials, however, did not allow the authors to trace all four scenarios in the typology.

Practical implications – PM systems, such as the BSC, seem to be malleable and adaptable to local requirements subject to organisational and managerial flexibility and democratic possibilities.

Originality/value – This research highlights how the institutional environment is fragmented and contested, in different organisational and political conditions and spaces, resulting in variation in practices.

Keywords United Kingdom, Sri Lanka, Performance measurement systems, Convergence, Divergence, Institutional logic, Integration, Subversion

Paper type Research paper



1. Introduction

Neoinstitutional theory has been a pervasive perspective in management accounting research (Baxter and Chua, 2003). While this trend in scholarship has enhanced our understanding of management accounting practices, many researchers have

emphasised the isomorphic effects on the practices being diffused, illustrating how organisations mindlessly mimic them (Covaleski and Dirsmith, 1988; Forgarty, 1996; Robson *et al.*, 2007), rather than showing how they vary across different organisations. To remedy this lacuna, calls have now been made soliciting more research that could emphasise practice variations (Ahrens and Chapman, 2007; Lounsbury, 2008). Despite the stream of studies in management accounting that have looked at how institutional pressures and mimetic processes create convergent or divergent practices in different countries (Birnberg and Snodgrass, 1988; Chow *et al.*, 1994; Granlund and Lukka, 1998), their focus has been on the macro perspective – which has discounted the opportunity to explore how micro practices vary across organisations. While early attempts at bridging such a gap (Ahrens and Chapman, 2007; Andon *et al.*, 2007; Feldman, 2003; Hoque and James, 2000; Hussain and Hoque, 2002) set the scene for micro-level research, an array of questions is waiting to be explored within management accounting scholarship.

This paper addresses the issue of how different organisational spaces (or spatial variations) produce failure or success in performance measurement (PM) systems. While many studies in management accounting have focused on convergent or divergent practices of management accounting in different countries (Birnberg and Snodgrass, 1988; Chow *et al.*, 1994; Granlund and Lukka, 1998), little research has focused on micro processes that illustrate how practices at the organisational level vary. This paper takes a micro perspective and focuses on institutional changes that lead either to convergent or divergent practices. It aims to understand how spatial variations produce different conditions in organisations and resultant management practice variations that produce failure or success in their PM systems. It argues that convergence or divergence tendencies depend on the political conditions^[1] of the organisation's space, within which structures, such as PM systems, are built and their practices sustained or disrupted. Convergence tendencies are guaranteed when the political conditions are conducive to confrontation and compromise. In contrast, divergence tendencies are developed from despotic organisational environments, where conditions lead to disruptions and discontinuities. An organisational environment could be described as despotic if the influence of a managing director (MD) and his/her family remains unchallenged. To articulate such divergence tendencies and establish a lesson, the paper draws on the recent advancement of institutional theory by Rao and Giorgi (2006), Jackall (1998) and Friedland and Alford (1991), who combine social movement dimensions with institutional processes. Building on these ideas, the case studies presented in this paper illustrate that success in the implementation of PM systems is linked to the ways in which an organisation's insiders avoid controversy, conflict and agitation, and draw support from key constituencies and actors. In contrast, PM system implementation failure is linked to the ways in which insiders are hampered by the kinds of political conditions outlined above.

The paper is structured as follows: Section 2 reviews the literature and identifies the research issues; Section 3 develops a framework for analysis; Section 4 presents information on the research methods and company backgrounds; Sections 5 and 6 present the empirical material, with an analysis based on the framework; and Section 7 concludes the work.

2. An overview of PM systems research

Studies on PM systems have witnessed the use of a range of organisational and sociological perspectives (Andon *et al.*, 2007; Chenhall, 1997, 2003; Cobb *et al.*, 1995;

Gordon and Narayanan, 1984; Granlund and Lukka, 1998; Hoque and James, 2000; Hussain and Hoque, 2002; Modell, 1996). During the heyday of contingency theory research in management accounting, Gordon and Narayanan (1984) reported how PM systems embedded in overall accounting information systems are contingent upon an organisation's environment and structure. This led to much research on PM systems research using contingency theory (for a recent review see Chenhall, 2006). For example, the survey by Hoque and James (2000) reported relationships between a range of factors, such as organization size, product life cycle stages, market position, balanced scorecard (BSC) usage and organizational performance, in a sample of Australian manufacturing companies. Their findings suggest that greater BSC usage is associated with improved performance. However, contingency theory's inability to capture accounting change issues (Hopper and Powell, 1985) led researchers to explore the factors responsible for change. For instance, building on Innes and Mitchell's (1990) accounting change framework, Cobb *et al.*'s (1995) bank case study explored the forces that generate PM change. However, this neglected the theoretical question of why new practices are embraced by change programmes.

Later, Granlund and Lukka's (1998) neoinstitutional analysis provided an answer to this question, highlighting that isomorphic effects tend to converge management accounting practices while discounting forces of divergence. Taking a similar stance, Modell (1996) drew on case study evidence from a public sector dental practice to prove that both structure and behaviour affect PMs and management control practices in services. This stability perspective was reflected in Hussain and Hoque's (2002) study of how economic and mimetic factors, as well as coercive pressures and normative influences, shape the nature of non-financial PM systems in Japanese banks. Even though the findings of these prior studies make a considerable contribution to our understanding of management accounting practices, such research still fails to capture practice variations and explain why some practices do not succeed, despite the power of global diffusion programmes (Jones and Dugdale, 2002). Concerning this issue, Lounsbury (2008) made a similar observation – the challenge for institutional theory is to understand how variations in practices occur (Hopper and Major, 2007).

Recent attempts at employing actor-network theory in PM systems research include Andon *et al.*'s (2007) study at a business unit of an Australian telecommunications organisation. This explored how the managers' desire to implement certain PM projects remained unfulfilled, due to their relational dependence and experimental nature. Similar research focusing on change illustrates how management accounting becomes enacted through the processes of problematising, enrolment, mobilising, and black-boxing (Robson, 1992; Briers and Chua, 2001). Extending institutional theory, Hopper and Major (2007) employed an approach to theoretical triangulation to address the issue of how practices become enacted or problematic. This trend in management accounting research encourages us to explore management accounting change beyond its isomorphic perspectives that emphasise how variations occur, as suggested by Lounsbury (2008).

Our research attempts to make a contribution to this "variation" trend by locating here our central question of how spatial variations lead to differences in political conditions in different organisations causing success or failure in PM systems. Here, the notions of success and failure are defined in relation to convergence and divergence: success is to be seen in terms of an organisational tendency towards converging a new

PM system with existing institutional logics, whereas failure is a tendency towards diverging such new practices from existing logics. A refined definition of these terms in a theoretical framework that explains why practices vary is depicted in the next section.

3. Convergence versus divergence

Most PM research has looked at issues of convergence/divergence from a global or a macro perspective (Granlund and Lukka, 1998). However, a corresponding analysis has the potential to express convergent or divergent practices in micro settings. We believe that the notion of institutional change is a useful starting point. As Rao and Giorgi (2006, p. 270) assert, institutional change is “[...] an exit from one state and entry into another” pattern of behaviour. A pattern of behaviour will be sustained and reproduced if particular practices are institutionalised within the new state. This occurs through three processes: institutionalisation, de-institutionalisation, and re-institutionalisation (Jepperson, 1991). In institutionalisation, a non-productive behaviour pattern is transformed into reproductive, taken-for-granted behaviour, where actors are accustomed to adopt certain practices. This happens as a result of the influence of institutional entrepreneurs who lead the way in the creation of new beliefs, norms, and values (McAdam and Scott, 2005). These institutional entrepreneurs are “ideological activists” who operate in such a way in a context as to use its cultural (institutional) logics to promote and advocate their ideological motives. As Snow *et al.* (1999) found, these entrepreneurs do “meaning work” by seeking to frame an issue, identify a problem (diagnosis), suggest a solution (prognosis), and organise necessary events for cognitive change to happen. Certain PM systems become taken-for-granted practices in these processes if institutional entrepreneurs strive to make them happen “meaningfully” (Rao and Giorgi, 2006). This refers to the practice of institutional entrepreneurs taking deliberate action, relating to de-institutionalisation and re-institutionalisation, to dismantle one set of taken-for-granted behaviours and to construct a new set.

However, institutional change confronts existing institutional practice (Becker, 1963; Seo and Creed, 2002), which is now termed institutional logic. This is seen as a:

[...] socially constructed, historical pattern of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to their social reality (Rao and Giorgi, 2006, p. 273; Lounsbury, 2008).

When institutional entrepreneurs do “meaningful work”, they skilfully use institutional logic to create institutional change, through the processes of de-institutionalisation and re-institutionalisation. As institutional logic is embedded in a social system, with its own political conditions, organisational participants react to these changes positively or negatively. Consequently, the task of institutional change ends in either success or failure.

Thus, this crucial task requires deliberate action on the part of “meaning workers”. As Rao and Giorgi (2006) note, there are four possible actions that institutional entrepreneurs may take:

- (1) subversion;
- (2) integration;

- (3) appropriation; and
- (4) insurgency.

as shown in Figure 1.

As shown in Figure 1, on the insider/outsider continuum, two extremes are possible but, in practice, there can also be collaborative actions by both institutional entrepreneurs; that is, by insiders and outsiders. It must be cautioned that the degree of relative influence on this continuum varies in different organisational fields or organisations. On the institutional logic continuum, existing or imported institutional logics are implicated in different organisational (geographical) spaces and produce either successful or failed practices. Under these different scenarios, institutional change (be it success or failure) occurs through one of four possible routes shown in Figure 1.

Insider-institutional entrepreneurs exploit existing or imported institutional logics, or a combination of the two. In a subversion scenario, insiders exploit radical institutional innovation by using existing institutional logics, the choice of which depends on the spatial political influence of the organisation. In some spaces, these logics create positive attitudes towards change, while in others they might be conflictual and negative. Subversion produces a successful or unsuccessful project, depending on how the insider triumphs over controversy and conflict, and gains the support of key organisational actors (Rao and Giorgi, 2006). That said, subversion tends to be unsuccessful where the insider is impeded by controversy and conflict. As we will see later in the paper, a successful subversion scenario occurred in BAE Systems when the insiders, including the chief executive officer (CEO), managed to win the employees' consent through detailed explanations, discussions and compromises, and through listening to employees' concerns. However, this did not occur in Alpha, where the BSC project entirely relied on the "imported logics" of BSC rather than on an in-house development, such as the culture change programme in BAE Systems. As long as management accounting practices are bombarded with the implementation of popular techniques, such as BSC and ABC, researchers have found little evidence of radical internal changes leading to successful subversion (Hopper and Major, 2007).

In contrast to subversion, integration occurs when organisations attempt to convince actors to accept imported logics, such as BSC and ABC. Integration is then all about encouraging acceptance of externally developed institutional logics and getting them enacted within an organisation. To be successful, insiders must be active as

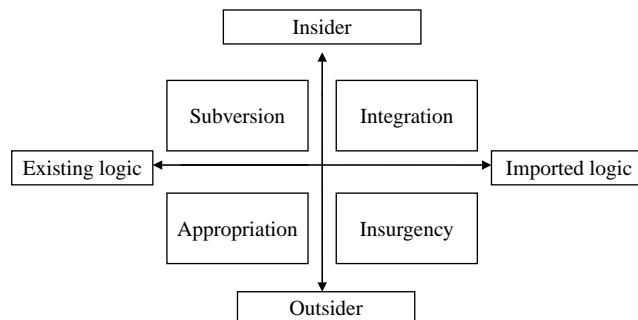


Figure 1.
Institutional change scenarios

Source: Adapted from Rao and Giorgi (2006)

change agents, promoting and mobilising institutional logics. As we will see later in the paper, this occurred in Alpha's project, where insiders used the imported institutional logic of BSC ideals and integrated it with the existing institutional logic (i.e. budget-related PM system). This can result in success or failure. As we will see later, the BSC project in Alpha was not successful as some silent conflict between accounting and non-accounting personnel diverted the MD's interest from BSC to other managerial fads. Researchers have shown that practice is successful when existing logics continue and are consistent with new practices (Friedland and Alford, 1991; Rao and Giorgi, 2006). Thus, successful integration is possible as long as new logic subsumes the existing logic, and vice versa, which did not occur in Alpha. This was because the authority held by non-accounting (operational) personnel did not allow accounting personal to be more powerful when implementing BSC. Owing to this "professional rivalry", there was little collaboration, and hence little chance for BSC to be subsumed into existing institutional logics.

In contrast to insiders' roles in subversion and integration, outsiders (such as governments, professional bodies, and consultants) act as institutional entrepreneurs, and use either existing or imported institutional logics to produce appropriation or insurgency scenarios. When producing appropriation, outsiders utilise existing institutional logics to establish radical institutional change. Facing minimal conflict and controversy, they effect change successfully; although it should be said that counter-mobilisation would lead to unsuccessful appropriation. Researchers have found that if macro-level movements support institutional change at the organisational level, appropriation is possible (McAdam, 1995). These macro-level movements are the initiator movements, and they are affiliated with spin-off movements that provide some legitimacy for outsiders to initiate particular institutional change. In relation to BSC and ABC, most implementation projects are mobilised internally through the support of external consultants creating successful appropriation scenarios (Hoque and James, 2000).

However, conversely, insurgency scenarios will occur, if third-party support is not possible. As Rao and Giorgi (2006, p. 292) suggest:

[...] when a domain is closed to change, outsiders seeking to import a new logic are successful if they are able secure the support of third parties, and expand political opportunity.

This implies that organisational politics that lead to significant controversy and conflict create unsuccessful insurgencies. In short, insurgencies are confrontations but outsiders may have the capacity and techniques to bring about successful confrontation and bargaining and subsequent establishment of outside logics. Briers and Chua (2001) illustrated how an ABC project benefitted from the competency of outsiders who displayed their expertise in the translation of boundary objects into local's needs. However, this would not be the case when firms' institutionalised practices become unquestionable practices even though they are functional in terms of operational efficiency or future sustainability (Wickramasinghe *et al.*, 2004).

The belief is thus that institutional entrepreneurs can make change if they have an interest in particular institutional arrangements, the ability to leverage resources, and the capacity to fabricate enough power to generate sufficient legitimacy for change. Organisational researchers provide empirical evidence for this thesis. For example, Aldrich and Fiol (1994) and Lounsbury and Glynn (2001) found that entrepreneurial efforts are successful only if promoters can gain legitimacy for deviation from the existing

way of doing things. Considering the structure-agency dichotomy, other researchers have explored issues of changing existing structures through the involvement of an active agency-structure that is mutually constitutive as it is the medium and outcome of social practices, but this construction would be a destructive process involving politics, controversies, and dialectics (Mutch, 2007; Seo and Creed, 2002; Swell, 1992). Actors thus represent an embedded agency, which is subject to institutional influence, while also envisioning new practices and encouraging others to adopt them. Structures are also embedding systems, which do not generate constraints on agency. Consequently, agency exploits opportunities within certain spaces, unfolding entrepreneurial activities under certain political conditions (Garud and Karnoe, 2003).

In relation to convergence/divergence, it can be argued that different spaces are characterised by their inherent political conditions, which can produce either successful or failed PM practices. Thus, any explanation of success or failure depends on an understanding of the political opportunities and mobilising structures available in respective organisational spaces (McAdam *et al.*, 1996, 2001). A political opportunity involves entrepreneurs' access to the organisational system and their ability to win the support of existing elites. In mobilising structures, entrepreneurs are supported by collective action, such as formal social movement organisations (human rights movements or consumer societies, for example). Consequently, convergence/divergence outcomes are produced through one of the four scenarios outlined earlier. Success or failure can be ascribed to the organisational and social conditions brought about by spatial variations. This paper considers only two of these four scenarios – subversion and integration.

4. Company backgrounds and research methods

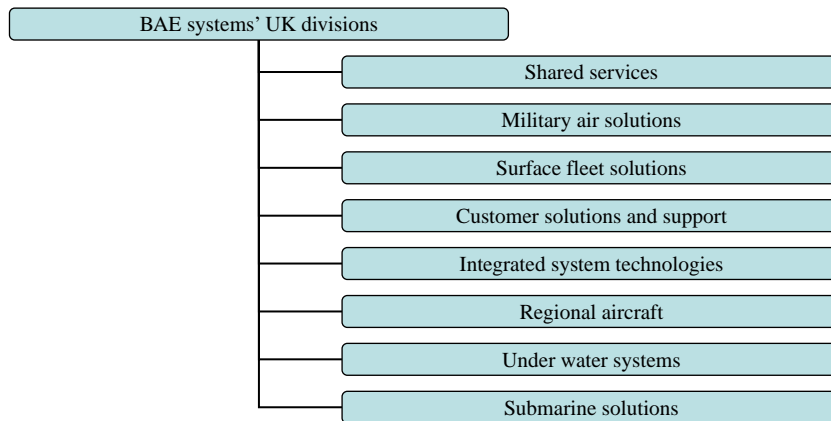
BAE Systems

BAE Systems[2] was founded in 1999, and is now Europe's largest defence company. It enjoys a considerable market share, being the second largest defence contractor, and the joint-third aerospace and defence company, in the world. In 2000, its workforce numbered over 100,000; in 1999, its annual sales generated from 80 countries were £12.2 billion and its order book was £41.0 billion. Hence, the organisational space in which this company's PM systems operated was characterised by a large, Western-style organisation.

As many large organisations do, BAE Systems formulated its corporate strategy in 2000. The strategy had three aims:

- (1) to maximize the value of its existing portfolio and deliver increased performance from its order book;
- (2) to exploit key growth opportunities; and
- (3) to exploit further consolidation of the industry.

BAE System's business model derived from their strategy suggested continuous expansion into the USA, the Middle East, Kazakhstan and Libya, and the merger of British Aerospace and Marconi Electronic Systems. Operationally, they aimed to boost performance and competitiveness through cost management and financial control initiatives coupled with project management and systems integration skills (Air and Space Europe, 2000, p. 111). As shown in Figure 2, in 2000, BAE System's organisation structure comprised eight divisions; namely:



Note: BAE Systems – UK operations

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versus
divergence

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Figure 2.
Organisational structure

- (1) shared services;
- (2) military air solutions;
- (3) surface fleet solutions;
- (4) customer solutions and support (CS&S);
- (5) integrated system technologies;
- (6) regional aircraft;
- (7) under water systems; and
- (8) submarine solutions.

Our research site was the CS&S division, which provides after-sales services to clients who buy BAE Systems' aircrafts and ships. Such services include civil and military infrastructure, in terms of hard facilities, such as the managed provision of buildings, airports, docks, and runways, and soft facilities, such as project management, integrated decision making, and e-government strategies. With significant growth potential, this division's performance was crucial in achieving the company's strategic aims.

The case study we conducted within the CS&S division focused on the BAE Systems' five-year culture change programme on which the company embarked in early 1994. The programme's aim was to remedy the serious business problems BAE Systems encountered due to the economic and regulative climate in the early 1990s. We examined the role and effectiveness of the business value scorecard (BVS) model, which evolved through this culture change programme. Two empirical aims were linked within our theoretical model:

- (1) to understand the extent to which the BVS developed using existing institutional logics, especially with regard to the company's attempts to implement its five-year culture change project; and
- (2) to explore how subversion was possible, if at all, under the conditions created by this change programme.

Ten interviews were conducted with managers, from the shop floor to senior staff, using an open-ended interview format, during on-site visits over a period of eight months from 2002 to 2003. The interviews, which lasted between 2 and 4 hours, were tape recorded and transcribed for analysis. Internal documents, graphical charts, and official company histories were also consulted, for further information and validation purposes. In particular, a book written by BAE Systems' CEO Richard Evans (with Colin Price) (Evans and Price, 1999) was useful in understanding the narrative expressed by managers. Hence, our data collected from interviews and our reading of this book produced valuable validated materials for our analysis of how the subversion of BVS occurred. This analysis benefits from illustrative quotations we chose that highlighted issues around the subversion. In short, the analysis took a form of the reconstruction of a story (of subversion) through the opinions of managers and the narrative presented in the CEO's book.

Alpha. Founded in 1984, Alpha is a local, medium-sized family business in Sri Lanka, involved in the importation, manufacture, and sale of electrical accessories. The market in which Alpha operated has been reasonably competitive, especially under the economic regime established since the country's right-wing government came to power in 1977. The organisation consists of three related companies: one holding company and two subsidiaries. One subsidiary is engaged in manufacturing, and employs 75 per cent of the organisation's personnel. The other is involved in distribution, buying factory components, and selling products locally. Alpha's 2003-2006 financial reports indicate that the company enjoys a commendable financial position, achieved through a constant record of profitable operations, and a healthy cash flow[3]. Alpha employs 400 people, 300 are in manufacturing and distribution and the remaining 100 are in administration and management. There are 30 senior managers.

As shown in Figure 3, the most senior manager is the MD, who is also the owner. Three senior subordinates report to the MD: the group finance director (GFD), the director operations (DO), and the CEO of the distribution company. The manufacturing company is headed by the DO. Subordinate to him are: the plant manager, MIS manager, HR manager, R&D manager, legal-manager, business development manager, and finance manager. The distribution company is headed by the CEO. Beneath the CEO are three subordinates: the chief finance officer (CFO), who is the finance manager of the distribution company; the chief operating officer in charge of sales activities; and the chief marketing officer, who handles advertising and promotional activities. These managers are assisted by a number of staff. The finance manager of the manufacturing company, as well as the CFO of the distribution company, reports to the GFD who is based in the head office. The management accountant of the manufacturing company reports to the finance manager therein.

From 2000 onwards, the MD considered a number of ways improving the company's management control and PM systems. Following overseas studies in management and attendance at Chartered Institute of Management Accountants's (CIMA) seminars in Sri Lanka on BSCs, he decided to adopt a BSC project. As we will elaborate later, the aim of this initiative was to boost operational performance and profits.

In terms of data collection, we concentrated on how the BSC has been propagated in Sri Lanka and how a particular BSC project was institutionalised in Alpha. Data were collected mainly through interviews with managers but supplemented by content analysis of relevant documentation. In total, 12 managers/directors

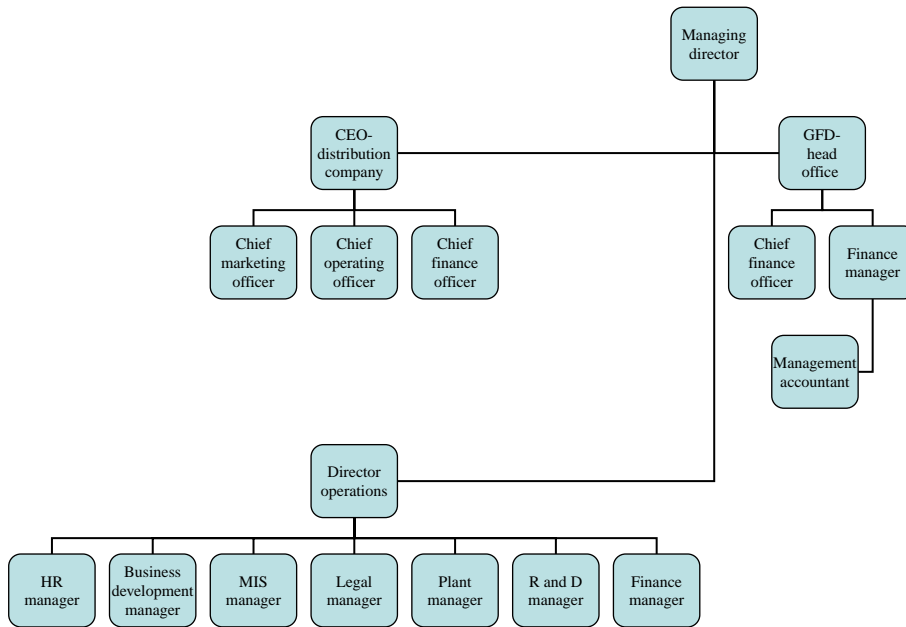


Figure 3.
Organisational
structure (Alpha)

participated in the interviews: three senior managers/directors and nine functional managers. Although there was no opportunity to record interviews, we took detailed notes. The main discussion was held with the GFD, but cooperation from all respondents proved invaluable.

Further interviews were conducted with officials from CIMA Sri Lanka Division (hereafter CIMA, Sri Lanka) and with three “experts” who had undertaken consultancy projects on the implementation of BSCs in other companies, and were thus involved in “institutionalising” the BSC. The purpose of these interviews was not only to understand how the BSC was adopted in Sri Lanka, but also to validate the data collected from Alpha. More data were obtained (for validation purposes) from officials of institutions interested in BSCs. Data were analysed in the light of the framework outlined earlier (Figure 1). In particular, this case study was used to examine the scenario of an attempted implementation.

5. Convergence through subversion

A culture change programme and inherent institutional logics

As a large Western manufacturing organisation, BAE Systems is characterised by hierarchical management practices comprised of formal negotiations and compromises. The core of their institutional logic exists in formal and democratic decision-making processes. It was this institutional context that shaped BAE’s culture change programme and its PM project. As emphasised earlier, these kinds of political and organisational conditions are necessary for insiders to be able to create institutional change.

This institutional logic corresponded to a particular economic context. In 1990, Sir Richard Evans became CEO of BAE Systems, leading to an increase in profits,

which represented “[...] the company’s resilience against the background of uncertainty in the changing environment” (Evans and Price, 1999, p. 1). Despite the CEO’s confidence that the company would continue to improve its performance in the future, during the period from 1991 to 1994, it encountered problems over:

- competition from Boeing;
- the UK Government’s defence spending cuts; and
- over-capacity in the European aerospace industry.

This was aggravated by losses in the commercial aerospace sector, rapid contraction of its major customers, a worldwide recession, and the end of the Cold War.

The company struggled to re-establish its dominance and to regain market share. In the autumn of 1991, it went to the financial markets to raise £430 million from rights’ issues, but its stocks went into long-term decline. In 1992, the company recorded a £1 billion asset write-off, the largest in UK corporate history. Consequently, the share price fell to £0.97, from the rights issue price of £3.80, and a hostile takeover by the British General Electric Company seemed a possibility. In response to this downturn, costs were reduced by downsizing and restructuring. This included adopting a long-term strategy which concentrated on defence and aerospace activities and exit strategies were adopted for departure from the corporate jet business, construction, satellite manufacture, and some parts of BAE’s property business (Evans and Price, 1999).

This economic context led senior managers to contemplate transformation of the way the company functioned. In 1994, along with new investment and up-to-date plant facilities, major changes were made to BAE’s control systems, including the infusion of Kaizen-based manufacturing methods, ABC, and enterprise resource planning (ERP). Unfortunately, BAE’s relative performance did not improve as expected. The CEO then realized that the company needed to reduce its reliance on managerial authority, and coercive rules and procedures, and to reduce its work divisions. Initial transformation developed into a five-year culture change programme that began in 1994, with the aim of restructuring operations by creating teams, sharing information, and delegating responsibility and accountability throughout the organisational hierarchy. As part of this, a PM system, called the BVS, was developed, with five key values:

- (1) performance;
- (2) people;
- (3) customers;
- (4) partnership; and
- (5) innovation and technology.

These changes were possible in the context of the prevailing democratic ethos.

Building on this institutional logic, BAE Systems created a flexible structure, empowered by good industrial relations and managerial coalitions that would combat conflictual situations stemming from resistance. As an internal institutional entrepreneur, and with the help of consultants, the CEO created the “130 Group” of five board directors, all of whom were senior managers. The group formed a powerful guiding coalition for the culture change project’s next stage, which empowered line managers (heads of divisions) to lead the process of change in their decision making,

control and accountability systems, through structured team work. The group created a “vision” to direct this change process, while the CEO motivated them to create opportunities to accomplish the vision. A manager commented that the:

CEO deliberately engaged the middle of the organisation and the bottom of the organisation. He actually made us develop the change programme. And there was no question that you weren't going to change.

Resistance to change and subsequent reflections

The culture change project did not evolve without problems, encountering resistance from both management and non-management. The manager quoted above added:

[...] about 30 percent of the management could not cope with the change programme and left the organisation and so the change programme, in part, drove an awful lot of the rationalisation that was necessary as well. But effectively, how was the process introduced? It was basically developed collectively and introduced as a mandatory practice because the chairman of the board wanted us to actually manage the company on this basis.

These confrontations did not create destructive agitation and, in that particular political environment, some positive developments occurred towards amicable negotiations and compromises.

Whilst the resistance was neither unusual nor irrational in work organisations, the particular context shaped a debate. The CEO observed:

As I presented my case to senior colleagues, I hardly expected any to stand up and shout hallelujah. People's conservatism, their inertia, their identification with the way things are, makes them natural antagonists to change. Any big new initiative in a corporation, or any significant innovation, will come up against this form of resistance, and, for good reason, really. In a large organisation, most executive energy and effort are directed at fulfilling the basic requirements of the business. Everyone is running flat out. The amount of time and energy left over to consider anything radically new is very small. Consequently, there are always good arguments about the scarcity of resources and of the 'if it ain't broke don't fix it' type (Evans and Price, 1999, p. 13).

Hence, the prevailing institutional logic allowed such critiques and conversations. That said, the CEO did not ignore these arguments. Instead, he valued and learned from them, in order to enhance the spirit of the change programme. As he described:

There were [...] specific arguments: (1) Several of the larger business units already had vigorous culture change programmes of their own in place. What was the purpose of another change programme from headquarters? (2) The business fundamentals were dramatically improving. Both defence and commercial aviation had bounced back vigorously. Consequently, the company was profitable again. (3) A workforce reduction of 60,000 in the previous two years, plus half a dozen divestitures and all the attendant turmoil, was change enough. (4) Then and now, BAE Systems is involved in dozens of significant partnerships and joint ventures. Any corporate-wide change programme would stop at their gates. Or, if not, there would be uneven application, where the change initiative would be accepted by some partnerships and not others. (5) Headquarters simply lacked the moral authority, or the managerial capability, to run this type of project. Divisional pride was inversely related to pride in the centre (Evans and Price, 1999, pp. 13-14).

Rather than rejecting resistance, the company's institutional logic suggested that change agents wanted to listen to such arguments and were prepared

to negotiate and compromise. This tension created a learning curve for the CEO. He had conceived of the change project because of his concern for the unit companies. He explained that:

[...] tensions ran high, which is why some of my fellow senior managers were concerned about the risk of unfavourable reactions by the business units to my ideas for the change programme. My biggest concern was to prevent a feeling of resentment in the business units – that this was a case of ‘headquarters knows best’ (Evans and Price, 1999, p. 19).

Gradually, these concerns were overcome through the activities of the 130 Group. The group was always open to input from business units and reacted wisely (as the “brains” behind the programme) at each stage. The group initially met with the CEO to craft and clarify the proposed value statements, but the CEO pointed out that the early meetings were stiff and awkward.

To encourage greater openness and honesty, the CEO insisted that each participant afterwards write a full and honest reaction to what had gone on in the meeting, or about anything related to the culture change project in general. One participant wrote:

Dear Dick, There are many positive changes coming from Benchmark, but I am starting to worry that we are recreating a hierarchy, the 130 Group, then a larger group [...] then a still larger group not really picked up by anything. We need to break down ‘them & us’ and status type barriers. Instead we seem to be creating them and enforcing them (Evans and Price, 1999, p. 178).

The CEO pointed out that such “Letters to Dick” were an attempt to deal with one of the trickiest issues in the change programme. They allowed forthright criticism of the existing culture in a way that did not attack the company. He suggested that, on the one hand, the programme should encourage a search for “truth” and give employees a means of letting off steam, while, on the other, the spirit of the programme was not undermined and a democratic political environment provided a favourable context for the change programme.

When we spoke to another participant, the existence of this political condition was revealed:

[...] in terms of workshop content I felt the team did an excellent job in translating the difficult concepts around technology and innovation into something meaningful and tangible. However, I did get into data overload and have to admit that energy levels did drain and concentration was lost on a number of occasions. I believe we had approximately 15 presentations during the day and I would question if this is digestible in this form.

Thus, rather than merely rejecting, the organisational participants were accustomed to put forward some conditions leading to a successful subversion shown below.

A fully conceived BVS

In this favourable political environment, using a modified “traffic” light system, as described by one interviewee, the BVS began to provide useful information. Having deployed an ERP system, a monthly scorecard was generated online. The information was shared among all employees, not just business unit managers. The online reports included easy-to-read summaries of data with colour coding to signal performance status. Employees were kept informed about how they performed against targets.

The related measures were organised into five key values, facilitating goal-setting activities at each department/level. Eventually, personnel from business units, projects, and plants participated in multi-level, cross-functional teams and came up with business unit scorecards. As one manager explained:

BVS is fully recognised as one of our reporting tools within the business [...] providing a very strong indication of the state of the business [...] So, BVS is measuring performance when they [managers] sit down and review at management meeting.

Similar positive ideas were put forward by other interviewees, proving that BVS was fully conceived and used in management.

The BVS was now well communicated to all levels within the company. An ERP system was used to do this effectively. As mentioned above, there were easy-to-read summarised reports available online. One manager commented: “we’ve got to the level of maturity [...] there are not isolated measure; they are interrelated with each other”. This BVS had become a useful management tool readily available for decision making.

One interim conclusion was that the favourable political environment enabled the culture change programme to be enacted successfully as subversion; indeed, the successful subversion of the BVS was actually the success of the culture change programme’s subversion. Consequently, the BVS became a tool that senior managers used to communicate their key values to the business units, in order to help managers achieve their strategic intent. It linked to business unit strategic objectives and PMs, and focused on achieving targets set out in the strategic plan.

6. Integration

Alpha’s reliance on an external institutional environment

Instead of relying on a set of internal institutional logics, Alpha was influenced by a knowledge diffusion programme led by the CIMA, Sri Lanka. From 1996, CIMA, Sri Lanka conducted a series of workshops and motivated members of the business community in Sri Lanka to use a BSC. Some examples of this are as follows. A seminar on “The BSC – Resolving Performance Conflicts”, given in July 1997 with Professor R. Narayanaswamy of the Indian Institute of Management, Bangalore (India), was attended by 45 senior business managers (CIMA, Sri Lanka Division, 1994–2002). As the Divisional Secretary of CIMA, Sri Lanka, Mr Rathnayake, told us, this led to a discussion in February 1998 on the “Use of BSC and Benchmarking”. The discussion was preceded by a guest speaker, Mr Lal de Mel, MD of Chemical Industries Colombo (CIC) Limited. Mr Rajinder Bandaranaike, Finance Manager of CIC, facilitated the discussion, which had 33 participants. In December 1998, at the invitation of CIMA, Sri Lanka, Robert Kaplan, Harvard Business School Professor, visited Sri Lanka. He was guest of honour at the celebrations of the tenth Anniversary of CIMA, Sri Lanka, and conducted a series of exclusive seminars, delivering a lecture on “Corporate performance management: an approach that works” to over 80 CEOs and senior managers of leading companies. The anniversary lecture by Kaplan was on “Cost and PM for the new millennium” and was attended by over 1,000 participants, consisting of CIMA members, academics, students, and members of the business community. We were also told that CIMA, Sri Lanka continued organising awareness programmes, including three discussions attended by 12 organisations on the “BSC,” on 18 September 2000, 18 December 2000, and 19 March 2001. Two well-known local consultants, Mr Angelo Patrick (a member of CIMA)

and Mr Manilka Fernando (a chartered accountant), facilitated these sessions. In January 2003, as part of its professional development programme, CIMA, Sri Lanka conducted a “knowledge enhancing” workshop for the business community, entitled “Financial awareness for non-finance managers”, in which BSCs played an integral part. These examples give us a flavour of the institutional environment that influenced Alpha’s change programme.

While this was on going, Alpha’s MD (a young industrial engineer) was introduced to the idea of the BSC through his US-based university education. This idea was not challenged by his subordinates because the MD was the son of the owner of the company and brought with him an unprecedented piece of knowledge. As the Management Accountant at Alpha said, “we are dependent on what the MD wants. Our task is to fulfil his hopes and expectations”. The CEO of the distribution company commented that the MD believed the BSC project would be important in the formalisation of the family business, which up until that time had been running on an *ad hoc* basis. The head of distribution said, “The MD wanted to make a change, to bring in all possible formal things and to get rid of rules of thumb”. The GFD said that the MD believed that doing something different would boost performance.

The MD’s aim was to bring in something from outside the company. His interest in the BSC was heightened by the CIMA’s workshops. On behalf of the MD, the GFD attended most of these workshops and learned how informal PMs could be formalised. The GFD said, “The MD’s dream of making this company a formal one was realised through my input from these workshops”. The GFD was impressed by presentation on BSC given to CIMA, Sri Lanka by Alan Fell, a retired UK banker and consultant in performance management, especially in relation to BSCs. The GFD conveyed how impressed he was by Mr Fell to Alpha’s MD. This coincided with the MD’s preference for a white consultant. The GFD commented, “The MD must have thought that a white consultant can do anything. That is how we always think, you know.” Others agreed with this, and that the MD believed that the company’s managers would be attracted to the idea of BSCs if a white consultant from overseas led the project. Consequently, the MD brought in Alan Fell (for a “large” fee) who created a need to use BSCs at Alpha. The GFD added “a good foundation was laid for the implementation”, and a sizable amount of money was spent on consultancy for this BSC project. A full-time project assistant was engaged to handle reporting for the BSC project. The consultant’s methodology was directive rather than participative. As the GFD observed, “He wanted to tell us what to do. He did not want ask us how to do. He had that commanding power.” Following this approach, Fell conducted a series of workshops for managers, the aim of which was to educate them about the concept, approach, and process of BSC. With little critical analyses as to how this technique could be applied in this particular context, the consultant tried to implant Kaplan and Norton’s (1992) model into Alpha. Consequently, we were told by the respondents, the BSC project was confined to management levels rather than penetrating the day-to-day operations of Alpha. The GFD commented:

This is a management project not a control project. It is about collecting data and providing information on line. This was about PMs at management level not about using those measures to control people. Workers and operators were not aware of this at all.

Thus, the BSCs contributed to a change in information processing from the conventional financial perspective to emerging multiple perspectives; that is, goal

setting and targets, and defining objectives and strategies, rather than influencing operations on the shop floor.

Rivalries emerged

Owing to the lack of a democratic political and organisational context, Alpha was susceptible to severe conflict and controversy. First, we observed that the GFD and the consultant were in conflict. The GFD, as a professionally qualified accountant, wanted to be the leader of the BSC project. He stated:

BSC is an accounting technique. PM, management control, setting budget targets are all accounting. The jobs related to these areas are accounting jobs, I mean our jobs. We know how to deal with these. Above all, we have the local knowledge. We are well above and professional [...] we can go anywhere. We are recognised by anybody. But I like to be here developing this accounting model. I am sure that this company will benefit from it.

In contrast, Fell's very "foreignness" was equated with him being in a prestigious and elite position. The head of sales/distribution commented:

When we have a foreigner, we always respect him not because of his knowledge but of his colour. Mr Fell is very good and talented. Also he is knowledgeable. But the point is that we can find a similar person here but such a person would not be that influential.

It is quite common for a "foreigner" from England (not the UK more widely) to be given credit in this kind of context, irrespective of his or her professional qualifications or experience.

Therefore, companies in Sri Lanka are prepared to pay a premium for an overseas consultant. Mr Fell enjoyed this "social facility" and asked the MD to keep the GFD away from the BSC project. According to the GFD, "The foreign consultant had started to leave the accountants out of the scene, if not for my active involvement the BSC would not have taken off from the ground." Almost all the interviews we had with the GFD led us to believe that the BSC implementation was a project led by accountants. The GFD believed that, besides deciding on the key performance indicators (KPIs) for the different perspectives, he had to play a significant role. He said, "Knowledge on the part of the non-finance managers pertaining to these aspects is particularly low [...] we know what is happening here. Not the people outside the company." This rivalry indicates that the GFD believed that ownership of the BSCs lay with the accountants, not with the foreign consultant. He saw the consultant's job as being to introduce the system and then leave the implementation to the locals. In these circumstances, the consultant eventually left and the accountant continued with the project.

The continued operation of the BSC was vested in the hands of the GFD, a qualified accountant, who was assisted by a finance manager of the manufacturing company and the CFO of the distribution company. The GFD was pleased to be able to take secure ownership of the project. He noted:

When I was recruited to this company one question the MD asked me was whether I can implement the BSC, and I agreed to that. As the MD wanted, I wanted to get on with the BSC.

The conflict outlined here was further exacerbated by internal problems. The GFD emphasised the importance of implementing the BSC project with the help of the consultant. He said:

Unlike Mr Fell, I wanted to get everybody on board. BSC's idea is that. Otherwise, how can we develop different perspectives for balancing them together? I started the project again with a fresh mind.

During discussions, the GFD explained that while the consultant advocated the concept of BSC within the company, developing a scorecard tailored for Alpha was left to the accountants. He went on to say that the accounting team began to set goals, fix targets, and identify KPIs based on a series of meetings with non-finance, non-accounting managers. However, as one marketing manager noted:

Earlier, we got information from the accountants. Now we are supposed to provide information to them. It's OK if they get data from us and provide information back to us. So, we have an additional burden to send reports.

This developed into further conflict and controversy. The HR manager argued:

We provide information to accountants on labour turnover, development of HR skills, staff training, staff motivation, etc. but have never seen the company's overall BSC [...] you know the collection of information is not our priority. We do have to deal with our own problems, such as pay and disciplinary actions. For the collection of information for BSC, we need to go an extra mile. So, my people should be motivated do so. Our people have to be educated on this. Accounting people have to market this to non-finance people.

The HR manager also pointed out:

The reason is that the BSC mainly deals with figures. Even on the non-financial perspective, there are a lot of ratios and figures [...] it appears to have an accounting initiative.

One factory manager said:

If a company is to successfully implant the BSC, all the areas should cooperate, and the data from all the departments should be streamlined. If not, they will not reflect the whole organisation. Instead, they would represent one or two sections. Everybody should be involved in the process. If not, a particular area or a perspective would not be complete, and it would be unbalanced.

There was a problem in getting the non-accountants on board and ensuring the silent struggle between the accountants and non-accountants ceased. Marketing and distribution operated in one territory, where marketing was recognised and respected. Engineering (factory work) operated in a separate territory, with its own distinct identity. Between these territories, rivalries existed. People did not talk openly about this but it was evident in their body language.

Divergence into other fads

These incidents led Alpha to realise that the BSC project had not produce a sustained PM system model. The MD was disappointed and lost interest. The management accountant observed:

Five years ago we thought that BSC could do everything. As long as this model involves developing non-financial perspectives, it is hard to get information from those non-financial people. After all, the MD lost his enthusiasm because of this problem. I mean the problem of getting all the boxes right.

Following the MD's disinterest, other non-financial managers gradually left the project. A non-finance manager said, "We thought that this was not a thing that could be succeeded. But there are other things that we could do better." Alpha was prepared to import external institutional logics, and these difficulties signalled a need to look for an alternative methodology.

Consequently, the MD began to look at total quality management (TQM), Six Sigma, and National Quality Award (NQA). With his senior managers, the MD tested these possibilities alongside the BSC project. The CEO of the distribution company said, "The MD is clever. He knows many things. He has no worry about the BSC project. Instead, we have been testing and rejecting many things." The MD's desire to introduce new methods and techniques appears to have dominated both the family and the company's board. The CEO said, "At the Board, we make decisions, but they originally come from the family. All sorts of professionals tend to agree." Consequently, Alpha ended up with a bundle of projects being implemented simultaneously. The director of operations told us, "We are now successful in implementation of NQA and TQM. We won ISO 9000. Some other things [. . .] are also on the way to be successful." As Alpha is a manufacturing-oriented company, manufacturing-oriented initiatives, such as NQA and TQM, took precedence over accounting-oriented initiatives, such as the BSC. This approach was adopted because maintaining the reputation of Alpha's products in the market place was of paramount importance.

Alpha appears to be a centre for experimenting with new management methods. The director of operations said that the MD's argument was that "new things pave the way forward". Almost all managers have begun to change their stance, arguing in favour of the new techniques that the MD proposed. The MD could not be wrong; he was always driven by external influences. The GFD observed:

Finally, we come back to the conventional way of looking at the business, that is, only from the financial perspective. I think financial perspective is still strong and unavoidable. Through BSC, we tried to link other things as well. But it is not that easy.

What is here is that, while the company's intention was to link non-financial measures as well as financial measures with the strategy, it was not case in practice. Consequently, Alpha's BSC was unsuccessful in maintaining a "balanced view"; instead, it rediscovered the financial perspective. Hence, the accountants continued with the project as an accounting tool, while the MD looked into the other methods mentioned above.

7. Discussion and conclusions

This paper's aim is to make a contribution to neoinstitutional perspectives on management accounting research. The research gap identified earlier in the paper is related to an understanding of practice variation. Despite the need for such research, little has been done on how variations in practices create different organisational and political conditions leading to success or failure in management accounting practices, such as PM systems. This paper has examined this issue by focusing on how spatial variations produce different PM system practices, with or without existing institutional logics. Rather than focusing on institutions which have a "period effect" – shifting from institution to institution over time – our aim was to explore how the institutional environment is fragmented and contested, in different organisational and political

conditions and spaces, resulting in variations in practices. Institutional effects (i.e. subversion, integration, appropriation, and insurgency), located in a typology of different scenarios, were used to shed some light on this analysis.

Being a large, formal organisation located in the context of Western capitalist democracy, where democratic industrial relations are the norm, the BAE Systems case study demonstrates how democratic principles in institutional logics led to a successful subversive PM system project. This subversive attempt encouraged managers to accept BVS and institutionalise it in a politically feasible organisational space. A process of active construction of consent respected the managers and allowed them to voice their concerns about the project. Such a consent process can vary from place to place, and may result in success or failure. However, BAE Systems rendered its democratic institutional logic tenable, and, in turn, the BVS was sustained. This conveys the important message that insider, institutional entrepreneurs need to have in place an institutional logic, supported by an appropriate political arena, in order for managers to be able to reflect on change critically but constructively. The prior analysis of “coherence” of BSC practices by Jazayeri and Scapens (2008) can be refined by this idea of successful subversion. What we learn from this is that spatial variation matters for practices, as places inherit and generate distinctive political conditions that lead to success or failure. This finding reminds us of the work by Davis and McAdam (2000) and Lounsbury (2001), which emphasised the merits of collective action in creating new institutional logics.

Conversely, Alpha is a medium-sized company located in a non-Western democracy, and characterised by a family-led institutional logic that showed little respect for accommodation, compromise and conciliation, and where family decisions took precedence over board-room rationalities. This institutional logic was driven by paternalistic relations and coercive approaches to change and reform that emphasised a coercive and commanding culture. Insider institutional entrepreneurs, such Alpha’s MD, operate according to their own interests and like to get things done through direct or indirect enforcement. Being subordinate to such institutional logics, managers are inclined to “follow the leader” rather than question or attempt to negotiate change. In these circumstances, integration was unattainable, and it was impossible to sustain a BSC. However, as the insider entrepreneur retained the courage and power to drive through continuous innovation, the company was subsequently disposed to adopt further options, imported from outside, although these were short lived. The specific lesson here is that imported logics become subject to an institutional rationality that reinforces dominant values and an organisational tendency that abandons the practice of BSCs. To a certain extent, this reflects the findings by Fiss and Zajac (2004), who examined how different orientations towards corporate governance led to changes in the practices of German corporations. Our analysis extends this observation, in that we have focused on spatial variations with comparative case evidence, as Lounsbury (2007) attempted to do when he focused on different fund management practices in Boston and New York.

This analysis provides a lesson for companies struggling with political controversies, which are attempting to implement new PM systems. Although PM systems, such as the BSC seem malleable and adaptable to local requirements, organisational and managerial flexibility and democratic possibilities are important prerequisites for making BSCs operable. Hence, rather than being bombarded with

managerial fads, attention must be given to these prerequisites. Investment in good governance, better democratic values, and effective and fair industrial relations are essential before Western practices can be successfully exported, especially as they have been developed in different institutional contexts. The rationale for importing such practices requires that institutional logics that respect democratic values, are first established in organisations wanting to utilise BSCs. This is a lesson for emerging organisations in less-developed countries, such as Sri Lanka, which often embrace foreign methods such as BSCs, either through integration with insider support, or through insurgency with outsider support. Alternatively, they could use existing institutional logics to develop their own methods, through subversion with insider support or through appropriation with outsider support. These findings demonstrate the importance of collaboration rather than imposition, when institutionalising a change programme. This is an approach in sharp contrast to many change programmes, which are driven by the senior manager's desires (Adler and Borys, 1996). Nevertheless, our analysis suffers a limitation, in that we were not able to trace all four scenarios of the typology with substantive empirical evidence. Further research that explores other or more practice variations in PM systems is needed to generate broader theoretical conclusions.

Notes

1. This refers to an appreciation of democratic values where everybody has an equal opportunity to share ideas – an important political condition to prelude controversy in a world of neo-liberalism (Harvey, 2005).
2. Based on data from the same company, another paper that focused on the concept of coherence in PM systems practice was published (Jazayeri and Scapens, 2008).
3. We were asked not reveal actual data due to concerns about competitors – hence the name Alpha.

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