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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.

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 hybrid[1] 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; Covaleski & Dirsmith, 1988a, 1988b; Hoque & Hopper, 1994; Munir, Baird, & Perera,

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[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.

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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 institutionalism[4] (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).