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Institutions, agency and the institutionalization of budgetary control in a hybrid state-owned entity

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ABSTRACT

In this paper we develop an understanding of the roles played by external institutional forces and organizational entrepreneurs acting as agents in the institutionalization of the budgeting system within a hybrid state-owned entity. Drawing upon the notions of external institutions and agency of institutional entrepreneurs within institutional theory, we investigated this phenomenon using data from field-interviews, observations and archival documents. Our analysis of the findings suggests that the institutionalization of the budgeting system in a hybrid entity is materialized amid external institutional influences, deliberations of key organizational agents, and more importantly the idiosyncrasies in the competitiveness and complexity of the particular industry and the organizational setting. We contribute to the current body of literature on institutionalization of management control techniques at the practice level and management control in hybrid entities.

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1. Introduction

This paper reports on a field study of how external institutions and organizational entrepreneurs acting as agents influenced the institutionalization of budgetary control in a state-owned commercial bank. To this end, we engage in a two-fold knowledge debate. Firstly, we critically discuss the institutionalization of management accounting techniques at the level of practice. Secondly, we engage in a dialog with researchers dealing with management accounting in hybrid¹ state-owned entities (SOEs). We address these issues via an in-depth analysis of the budgetary control system of one large commercial bank in Sri Lanka-Alpha.² We illustrate how the institutionalization of budgetary control in Alpha has been materialized amid external institutional influences, deliberations of key organizational agents, and more importantly the idiosyncrasies in the competitiveness and complexity of the particular industry and the organizational setting.

Researchers use institutional theory to understand how various “external” institutions such as government policy framework, state ideology, professional bodies, media and communities influenced organizational structure and processes including management accounting (e.g. Alam, 1997; Ansari, Bell, & Lundlad, 1992; Berland & Chiapello, 2009; Berry et al., 1985; Christiansen & Skærbæk, 1997; Covalski & Dirsmith, 1988a, 1988b; Hoque & Hopper, 1994; Munir, Baird, & Perera,

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E-mail addresses: tharushang@yahoo.com (T.N. Gooneratne), z.hoque@latrobe.edu.au (Z. Hoque).¹ For the purpose of this study, hybrid state-owned entities (SOEs) are government-owned businesses which carry out their operations with a commercial outlook.² Pseudonym.

2013; Tsamenyi, Mills, & Tauringana, 2002; Uddin & Tsamenyi, 2005). These authors show that management accounting and organizational practices become isomorphic with pressures from “different institutional sources” (Ansari et al., 1992). In recent institutional theory inspired debate, researchers (e.g., Green & Li, 2011; Lounsbury, 2008; Suddaby, 2010) have advocated for exploring the effect of institutional agents on the institutionalization of organizational practices. This issue, however, has received little attention by management accounting researchers. Therefore, we focus on how external institutions as well as organizational senior managers, as institutional agents, may play a vital role in institutionalizing management accounting practices, namely budgeting within our empirical site.

The extant literature suggests that influence from the government on the development and practice of budgetary control is not unusual for SOEs (for example, see Alam & Lawrence, 1994; Munir et al., 2013; Uddin & Tsamenyi, 2005), and mainstream institutional theory inspired research notes that the desire for legitimacy may push organizations to adopt structure and practices, (including accounting) for ceremonial rather than rational purposes (Meyer & Rowan, 1977). Notwithstanding this, how budgetary control practice is institutionalized within SOEs exhibiting a hybrid corporate profile has not been their primary focus. Such an inquiry is nevertheless apt given that hybrid SOEs operate with the coexistence of social and commercial aims, which make them different from their counterparts in the ‘typical’ private sector. Given their peculiar institutional setting and aims, one can also presume some uniqueness in their control systems. What makes our study noteworthy is that it provides empirical evidence on how a budgetary control system gets institutionalized in a SOE operating in a rather different context. This is important in the contemporary corporate arena where economic and structural reforms are gaining prominence in the public sector including in state-owned banks across nations, with increasing calls for efficiency, effectiveness, greater accountability and good governance (Brignall & Modell, 2000; Goddard, 2004; Hood, 1995). This leads to a trend toward private sector management techniques being embraced by public sector entities (Lapsley & Wright, 2004), alongside literature which notes that with appropriate management accounting practices in place, public sector agencies will have a broader set of tools to help them generate more relevant information for decision making (Chia & Koh, 2007). Past researchers have studied budget objective, profit motives, political interests, users and resource allocation processes as well as budgeting systems of public versus private sector organizations (Covaleski & Dirsmith, 1983; Covaleski, Dirsmith, & Jablonsky, 1985; Williams, Macintosh, & Moore, 1990). How budgetary control systems get manifested in the realm of hybrid SOEs, in response to conflicting social and commercial aims is an important issue for empirical investigation. This has so far escaped in-depth study, and remains a gap in knowledge.

Given the interconnectedness of the banking sector and the reliance national (and global) economy hold on banks, it is important for government regulatory agencies to maintain control over their standardized practices, including budgetary control. Therefore, banks are subject to certain government regulatory requirements, restrictions and guidelines. Apart from efficiency and profitability concerns, activities of banks have an enormous influence on societies too (Bryan, 1990). In the Sri Lankan context, the neo-liberalized (post 1977) era has seen the private sector playing a more dynamic role in the economy. This has significant ramifications to the commercial banking sphere in the country with the entry of foreign as well as domestic private banks, and the state-owned banks being faced with an intense competitive landscape.³ To keep up with this competitive environment, state-owned banks have focused on commercially oriented and customer-focused banking business, in addition to their customary social and development banking services geared toward local businesses and the rural community.

Empirical accounts which examine the institutional role of accounting devices in specific economic configurations are rare (Berland & Chiapello, 2009), and this is especially so with regard to hybrid SOEs. Hybrid organizations have attracted researchers’ interest in the past. For instance, Kurunmaki and Miller (2011) have explored modernizing government initiatives in the UK and the role of management control in making government policy reforms operable. Differing from it, in this paper drawing upon field study evidence from a Sri Lankan bank, we analyze the institutionalization of budgetary control in a hybrid SOE putting it into perspective in relation to the specific institutional and industry circumstances. We attempt to enhance the understanding of how management accounting tools such as budgetary control can find a rather different place in such a different institutional setting. Within the current body of literature there is little emphasis on how institutions operate in an organization’s budget setting through the agency of individuals. We contribute to this under-researched area by bringing in the notion of “agency” to classical institutionalism⁴ (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Leaning on this theoretical framing, our empirics will spark interest on how the agency of organizational members also influences the institutionalization of budgetary control practice in the context of a hybrid organization.

³ Currently, with 22 commercial banks in the field, stiff competition has become the hallmark. For a relatively small nation of 20 million people, Sri Lanka has such a high number of licensed commercial banks. Although one may claim that “the industry is over-banked”, there is significant concentration, for only the six largest commercial banks (two public and the ‘big four’ private) have established their presence across the entire nation, and the dominant market share is concentrated among these few large banks. However, developments over the years have shown an erosion of the market share of the two state-owned commercial banks. In turn they have responded by improving efficiencies of their processes in mainstream banking as well as in the accounting arena. The state-owned banks still dominate the Sri Lankan banking arena, and continue to control a substantial amount of banking assets. Given that the government and SOEs is collectively the single largest borrower, the overall outlook for the banking system is closely intertwined with the state and its economic development policies.

⁴ Classical institutionalism is segregated into three mechanisms through which isomorphic change arises such as coercive, mimetic and normative (for more details, refer to DiMaggio & Powell, 1983).

The rest of our paper follows this broad structure: section two outlines the theoretical positioning of the study. Section three introduces the empirical site and research method. Foregrounding empirical data, sections four and five interpret the institutionalization of its budgetary control practice. Section six presents a discussion of the findings and concludes.

2. Theoretical positioning

Traditionally, literature on institutional theory has predominantly focused on macro aspects, being premised on how organizations strive to adapt procedures and practices which are considered to be socially accepted (Meyer & Rowan, 1977). Particularly, public sector entities are expected to meet the expectations of external institutions, and tend to adopt rational rules and routines for symbolic role of legitimacy rather than for efficiency (Ansari & Euske, 1987). Viewing the emergence of organizational practices as a process of passive adaptation, work on institutions has focused on conformity and continuity (DiMaggio & Powell, 1983). Seeing from such a perspective, management control systems are embedded in an institutional environment encompassing regulatory structures, laws, professional and public perceptions (Covaleski & Dirsmith, 1988b; Oliver, 1991). Thus to survive business organizations need to comply and accommodate environmental expectations, although they may have limited implications to performance improvements (DiMaggio & Powell, 1983).

Isomorphic accounting practice in public sector organizations has been a popular line of institutional research (see Abernethy & Chua, 1996; Alam, 1997; Ansari & Euske, 1987; Hoque & Hopper, 1994; Kholeif, Abdel-Kader, & Sherer, 2007). While this signals the usefulness of institutional theory in exploring accounting issues in the public sector, the need for SOEs to demonstrate accountability, and the use of accounting as a medium to legitimize operations, also explain its more prominent presence in public sector accounting studies. However, over the past decade significant developments have occurred with respect to accounting, governance and accountability (Goddard, 2004), as well as transformations of the public sector (Hood, 1995; Lapsley & Wright, 2004), making isomorphic adoption of practices increasingly questionable (DiMaggio, 1988; Cooper, Ezzamel, & Willmott, 2008). Cooper et al. (2008, p. 674) argue that traditional institutional theory “. . . is occupied with the possibility of developing more objective knowledge of what it conceives the social order to be (that is a product of processes of institutionalization)”.

Given the criticisms traditional institutional theory has received as an explanation for persistence and homogeneity there is a rising chorus among scholars on the need to mitigate the overly structural view of institutional theory (Cooper et al., 2008; Lounsbury, 2008). Green & Li (2011, p. 1669) suggest that “. . . structural institutionalism tended to ignore agency and instead focused on how institutions constrained social action and produced homogeneity”. As institutional work is conducted by individuals, there is a need for research on the interactions between agency and institutions (Barley & Tolbert, 1997; Lawrence, Suddaby, & Leca, 2011), to explore how individuals or human actors experience institutions and how institutional logics are understood and influenced by individuals (DiMaggio, 1988; Suddaby, 2010). Hence more recent institutional theory scholarship foregrounding on agency tends to acknowledge change (Lounsbury, 2008). This shift is significant, and creates new vistas for institutional theory inspired research. It is in line with DiMaggio (1988)'s claim on the need to attend to agentic aspects in the institutional environment capturing the role of influential individuals at organizational levels within the corporate landscape who operate as agents pursuing different interests (Lee & Pennings, 2002; Lounsbury, 2002, 2008; Thornton, 2002; Zilber, 2002, 2007). Institutional entrepreneurship thus emerges through a complex process of collaboration and contestation (Garud, Hardy, & Maguire, 2007), and the notion of institutional entrepreneurship reintroduces agency, interests and power into institutional analysis (DiMaggio, 1988; Garud et al., 2007). It goes against the taken-for-granted thesis of institutional theory (Greenwood & Suddaby, 2006), opening up a broader structure-agency debate.

The gap between micro-processes and institutions creates a new space for theory development and empirical insights (Lounsbury, 2008). Picking up on this and following DiMaggio (1988), in this study we integrate agency into traditional institutionalism to develop a better understanding of how and why budgetary control come into existence and become institutionalized in a hybrid organizational setting such as our empirical site, Alpha. Such a line of inquiry although important, remains as an under-researched area. Given our theoretical lens we concur that institutional structures do not necessarily constraint agency, instead may serve to unearth entrepreneurial activities, as institutions alone would not capture the role of agents, and focusing on entrepreneurs alone would make the analysis ahistorical, decontextualized and universalistic (Garud et al., 2007).

Although for the purpose of this study we draw on an institutional theory perspective capturing agency of individuals, we acknowledge the presence of alternative perspectives on institutionalism which concur institutionalization as a process spanning over several decades (Oakeshott, 1962; Gellner, 1974). From the outset, our primary attention was to the notion of agency to illuminate how a group of powerful organizational entrepreneurs and their interests and dominance (DiMaggio, 1988; Cooper et al., 2008) played a role in the process of change and institutionalization of their organization's budgeting system. DiMaggio (1988, p. 3) advocates for incorporating 'the role of interest and agency' as a coercive force to an institutional analysis suggesting that ' . . . persons and organizations hold, and act on, universal interests in survival and in the reduction of uncertainty' (cited in Cooper et al., 2008; p. 686).

3. Empirical site and research method

3.1. Empirical site

Our empirical site, Alpha was established several decades ago as one of the first banks in the country. It is a hybrid state-owned bank in nature which has a commercial focus. Virtually from no competition it moved to a regime of intense competition with many new entrants making their presence in the industry, following the country shifting into an open market policy in 1977. In response, since the early 1980s, the bank was seen to be more 'customer and profit oriented' and striving to align itself to the emerging competitive environment by bringing in a commercial culture through restructuring its operations, embarking on computerization, increasing the branch network, introducing a variety of products and services, and in the accounting front, a gradual move toward budgeting. Market competition thus acted as an impetus for budgeting. Budgets took an increasingly central role, and became a vehicle for planning, controlling and resource allocation in the bank. Taking such steps, in the eyes of the senior management helped to streamline operations, improve competitiveness, create a commercial outlook, and enhance its legitimacy. It is now a diversified state-owned financial services organization providing a broad range of banking products to a varied portfolio of customers encompassing retail, corporate and the government of Sri Lanka.

3.2. Data collection

Consistent with our theoretical position, to guide the collection and analysis of data we employed qualitative field research methods. The field study involved two phases: a pilot study conducted in February to March 2009, with a broad scope to enable obtaining some background information and a general understanding of the research site and its management control practices; and a main study carried out in June to August 2009, for more focused and detailed exploration of its budgetary control practices. Our data collection method includes face-to-face interviews, archival documents, and personal observation of bank activities through several visits to the head office, some branches and departments of the bank.

Interviews were carried out using semi-structured questions⁵ with 31 people representing various levels of management and diverse functional areas of the bank such as chief financial officer, deputy general managers, assistant general managers, area managers, branch managers and other functional managers (see [Appendix A](#) for interview questions). Interviews were also conducted with four external people representing key external institutions such as the Central Bank of Sri Lanka and Institute of Bankers of Sri Lanka (statutory body established by an act of parliament to provide tuition, conduct training and examinations and issue certificates for bankers). On average, each interview lasted for an hour, ranging between 30 min to two hours. Out of the total 35 interviews, 32 were tape-recorded, and detailed hand written notes were taken down for the other three interviews. Additional notes were also taken during each interview, and subsequently transferred into a 'Microsoft word' document on the same day evening. An 'interview detail sheet' was completed for each interview conducted, covering background information about interviewees, their job positions and duties, reporting structure and their relationship to the bank's budgetary control system. Being a highly reputed SOE, most of the members of the management team has joined the bank early in their career and progressed up the ladder. Hence they were able to recollect the developments in management control over the years, which was invaluable in understanding the institutionalization of budgetary control in the bank.

All interviews were later transcribed verbatim, and transcripts along with the field notes were scrutinized. The analysis of data involved organizing the data into matrices and tables, followed by searching for themes or issues in the organized data. Interview details were organized and displayed in a table format (data analysis grid), listing the question as the table heading, and all responses arranged in rows under the heading (See [Appendix B](#) for an example). Such a table was completed in this manner for every question, and responses to each question were grouped together to identify recurring and common themes.

Thereafter coding was carried out. The initial codes were rather broad categories based on the theoretical lens used as 'a provisional start list' (Miles & Huberman, 1994). As the fieldwork advanced based on emerging themes additional codes were identified, 'to follow up on surprises', while taking advantage of the uniqueness of the case. Interviewees' interpretations were reproduced using direct quotes within a particular theme, and an in-depth understanding of the data was developed where we reconstructed the story of institutionalization of budgetary control in the bank. It was decided to carry out the process of coding and categorizing of data manually, with the aid of Microsoft Word and Excel.

During the data collection period, we carried out various analyses of documents, to obtain a more concise depiction of the phenomenon under study. Thus interview data was supplemented by various related published material and internal

⁵ Interview topics included: organizational mission, activities, goals and objectives; organizational structure and functions of divisional heads; accounting systems and reporting to various stakeholders; management accounting division and its people; management accounting techniques in use; the budgetary process—design, preparation, implementation and use; key players in the making of the budget—their roles in the process; uses of budgetary information—internal and external; external institutional forces in organizational processes including budgeting; the role of central bank in organizational practices; effectiveness of the budgetary control practice—impact of budgets on organization and its people.

records, ranging from annual reports (2004–2009) and web pages of the bank and press releases to an array of internal documents.⁶ Following the procedure advocated by Miles and Huberman (1994) the contents were condensed in 'document summary forms', which placed each document in context, explained its significance to the research and summarized it. Perusal of such documentation enabled in identifying any disparity with interview data and in assessing as to what extent the "official" documents reflect the actual practice. Further, libraries of Central Bank of Sri Lanka and Institute of Bankers of Sri Lanka were physically visited and information related to historical development of the Sri Lankan banking industry was collected through review of various magazines, journals and books.

3.3. Data analysis

In this study, we employed interpretive discourse analytical approach (Phillips & Hardy, 2002) to interpret what we observed through conversations with people, participant observation, and texts from archival records. To this end, we also focus attention on the analysis of the broader social context (in our case, the Sri Lankan banking industry) and the discourse that supports it (Phillips & Hardy, 2002). Thus, capitalizing on data collected through these different means, a detailed discourse based on the field work was produced analyzing diverse views of interviewees. This was then iterated with the theoretical lens of the study to understand the institutionalization of budgetary control in the bank.

4. Institutionalization of budgetary control and external institutions

Budgets of SOEs are closely tied to national development plans of the government (Wildavsky, 1975, 1979), and these entities commonly use budgets for external legitimacy purposes (Covaleski & Dirsmith, 1988a, 1998b, 1991). Similarly, Alpha is faced with overwhelming influences from the government in its budgeting activities in two forms. Firstly, before the preparation of the national budget, input is obtained from all state sector departments (including banks) in the country, as per a prescribed format. In compliance with such requirements the bank needs to process budget information, as any proposals submitted needs to stem from its own plans. One assistant general manager remarked in this regard. "We are a big state-owned organization, so our figures are important for the government to show to the IMF (International Monetary Fund). So our strategy and direction needs to be in line with the government's strategy". Accordingly, the bank's budgeting practices are expected to mirror governmental economic development policies and the wellbeing of the society.

Interviewees' comments as well as Alpha's internal budgetary reports revealed that budget documents of the bank as per the prescribed format are forwarded to external bodies (linked to the government) such as the Central Bank of Sri Lanka, Strategic Enterprise Management Agency, the Ministry of Finance and the Auditor General. The information conveyed includes broader contextual data encompassing the global economy, its impact on the Sri Lankan economy and trends in the Sri Lankan banking industry, as well as more organization-specific information such as corporate level financial targets and budgeted financial statements.

Secondly, Alpha is one of the main vehicles which carry out government strategies and development policies. It thus envisages compatibility with the country's national budget as a main concern. As one member of the finance and planning division noted, "Some revisions are deemed necessary to our bank budget after the preparation of the national budget, this gives opportunities and poses challenges and threats".

As became evident in the course of the field work, being a SOE, Alpha is expected to serve all sectors of the economy and take measures to improve the lives of the rural community (e.g., provide credit facilities at preferential rates to priority areas), finance agriculture-based industries, and formulate micro-credit schemes and sectoral development strategies. Many interviewees shared the view that in the current scenario, supporting the government in the socio-economic revival of the newly liberalized north and east of the country is also a key concern for the bank (Alpha Annual Report, 2008). One assistant general manager stated:

Our bank is a very big state-owned bank; so we have to do for nation building. Government expects us to move into north and east areas and establish branches.

Another interviewee shared this view, noting that: "now for north and east development we are opening lots of branches". According to a senior corporate manager, "central bank has specially informed the state banks to open branches in the north-east areas". An annual report of Bank Alpha revealed that it has not only opened up branches in the north-east areas, but has also collaborated with provincial administration and the central bank in formulating comprehensive development plans therein. This has implications for budgeting; as such plans in turn need to be incorporated to the bank budget.

One senior manager provided further insights, "we are a government entity so we have to do our corporate social responsibilities, not only that earning profit also". As suggested through interview data as the sole shareholder the

⁶ Documents studied include: (a) action plan for preparation of annual budget 2009; (b) action plan for preparation of corporate plan 2009–2011; (c) action plan to achieve budget and corporate plan; (d) job profile: budgetary control manager; (e) approved budget sent to external institutions; (f) monthly provincial performance report; (g) summary branch performance; (h) memorandum to the board: monthly budget and actual performance; (i) quarterly variance analysis report; (j) memorandum to board: expenditure budget for second quarter 2008; (k) monthly MIS report; (l) memorandum to the board: peer bank review; (m) budget 2009; (n) board meeting papers; (o) monthly variance reports; (o) summary branch performance.

government expects Alpha to be economically efficient and profitable, while concurrently participating in national development plans. The overwhelming task of reconciling these conflicting aims was reflected in many interviewees' comments and successive annual reports. An official from the finance and planning division explained how its national development efforts hinder profitability. He went on to say, "when we adjusted our annual profits for development activities and concessions given to the economy it would increase by about Rs. 2.5 million".⁷ Those kinds of contributions no private bank has done but in our case we have to do". Another member from the corporate management stated, "we can't only look at profit opportunities, we have to carry out government policy like rural sector development loan schemes, but sometimes recovery is very difficult with all these things". A senior manager reinforced that not all decisions in the bank were taken on commercial grounds. He asserted:

We have lot of interventions from government in our business decisions. When we are going to open a new branch of course strategy comes to play, we look at the volumes, traffic going through. But more than that, there are other reasons. A politician might say that I want a branch here. Also some branch locations, when we look at the return we get we should shut down but as a responsible government bank we can't isolate the community. So we run these branches for the sake of the community.

These discourses are indicative of how the bank discharges its broader responsibilities toward society as a national and state-owned bank. Many interviewees reflected how government banking activities put its profitability at stake. One deputy general manager added, "Our owner is the government, so we have to fulfill its requirements. Most of facilities we have to grant to them are not profitable; we get a very low interest". Another official⁸ spelt out:

We are a government bank; most of our loans are to the government and to state-owned organizations. Government borrowings are at a level that we cannot bear. When government asks we have to give them. We can't say anything, they are the owners. There are huge loan defaults faced by us. The rate that they are paying us is even lower than the cost of our funds. We can run more profitably if not for this problem. But with all that we made big profits in the last years.

A manager too recalled how the bank was compelled to make contributions in the name of social responsibility although not foreseeing a commercial benefit: "Being a state bank we have responsibilities towards the government. So our marketing allocations go for these social responsibility activities, but there is no marketing gain to us". A finance and planning officer noted how these multiple government influences impact on budgeting:

Government business is large and chunky business, and we have to take the rubbish with the good. We cannot pick the jewels. Government owns us, so we cannot say no. When they borrow money they borrow big money, but at very low rates. Another thing is our shareholder, the government is very demanding. As the owner who has provided capital they want a dividend that's true, but they want to do that business, this business, go there, go here, finance the state-owned organizations and all the risky stuff, and we have to give a return also. So when we prepare our budget we have to consider all these things, all these government plans and how to make a profit.

Our data analysis above suggests that being a large state-owned bank, Alpha is faced with a number of macro-level institutional pressures similar to those of isomorphic pressures put forwarded by DiMaggio and Powell (1983), and its budgetary system serves external legitimacy concerns, which has important implications for the institutionalization of its budgetary control system as a SOE. However, the institutionalization of budgetary control in Alpha has not materialized with the absence of micro-level institutional agency influences, especially given that it operates within a stiff competitive environment (DiMaggio, 1988; Green & Li, 2011). This is turned to next.

5. Organizational entrepreneurs and the institutionalization of budgetary control

Within the institutionalization of the budgetary control system in Alpha, the role of organizational entrepreneurs or agents, such as the board of directors, members of the finance and planning division and other functional managers are significant. Fig. 1 demonstrates how the board of directors' aspirations is passed down through the corporate budget to the various hierarchical levels in developing the bank's consolidated budget.

Through discussion between members of the board and the corporate management a decision is made on 'where the bank wants to be' in the coming year, taking into account its vision, objectives, previous years' performance and the external business environment. This then gets connected to the corporate/strategic plan, from which the corporate budget is derived. Depending on the place and conditions opportunities will differ, thus capturing these differences, the top management's aspirations for the overall growth and performance of the bank are cascaded down to the branches/units. As a prerequisite, the head of research prepares a forecasted picture on the macro-environmental front encapsulating the global economic situation, the Sri Lankan economy, government influences, significant events in the banking industry, peer banks, central bank road map together with the trends in the bank, policy level expectations by the government, past growth trends for the bank and industry, bank's past performance, and new business potentials. This information is conveyed to the DGMs, who

⁷ Equivalent to USD 22,521 based on exchange rates prevailed at the end of 2008.

⁸ Interview conducted on 3rd July 2009.

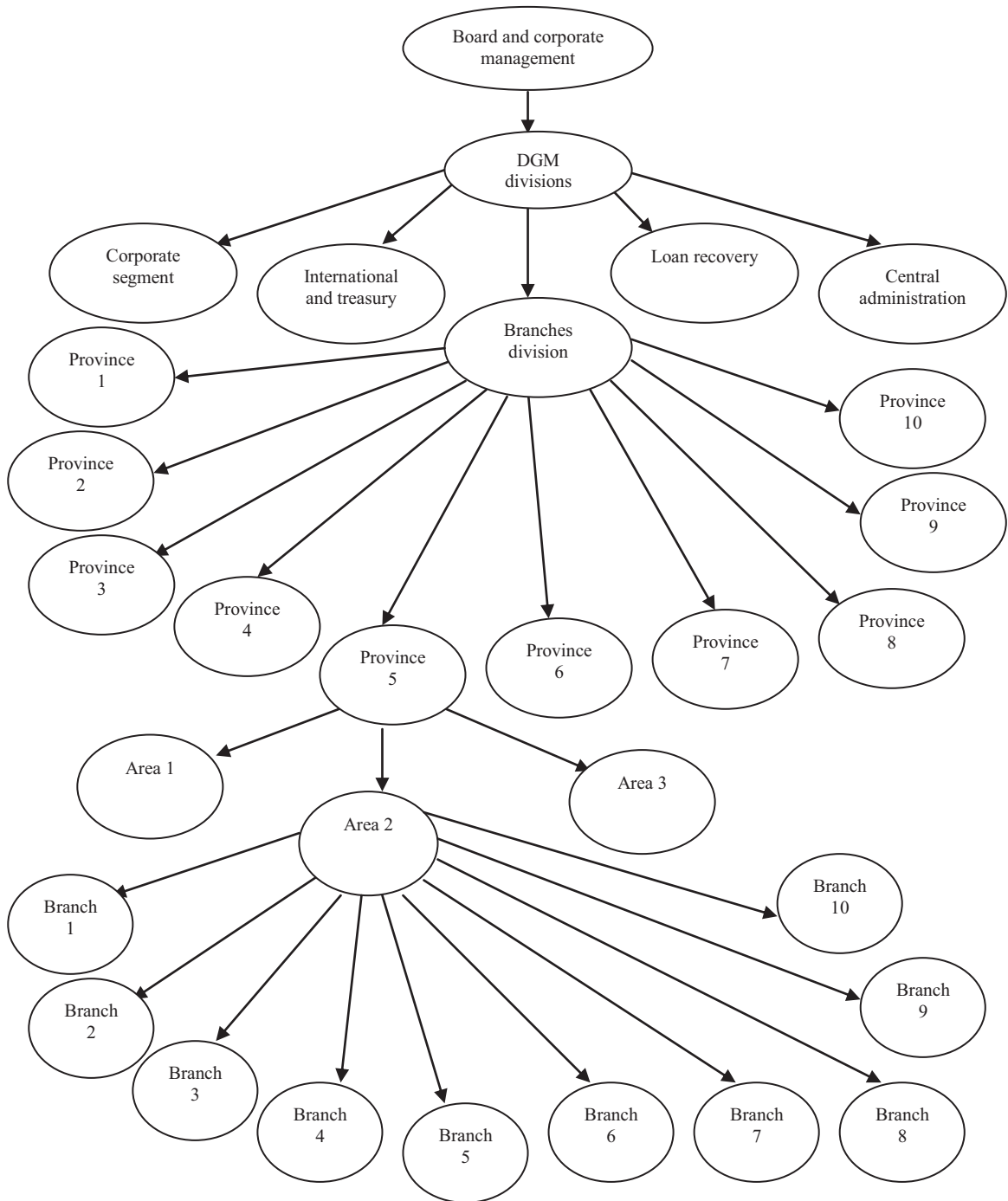


Fig. 1. Institutional agents in the budgetary control practice: passing down Board of Directors' aspirations to branch/unit budgets.

each then decide on the growth rate in their respective areas, which forms the basis for discussion in deciding the total growth for the bank. At the hub of budgetary control activities is the finance and planning division located in the head office.

The members of the finance and planning division as key entrepreneurs or agents play a vital role in institutionalizing budgetary control practice in the bank. The deputy general manager-finance and planning heads the entire division, while the assistant general manager-budget and strategic planning heads the budgetary control division, a sub-unit within the finance and planning division. The finance and planning division conveys the board's aspirations for expected growth for the budget year and the level of achievement of the individual units/branches in the previous year to help the functional units and branches to initiate their budgets. They also provide guidelines and organize budget awareness programs for managerial

and other staff members at head office, provinces, areas and branches. Branches/units are given deadlines for submitting their draft budgets to the finance and planning division at the head office for overall consolidation. Such budget proposals are then revised through several rounds of discussions between the management and business units/branches to accommodate the board of directors' recommendations. Once agreed upon, the budget is forwarded for board approval. Following this route, it is typical for the budget to be approved in December. Thereafter the task at hand for finance and planning is to circulate the budget to all business units by 31st December, given that the budget year runs from January to December.

A senior member of the division⁹ noted that the final targets communicated after board approval would subsequently be subject to a series of revisions to ensure that the budget is in line with the government's national budget. An official from the finance and planning team¹⁰ spelt this out as:

We can't just accept the branch budget. We are a state bank, we have to fall in line with government expectation and we may need larger volumes. So sometimes after review and board approval a completely different budget is sent to the branches.

Although Alpha's budgeting system is centralized in the hands of the finance and planning division, the preliminary budget proposals are initiated at the grass-roots level (such as from the branches) and submitted to finance and planning through relevant area managers, provincial offices and divisions of deputy general managers. As the need arises to balance the deposits and advances of the bank as a whole, the budget proposals of units are subjected to modifications by head office and the final budget turns out to be rather different. Against this backdrop, other managers at area, branch and functional levels contributed to the process in different degrees.

As revealed through organizational records and interview data, a province is headed by an assistant general manager. The operations manager and area manager/s report to the assistant general manager. Branch managers report to an area manager; who plays a coordinating role in the budgeting process between head office and the branches. The usual tasks of an area manager extend from overseeing credit control to mobilization of deposits, to business promotion and marketing of the branches under his/her purview. As for branch managers, one manager commented, "We are responsible for everything in the branch". Thus, although budget preparation is important, neither sufficient time nor effort gets assigned to it from these two groups. A typical response from a branch manager was, "of course we know about the budget, it is there, but branch people don't look at it much. It is important; we know that anyway our finance people are doing it. For us there are so many burning issues to attend to in the branch. Sometimes the ATM is not working, customers are complaining, so many things".

Many interviewees at branch and area levels expressed similar thoughts. Despite a comprehensive budgeting system being in place, comments from area/branch managers implied that budgeting was the province of finance and planning and that it did not have much bearing on their work. Some reinforced that lack of financial knowledge placed strains on full participation in the process, and others used time constraints as a reason for their faint interest. One area manager described:

We have seen through our experience unfortunately branch managers' personal involvement to the budget is very low. That may be unawareness. If the manager is a person who has not studied this subject then chief clerk or someone who knows a bit of accounts in the branch prepares the budget. Some document is done and sent. We don't worry much, we know that finance division is anyway going to look at it and adjust it.

In keeping with board directions and guidelines espoused by finance and planning, although the branches and units are expected to initiate budget proposals capturing local conditions, the reality at the branch level is rather different. As a branch manager¹¹ noted:

Actually when we work in a branch we don't have much time to devote to budget preparation because of operational matters. That is a practical difficulty. So we just make something just by adding a percentage to the previous year.

From the perspective of a senior official in operations, "budgeting is a routine thing in our bank; we all know that once a year we have to prepare it". The head of marketing¹² pronounced her involvement stating, "Last year is taken as the base. Based on last year expenditure pattern and the requirements we have to fulfill during the particular year, we prepare the budget.

It thus became apparent from interviews that although the head office devoted much attention to budget preparation (through laid-down procedures and awareness programs), at the branch and area level the focus was on achieving branch financial targets and budget preparation was not a major concern. One manager said, 'In branches we have still not moved on to preparing the next year's budget. We are still running behind the current year targets, like reducing non-performing advances and increasing deposits because with the competition we have now we have to achieve the targets'.

Managers at the area, branch and functional level described how they attached meaning to budgets. One manager noted, "We have to make budgets, no doubt about that, it is useful to the bank, it is like a plan for us". Another added, "For so many years we have been doing budgets, so now everybody has accepted that budgeting has to happen, but the problem for us is we have to give data". As some saw it, the inherent procedural nature of being a SOE and the complexities of government bureaucracy placed demands on budget preparation. An HR head voiced concern:

⁹ Interview conducted on 1st July 2009.

¹⁰ Interview conducted on 14th August 2009.

¹¹ Interview conducted on 7th August 2009.

¹² Interview conducted on 3rd July 2009.

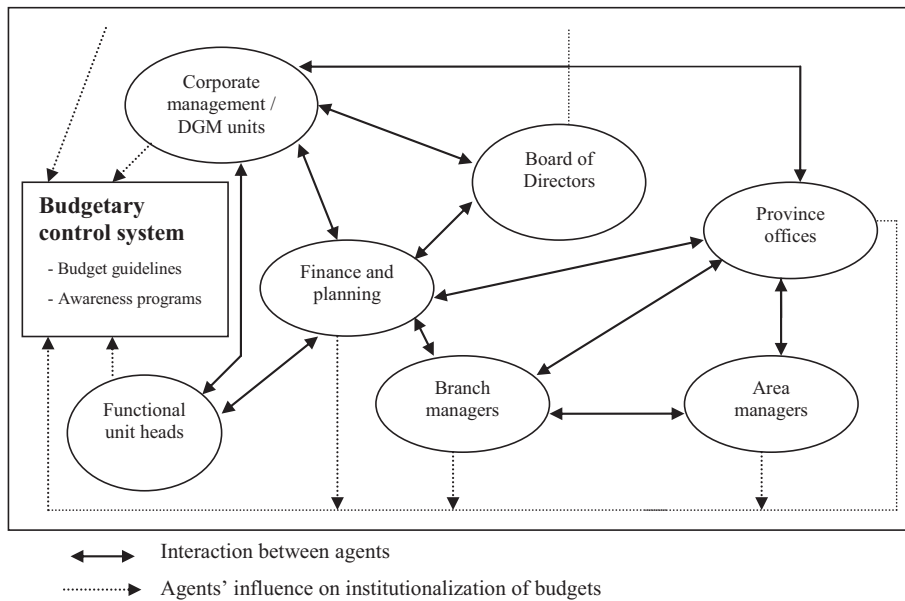


Fig. 2. Key institutional agents in the institutionalization of budgetary control practice in Alpha.

We estimate the cost of recruitment, promotion etc. for the next year and if we have new ideas to do something, in advance we make a provision in the budget. According to the procedures we have here, we can't purchase things at once. This is a state bank, and everything is big about this bank. So to do anything it takes time.

On a positive note, another functional head described how gradually the interest on budgets had made a presence in the bank. She¹³ said, "I can remember those days' budget means just increasing everything by 10%. We put the same increase for all the items. But today it is not like that; with the huge competition, we now really think about the figures that we give for the budget, we have improved our budgeting system, it is a very important thing now, we have to see that the market changes are incorporated. So now budget figures are more realistic. We don't want to be behind other banks. So at the end of every quarter our finance team do a peer bank performance review, that makes us re-think our strategic positioning with the kind of competitor performance we face. So now we take budgets more seriously". It is an improvement I see from the past".

The above empirical evidence shows that Alpha has a formal budgetary system, vested in the hands of key organizational agents, i.e., the members of the finance and planning division. Fig. 2 identifies the key institutional entrepreneurs who played significant roles in the institutionalization of budgeting in Alpha.

The foregoing evidence also suggests that the involvement of other agents such as area managers, branch managers and functional heads in budgetary control activities were ritualistic. Therefore, despite a certain degree of divided thought regarding its use and relevance at the local level by these other agents, budgeting formed an important constitute in the everyday control rituals and practices. More importantly at the organizational level, everyone agrees that amid gradual improvements "budgetary control has been institutionalized as an organizational practice in the bank", especially through the efforts of key agents in the finance and planning division.

6. Conclusions

Drawing upon the notions of external institutions and institutional agents within institutional theory, this paper sheds light on the roles of external institutional forces and organizational entrepreneurs acting as agents in the institutionalization of a budgeting system in a hybrid SOE, using a government-owned bank in Sri Lanka. Our paper makes a noteworthy contribution to the existing literature in two areas, namely institutionalization of management control techniques (through a budgetary control example) at the practice level and management control in hybrid entities.

Firstly, regarding institutionalization of the budgeting control system, our empirical evidence presented above revealed that Alpha's budgetary control system has been institutionalized amid external institutional forces and the role of key agents. SOEs are required to create budget numbers as an external legitimizing device (DiMaggio & Powell, 1983) to meet societal expectations and to portray a positive public image to outside constituents largely for symbolic purposes (Covaleski & Dirsmith, 1988a, 1991). As such these entities become subject to government influences where the government may prescribe collection and reporting of information as well as the desired nature of engagement with the larger community

¹³ Interview conducted on 28th July 2009.

(Hussain & Hoque, 2002). This compels SOE to produce budget numbers, which across time gets ingrained as organizational practices. Similarly in Bank Alpha, given its requirement to provide information for the national budget as a large SOE, and its need to fulfill to government development plans, preparation of its own budget is a necessity. Consequently, over the years budgetary control has got institutionalized as an organizational practice.

Within our case study, the role of institutional entrepreneurs or agents who instigate progressive improvements to the budgetary system also appeared to be significant in institutionalizing budgetary control as a practice. Within an institutionalized reality, social actors perceive, enact and reinforce their habituated behaviors, and shared meanings, and meanings of practices are negotiated locally, before they become taken for granted (Zilber, 2002). If all actors enact the same institutional practices and associate them with the same institutional meaning, then institutionalization is tenable (Zilber, 2007). In Alpha, the budgetary system held different degrees of importance to different managers. In the eyes of the finance and planning members, the key institutional agents who were the gate keepers of budgeting knowledge in the bank, it was of utmost importance. Given the stiff competition encountered, amidst the pressure for greater efficiency, the finance and planning division took charge in monitoring performance and in preparing various management control reports (including review of peer bank performance) to provide information for top management's decision making. Other managers, although did not necessarily share positive sentiments, were accustomed to the term 'budget', accepted it as a fact of life and a taken-for-granted course of action. Hence it became ingrained in the bank as an institutionalized practice (see also Covaleski & Dirsmith, 1983; Covaleski et al., 1985; Hoque & Hopper, 1994, 1997; Lounsbury, 2008). Thus, going beyond criticism leveled at institutional theory (Cooper et al., 2008), this study brings in agency of individuals to offer new insights in understanding the institutionalization process. Our study thus reinforces the complementary use of institutional structures and agentic influences (DiMaggio, 1988; Green & Li, 2011), and that external institutions do not necessarily constraint agency, instead may serve to explore entrepreneurial activities (Garud et al., 2007).

Institutionalization is a continuous process which can be observed through time (Barley & Tolbert, 1997), and Alpha's budgetary system has undergone progressive improvements and has become an institutionalized practice over the years, in response to the emergent competitive environment posed by the open economy. The open economy presents profound and far reaching implications for the operation of control systems of hybrid organizations, such as state-owned banks in Sri Lanka. It is alongside literature which suggests that history of budgetary control is closely related to the economic practices and ideas emerged in reforming circles with budgetary practices becoming intertwined with changing programmatic aspirations (Berland & Chiapello, 2009). Given its hybrid nature, the institutionalization of the budgeting control system in Bank Alpha has taken place amid external influences, as typical to SOEs and the role of key agents, given the competitive landscape encountered.

Secondly, this study makes a useful contribution to growing body of research on management control in hybrid organizations. State-owned commercial banks in Sri Lanka have indeed been manifested into 'hybrid' entities (see also Parker, 2011). At one end, they have been forced to come to terms with the competitive pressures in the market, and engage in commercial banking activity. At the other end, in the public eye to meet the societal demands placed on them as SOEs, to carryout social and development banking by bringing banking services to rural areas and assisting the development of local businesses by operating in areas that private sector players may not. This is in the midst of being saddled with high borrowings by SOEs, overstaffing issues and strong unions, hampering the realization of operational efficiencies (Asian Development Bank Report, 2005), which remain as enduring burdens on the performance of state-owned banks. Thus reconciling the inherent conflict and striking a balance between the concurrent concerns, the mandate to maintain profitability, by functioning as commercial ventures and the obligation to contribute to national development, remains an on-going challenge for the key agents of state-owned banks. Organizational budgetary control systems certainly have a role to play in dealing with this dilemma, and the key agents of Bank Alpha have responded to this challenge through incremental improvements to its budgetary system. Our study shows how institutional entrepreneurs experience institutions and how institutional logics are understood and influenced by them (DiMaggio, 1988; Suddaby, 2010). Seen in this light, the insights offered through this study have important implications for managers of hybrid SOEs beyond banks and beyond Sri Lankan organizations. It serves to raise awareness among practicing managers of hybrid SOEs on the need to operate on a commercial basis when exposed to competition by adapting their systems (including budgeting), structure, strategy, and culture to be attuned to market regimes (see also Munir et al., 2013).

This study is noteworthy as it is founded upon a large hybrid SOE bank, which operates in a peculiar context faced with the enduring issue of maintaining profitable operations and fulfilling its demands as a 'typical' SOE. Such a study has much to offer, and this study portrays how Bank Alpha's budgetary control system has been institutionalized within this 'reality' of being a 'hybrid' SOE. While this research drew from the Sri Lankan banking context, it opens up concomitant scope for future researchers to explore how these findings could be replicated in other similar and different settings (see Vaivio, 2007). More studies on the institutionalization of budgetary control systems in public sector entities operating with a commercial outlook in other countries as well as other industries, and a comparison of such findings with those from Sri Lanka remains a potentially interesting research avenue.

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Appendix A. : interview questions

- 1) Can you explain about the budgetary control practice of your bank?
- 2) Your bank has been practicing budgetary control for a long time. Describe the changes that have taken place in budgeting practices over the years?
- 3) Your bank is a leading public sector organization. In your opinion, does regulation, competition and professional bodies influence your bank's budgetary control practices?
- 4) As in most organizations, in your bank also the finance and planning division facilitate the budgetary control system of the bank? Explain their role in budgets and how they facilitate budgetary control in the bank.
- 5) How do other managers in different departments and branches get involved in the budgetary process? How does the finance and planning division work with other departments in the organization in collecting information on performance measurement and management control?
- 6) How does the top management influence the budgetary control system of the bank? Please explain.
- 7) How are divisional budgets prepared? Are there any influences on this? Please elaborate.
- 8) Budgetary control has been the main control tool for many years in the bank. In your opinion has budgetary control become a taken for granted practice, a ritual in your bank? Explain .why
- 9) While your bank is a leading public sector entity, it is operating with competitive pressures. The bank needs to balance profitability concerns and external considerations such as government influences as a socially responsible bank which is considerate toward the general community. How does budgetary control play a part in balancing profitability and social welfare aims?
- 10) Do you think that budgetary control in your bank is unique because you are a state owned entity faced with competitive pressures?
- 11) Budgetary control practice of your bank has been formed as a result of external influences and role of internal managers. Explain your view on this.

Appendix B. : data analysis grid (example)

Interviewees	Question: how does government influences impact budgeting practices?
Chief financial officer	
Deputy general manager-1	
Deputy general manager-2	
Deputy general manager-3	
Deputy general manager-4	
Assistant general manager-1	
Assistant general manager-2	
Assistant general manager-3	
Assistant general manager-4	
Assistant general manager-5	
Assistant general manager-6	
Assistant general manager-7	
Area manager-1	
Area manager-2	
Area manager-3	
Area manager-4	
Area manager-5	
Branch manager-1	
Branch manager-2	
Branch manager-3	
Branch manager-4	
Branch manager-5	
Branch manager-6	
Branch manager-7	
Branch manager-8	
Branch manager-9	
Functional manager-1	
Functional manager-2	
Functional manager - 3	
Functional manager-4	
Functional manager-5	

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