

Proposition of an enhanced model on institutionalization of Management Accounting Practices

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ABSTRACT

The new institutional sociology (NIS) theory that is popularly and increasingly being used for conducting researches in accounting discipline by scholars spells out that three institutional isomorphic macro environmental pressures positively influence for the institutionalization of rules, norms and practices etc. in organizations. Yet, puzzlement is that, despite invaluable benefits provided by management accounting (MA), empirical evidence proves that there is a gap between the theory and the practice of MA in public institutions (PIs) in developing country context, resulting a host of negative consequences at organizational, national and international levels. Thus, based on literature findings, this theoretical paper postulates that the presumed relationship between three isomorphic pressures and institutionalization of management accounting practices (MAPs) is moderated by four conformity methods which are proved to be dependent on the economic advancement of the country concerned. Accordingly, the very purpose of this paper is to showcase an enhanced model by extending the NIS theory as a means of addressing unexplained as noted above by this theory. While this study is providing a useful framework for further studies as; testing the model empirically at different sites, levels and scales that would lead to seeing new vistas both, in theoretical and empirical domains, it will help expanding the existing body of knowledge of the NIS theory by providing an expanded perspective regarding the application of institutional isomorphism mechanism with moderating effects exerted by four conformity methods. Moreover, findings of this endeavour showing the level of the adoption of MAPs in PIs will be of paramount importance to diverse of key stakeholders in developing country context.

Key words: management accounting, public institutions, institutional theory, isomorphism, conformity methods

1 INTRODUCTION

The American Institute of Certified Public Accountants (AICPA), (as cited in Deviarti, Dewib and Sunaryo, 2013, p. 1165) defines management accounting (MA) as; “A practice that extends to strategic management, performance management and risk management.” MA is useful for planning, controlling, measuring performance, calculating profit, motivating employees, ensuring long-run competitiveness and taking better decisions, (Drury, 2008). Otley, (2009), (as cited in Fonseka, 2013, p. 1) has stated that challenges confronted by managers in complex organizations be met by implementing new cost and management accounting systems (MAS) and sophisticated MASs are central to superior organizational performance, e.g. success of Japanese companies, Kharbanda & Stallworth (1991) (as cited in Joshi, 2001, p. 86) and in focused entities in Barbados, Philmore & Diana, (2011).

Despite the referred benefits of MA, it is a puzzle to find through empirical literature evidence that the adoption of, especially contemporary/advanced management accounting practices (MAPs) by private and public organizations specially in developing countries as found by the following scholars are rather slow and low, (Abdel and McLellan, (2011, p. 2) – Egypt; Lin and Yu (2002) (as cited in Uyar, 2010, p. 114) – in developing countries; Ahmad and Leftesi, (2014, pp. 6-8) – Libya; Al-nimer, (2011, pp. 16-17) – Jordan; Joshi, (2001, p. 104) – India; McLellan and Moustafa, (2011, p. 11); in Gulf Cooperative Council Countries (GCC)); and Fonseka, 2013, p. 3 – Sri Lanka).

Meanwhile, Clarke, (1997) (as cited in Abdel and McLellan, 2011, p. 3) and Uyar, (2010); Ahmad and Leftesi, (2014); Al-nimer, (2011); Joshi, (2001); Fonseka, Manawaduge and Senaratne, (2005) (as cited in Subasinghe and Fonseka, 2008, pp. 96-97); and Fonseka, (2013, p. 3) confirm that a gap is noticed between the MA theory and its application in developing country context. Pointing the resultant climax of the adverse consequences of this phenomenon, Fonseka, (2013, pp. 2-3) has found that there is a mismatch, (resulting in a dissipation of resources organizationally, nationally and internationally) between investments made (by way of expenditure, time and energy deployed to propagate MAPs) and returns gained (as assessed in terms of their adoption, use and performance) as evident in cross sectional studies from developed and developing countries. Moreover, this author has found through a preliminary survey carried out in 2016 that even traditional MAPs are not adopted by most of the focused public institutions (PIs) in Sri Lanka.

Above phenomenon is in contrary to new institutional sociology (NIS) theoretical substantiation as, “organizations are pressurized to adhere to isomorphic mechanism and thereby, to conform to a set of institutionalized beliefs emanated from the macro environment.” Scott, (1987), (as cited in Yazdifar, Zamanb, Tsamenyi, and Askarany, 2008, pp. 406, 407). Explaining the nature of macro environmental pressure, DiMaggio and Powell (1991) (as cited in Yazdifar, Zamanb, Tsamenyi, and Askarany, 2008, pp. 406, 407) elaborate three modes of change occurring as to institutional isomorphism which is having its own antecedent as; 1) coercive, 2) mimetic and 3) normative isomorphism that lead to institutionalization, (“A process entailing the creation of reality.” Scott, (1987, p. 505) (as cited in Carpenter and Feroz, 2001, p. 569). of rules, norms and

practices etc. When investigated such organizational phenomena, it was revealed through empirical literature evidence (as discussed under the conceptualization below) that four conformity methods as, personal, procedural, categorical and structural, moderate the relationship between three institutional isomorphic pressures and institutionalization of rules, norms and practices etc. in PIs in developing country context.

This puzzlement led to this researcher's envisaging that it is problematic and worthwhile to explore and investigate this social/organizational phenomenon which would contribute to both, originality and utility as critically discussed in this paper. Adelegan, (2000); Sulaiman *et al*, (2004); Ismail, (2007); Triest and Elshahat, (2007); Kattan, *et al.*, (2007) and Billings, Capie, (2004) (as cited in Al-nimer, 2011, p. 2) have found that there are a limited number of studies conducted focusing on adoption of MAPs specially, in developing countries. Taking a case from Sri Lanka, Fonseka, (2013, p. 6), has emphatically pointed out the importance of conducting researches as to finding how and why public sector service and utility organizations do not go for management accounting systems (MAS) sophistication. Fonseka, (2013, p. 6) has stated further that since no any systematic and comprehensive research study has been carried out as to the adoption of MAPs by public sector institutions in Sri Lanka, (a developing, lower middle income country with per capita GDP in 2017 of US \$ 4,065, World Bank, Overview, Sri Lanka, (2017, p. 1), there is neither sufficient information available on the level of adoption and performance of MAPs in such institutions nor real causes for low/non-adoption of MAPs.

This research endeavour would be grounded on NIS theory considering the merits highlighted in scholarly findings by DiMaggio and Powell, (1991); Scott, (2001); Dillards, Rigsby and Goodman, (2004); (as cited in Fonseka, 2013, p. 6); and (Moll, Burns and Major, 2006, p. 187); that most of the researchers used NIS theory insight to explain how three institutional isomorphic pressures as, coercive, mimetic and normative emanated from macro environment effect institutionalization of rules, norms and practices etc. in organizations and need to conform to such external pressures as opposed to an overriding (rational-optimizing) drive for increased internal efficiency that is spelled out in new institutional economics (NIE) theory. Nevertheless, as a means of addressing the lacuna exists in NIS model, i.e. its inadequacy to explain the moderating effect exerted on the relationship between three isomorphic pressures and the institutionalization of rules, norms and practices etc. in organizations, the need has arisen to expand that model that would fill the knowledge gap.

Thus, the main research issue to be addressed by this paper and the central intellectual problem with conceptual content to be raised is: "How do the conformity methods (i.e. personal, procedural, categorical and structural) moderate the relationship between three isomorphic pressures and the institutionalization of MAPs in Public Institutions (PIs) of developing countries?" Accordingly, the main purpose of this paper is to enhance the existing model, that is spelled out in the NIS theory (as, three macro environmental pressures emanated by way of isomorphic forces result in the institutionalization of rules, norms, and practices etc. in organizations), explaining how four conformity methods moderate the relationship between the above referred independent variables (i.e. three isomorphic pressures) and the dependent variable

(i.e. the institutionalization of MAPs). In that attempt, this paper suggests exploring and investigating this organizational phenomenon drawing from the theoretical underpinning of NIS theory. The research site selected for the study is Public Institutions (PIs) in Sri Lanka of which the significance is presented below.

This study will focus on PIs in Sri Lanka considering the fact that Sri Lanka is attached to a bloated public sector (i.e. having 244 state owned enterprises (SOEs) & 837 government institutions (GIs), COPE, Parliament of Sri Lanka, Report, (2013, p. 1); which has resulted in incurring high costs (i.e. around 15% of annual budget **by 2015** - Ministry of Finance Sri Lanka, (2016) to maintain them. Bad consequence of this situation is evident by the assertions made by the World Bank, (2004, p. 1) as, “An important message of this report is that much of Sri Lanka's skewed growth record and ensuing increased income inequality, (46% between the bottom 20% (i.e. 4.8%) & the top 20% (i.e. 50.8%), Department of Census and Statistics, HIES, 2016, p. vi), spanning through alternate governments, is a reflection of the unfinished reform agenda and little progress was made in fundamentally redefining the role of the state, partly owing to Sri Lanka's strong attachment to a large public sector.” Further, as per the World Bank, (2016, p. 2), ineffective governance critically impedes the ability of the state to mobilize revenues and spend effectively owing to inter-alia, 50 percent increase in the size of the public sector in the last decade. Thus, considering the key role played by the PIs in Sri Lankan economy, it is amply justified the selection of public sector as a useful site for this study and investigation.

The remainder of this paper is structured and organized as follows. The next section sets out the literature review relating to management accounting, institutional theory, isomorphism and conformity methods. This is followed by a discussion on the conceptualization of an expanded model formulated based on the propositions derived under the third section. Finally, the fourth section presents the conclusions.

2 LITERATURE REVIEW

2.1 Management Accounting

The Institute of Management Accountants (IMA), (2008), (as cited in Deviarti, Dewib and Sunaryo, 2013, p. 1165) states, “MA is a profession that involves partnering in management decision-making, devising planning and performance management systems and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization’s strategy.”

Commenting on the role of management accountant, Devie, Tarigan and Kunto, (2008) (as cited in Sunarni, 2013, p. 618) state that the management accountant is expected to satisfy needs of the top-level management and contribute to achieving organization’s objectives. Meanwhile, Kaplan and Atkinson (1998) (as cited in Sunarni, 2013, p. 618) have stated, “Management accountants are no longer mere scorekeepers of past performance but become value adding members of management

teams.” Meanwhile, Cooper, (1996) (as cited in Sunarni 2013, p. 618) asserts, “The management accountants should be highly skilled and important members of management team.” Thus, “Management accountants today is metamorphosing from bean counters into financial and strategic managers.” Sunarni, (2013, p. 618).

Referring to the evolution of MA, Kader and Luther, (2006, pp. 229-231) quotes the International Federation of Accountant (IFAC) model of the conception showing four stages as; “stage 1- prior to 1950, the focus had been for cost determination and financial control, applying budgeting and cost accounting technologies, stage 2 – by 1965, the focus, on provision of information for management planning and control using technologies such as, decision analysis and responsibility accounting, stage 3 – by 1985, focus, on reduction of waste in resources used in business processes, using process analysis and cost management technologies, and finally, stage 4 –by 1995, attention had been shifted to the generation of value by the productive use of resources, applying technologies which examine the drivers such as, customer value, shareholder value, and organizational innovation. As the above IFAC statement further explains, those four stages are not mutually exclusive; instead, each stage is recognizable yet, the process of change from one to another has been evolutionary.”

Concerning the relevance of MA, Kaplan, (1984), (1986); Johnson & Kaplan, (1987); Cooper & Kaplan, (1991); Ashton et al., (1995) (as cited in Leftesi, 2014, p. 2); have stated that the traditional MAPs have been under criticism as being obsolete and not fitting for present day’s new manufacturing and business environment. Thus, to keep pace with such new environment, it is imperative for organizations, to adopt advanced MAPs such as, activity-based costing (ABC), just in time (JIT) technique, total quality management (TQM), life cycle assessment and target costing. (Ibid). Referring to empirical evidence in that regard, Joshi, (2001, p. 86), says that the findings on recent empirical studies in Western developed countries provide proofs that the MA has to satisfy changing needs of today’s managers to maintain its relevance to ever changing world requirements.

Meanwhile, the literature reveals that the adoption of MAPs by the firms in developed countries compared to developing countries is somewhat good; Chenhall and Langfield Smith (1998), in Australia, Abdel-Kader and Luther (2008), in the United Kingdom (as cited in, McLellan and Moustafa, 2011, p. 2-3). As per Subasinghe and Fonseka, (2008, p. 96), “Most of the multinational companies (in Sri Lanka) use most of the MA techniques and they treat the role of a management accountant as extremely important.” Further, these two scholars cite Barbara, (2004) in Australia, Michel, (2004) in France, Thomas, (2004) in United Kingdom to show that the adoption of MAPs in such developed countries is higher. Also, Subasinghe and Fonseka, (2008, p. 98) have emphatically pointed out the future potential and enhanced role to be played by management accountants for the progress of different organizations.

As shown with proofs under the introductory section, global empirical evidence also shows that especially, the adoption of advanced or contemporary MAPs in developing countries is rather

slow and low. Subasinghe and Fonseka, (2008, p. 102) have cited the following scholars as stating that the low adoption of MAPs by private firms in Sri Lanka place them at a very serious disadvantages like; low level of operating efficiency, (Karunaratne, 2007), poor treasury management resulting some other host of negative consequences. (Gunaratne, 2008).

2.2 Public Institutions

At this juncture, it is important to understand what PIs are, the research site of this study. As it is defined by Texas Health and Human Service Commission of the United State (US), (Public Institutions, Rom Glossary, 2016, p. 1) PI is a facility that is either an organizational part of a governmental entity or over which a governmental unit exercises final administrative control. In the context of the US, PI is a one which is backed through the public funds and controlled by the state. In the U.S. law, there are five major factors used (given below) by the courts to determine if an institution is a public or a private institution and whether the court has the jurisdiction in the case (see *Powe v. Miles*, 407 F.2d 73 (2d Cir. 1968)). Such explanations amply provide criteria to determine what PIs are.

- what amount of control does the state have in the governance of the institution
- what amount of state funding is used to support the institution's activities
- what amount of the institution's property is owned by the state
- does the institution have tax-free status?
- is there a contract between the state and the institution?

The next section critically discusses the Institutional Theory (IT) to provide an understanding on different strands of it, to evaluate and assess its relevance to this study and to find gaps in its body of knowledge resulting to derive propositions to formulate the conceptual model of this research endeavour.

2.3 Institutional Theory

Scott, (2014) (as cited in Hall and Scott, 2016, p. 2) has stated that institutional theory and analysis addresses the processes by which social structures, including normative as well as behavioral systems, maintain stability or undergo changes over time. Further, there is growing agreement that institutional structures consist of three elements that are reported to be contributed to the construction, maintenance, and change of institutions through: regulative elements, normative elements, and cultural-cognitive elements. Scott, (2014) (as cited in Hall and Scott, 2016, p. 2) has further stated that those three elements are referred to as the 'three-pillars' of institutional theory. Regulative elements are the "rule-setting, monitoring and sanctioning activities designed to establish and reinforce arenas of control". These elements create a system of rules with sanctions that reward conformity and penalize non-compliance to influence future behavior. Normative elements introduce a "prescriptive, evaluative, and obligatory dimension into

social life.” Also, normative systems include aspects of values and norms that in turn include the desire to behave ‘appropriately’ in any given situation, depending on one’s role obligations. On the other hand, Cultural-cognitive elements are defined to be as the shared conceptions which constitute the nature of social reality and create the frames through which meaning is made. In addition, Hofstede et al., (1991) and Scott, (2012) (as cited in Hall and Scott, 2016, p. 2) have explained cultural- cognitive elements represent both the cultural elements (i.e. the shared beliefs within a community) and their linkage to cognitive patterns of thinking, feeling, and acting. These three pillars are analytic constructs that seldom occur in isolation. Institutions are comprised of multiple elements and when those elements align, they produce lasting social systems.

Moll, Burns and Major, (2006, p. 184), have stated that the branches of IT to date have exerted most influence on accounting research. Lawrence and Shadnam, (2008, pp. 2288-2289) have pointed out that IT framework is recognized for analyzing social, especially organizational, phenomena and it views the social world as significantly comprised of institutions – enduring rules, practices and structures. Also, they have pointed out that institutions are to be conditioned by action since departures from them are automatically counter-acted by social controls which make such deviation from the social order costly. These controls associate non-conformity with increased costs through an increase in risk, greater cognitive demands, or a reduction in resources that accompany it. Meanwhile, Moll, Burns and Major, (2006), have further asserted that IT has become a popular choice for accounting studies that seek to understand legitimacy, (which is as per Aier and Weiss, 2012., p. 1081) ‘a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed systems of norms, values, beliefs and definitions’) why and how accounting becomes what it is/not. DiMaggio and Powell, (1991), Maki et al., (1993), Lowndes, (1996), Scott, (2001) (as cited in Moll, Burns and Major, (2006, pp. 184-188), have pointed out that there are three main strands of IT as, old institutional economics (OIE) theory, new institutional economic (NIE) theory and new institutional sociology (NIS) theory that could be utilized as theoretical lens to be based for a research endeavors of the referred nature. Moll, Burns and Major, (2006, p. 184) state, in concentrating on those three branches of IT, three caveats ought to be stated here as; 1) three institutional approaches highlighted in this report comprise either economic or sociological theories, not ‘accounting theory’ as such., 2) while there are indeed key differences between them, all three approaches share a concern that ‘institutions matter’, although there are differences in respective definitions of an institution, and 3) there are no major implicit signals in the ordering by which three approaches are presented. With the above introductory remarks, given below are a brief critical assessment of the relevance and the usefulness of those three different strands of IT for especially accounting related researches, which is of paramount importance for this study.

2.4 New Institutional Economics Theory

The NIE elaborates an organization’s institutional arrangements and structural setting by using economic and rationality reasoning. Further, it explains the way institutional arrangements and structural settings impact organizational efficiency, by which opportunity and self-interest

behavior can emerge among economic actors. Kherallah and Kirsten, (2001) and Scapens, (2006) (as cited in Mbelwa, (2015, pp. 38-39). Considering the facts such as; explaining of cost-benefit relation in respect of the institutionalization of practices and ignoring of the macro-environmental factors in that regard, NIE is an unlikely candidate to theorize about the adoption of MAPs by PIs of developing countries which are the key aspects of this study.

2.5 Old Institutional Economics Theory

The OIE explains why particular types of economic behavior emerge among the organization's actors, and, show the same root internal organization institutions shape actors to behave the way they do in organizational form and process, Scapens, (2006) (as cited in Mbelwa, 2015, pp. 39-40). Moll, Burns and Major, (2006, 184-185) add that this theory considers why/how particular behaviors/structures emerge, sustain and/or change overtime rather than merely what structures exist at any given point in time. Since this theory explains an evolutionary process as to the institutionalization of rules, norms and practices etc. within an organization, again, and non-consideration of macro-environmental factors in that regard which is the focal area of this study, the OIE too is not a fitting candidate to ground this study on it.

2.6 New Institutional Sociology Theory

Meyer and Rowan, (1977); DiMaggio and Powell, (1983); and Scott, (1998) (as cited in Mbelwa, 2015, p. 40), have pointed out that theorists in neo-institutionalism argue that, organizational behavior results not only from intra-institutional pressures but also from the external environmental pressure. Scott (1998) (as cited in Mbelwa, 2015, p. 40) argues that environmental pressures that make an organization conforms to social and cultural demands are key to institutional theory. Initial formulation of the NIS theory postulated that organizations and their actors respond to environmental pressures to retain their legitimacy and survival prospects, not necessarily for organizational efficiency. The idea behind this is that the early NIS formulation treated legitimacy and efficiency as dichotomous elements rather than integrated aspects which are both needed for the survival of the public sector organizations. The later formulation of NIS states that institutional pressure emanated from the macro environment can result in both legitimacy and efficiency, that these aspects are treated as intertwined aspects which can emerge to be the reasons behind the actors' behaviors and actions towards the organization's form and process, Collier, (2001); Modell, (2001); Mkasiwa, (2011); Mzenzi, (2013) (as cited in Mbelwa, 2015, p. 40).

DiMaggio and Powell, (1991); and Scott, (2001) (as cited in Moll, Burns and Major, 2006, p. 186), have explained that NIS has emerged out of opposition to the dominant rational-actor behavior explained by NIE. These scholars further assert that it is a strand within the organizational studies which has probably had influenced mostly on recent accounting research.

Further, these scholars have pointed out that scholars use NIS theory discourse to clarify how three macro environmental institutional/isomorphic pressures as, coercive, mimetic and normative (which are explained below) exert pressure in respect of the institutionalization of rules, norms and practices etc. mainly to gain legitimacy as opposed to an overriding (rational-optimizing) drive for increased internal efficiency, spelled out in NIE.

Drawing the attention towards negative aspects of NIS, Yazdifar, Zamanb, Tsamenyi, and Askarany, (2008, p. 407), having cited several scholars as appended below, state that despite its current vogue in organizational analyses, NIS is laden with some key deficiencies as; first, criticism over its deterministic nature and neglecting of the role of active agencies and micro-level issues of power and interest, Carmona et al., (1998), second, the assumption that practices formulated to gain external legitimacy are only symbolic which always being manipulated through adherence to decoupling from internal operating systems has been seriously questioned among scholarly circles, Abernethy and Chua, (1996); Carruthers, (1995); Mouritsen, (1994); Zucker, (1987), and third, NIS focuses on change at an extra-organizational level and does not consider the path of change in the organizational realm, Dillard et al., (2004).

Going by such comments, those scholars conclude that the NIS suffers from ‘inadequate consideration of the relationship between environment/institutional determinism (e.g., parent companies) and cultural and political factors within (subsidiary) organizations, and thus, NIS needs to be complemented by other perspectives, one which factors internal organizational dynamics into NIS explanation,’ DiMaggio, (1988); Fligstein, (1989); Scott, (1987); Zucker, (1988) (as cited in Yazdifar, Zamanb, Tsamenyi, and Askarany 2008, p. 407). Meanwhile, (Scott, 2005, pp. 11-12) arguing on “Toward More Interactive Models” has pointed out the necessity to supplement or replace too much early theorizing and research on institutions posited “top-down” models of social influence exerted by way of “institutional effects”, with that explores and investigates the “effects” to institutional “processes.” This scholar has shown further that theorists have begun to craft recursive models, recognizing “bottom-up” modes of influence, in line with such requirements. (Scott 1995; 2001). Moreover, in that respect, this scholar suggests to make two corrections as, 1) “We needed to recognize that institutional environments are not monolithic, but often varied and conflicted” and 2) “While recognizing that actors are institutionally constructed, it is essential to affirm their (varying) potential for reconstructing the rules, norms and beliefs that guide—but do not determine—their actions.” *Drawing from this discussion, the author argues that endeavoring to showcase an enhanced model showing moderating effect by four conformity methods to existing NIS theory discourse is amply justified.*

Yet, envisaging the most of the merits embodied with the NIS theory as pronounced by scholars in this domain, especially as to conducting a study of management accounting discipline and giving weightage on the main features of NIS theory discussed so far, the authors opted to ground this novel and enhanced theory building exercise on existing NIS theory framework and accordingly, analysis and interpretation of this study would be based on that theory.

2.7 Isomorphism

According to DiMaggio and Powell, (1983) (as cited in Moll, Burns and Major, 2006, p. 187) “Congruence between organizational arrangements and impinging (society-level) is explained through a process by which external institutions permeate internal structures and procedures, called ‘Isomorphism’. Two components of isomorphism are offered, namely; (1) competitive isomorphism, (i.e. how competitive forces drive organizations towards adopting least-cost efficient structures and practices) and (2) institutional isomorphism, (i.e. portrays such permeation, i.e. from environment to organization, as a predominantly cultural and political process.” (Ibid.)

Adding further, DiMaggio and Powell, (1983 p. 150) have identified, “Three mechanisms through which institutional isomorphic change occurs, each with its own antecedents: 1) coercive isomorphism - that results from both formal and in-formal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function; 2) mimetic isomorphism - says that not all institutional isomorphism, however, derives from coercive authority and uncertainty is also a powerful force that encourages imitation. When organizational technologies are poorly understood (March and Olsen, 1976), when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations; and 3) normative isomorphism - stems primarily from professionalization with the pressure exerted by consultants and consulting bodies demanding to adopt certain rules, norms, practices etc.”

Also, DiMaggio and Powell, (1983 p. 149) have stated “The concept that best captures the process of homogenization is isomorphism. In Haw-ley's (1968) description, isomorphism is a con-straining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.” Adding to such elaborations, Carpenter and Feroz, (2001, p. 570-572), have pointed out that the competitive isomorphism mainly relates to environs with liberalized market with stiff competition, and accordingly, it is not fitting to the analysis of public organizations.

2.8 Conformity Methods

“The basic premise of the institutional theory suggests that an organization’s tendency towards conformity with predominant norms, traditions and social influences in their internal and external environments will lead to homogeneity among organizations in their structures and practices, and that successful governments are those that gain support and legitimacy by conforming to social pressures.” Carpenter and Feroz, (2001, p. 569-570). Meyer and Rowan, (1977); DiMaggio and Powell, (1983) and Scott, (2004) (as cited in “IT and Bridging Strategies” n.d. paras 1-6) have stated that the most basic principle and distinct characteristic found in the IT is the “Conformity” and it is used to determine the legitimacy of an organization. These scholars have further stated that the concept of Conformity establishes ‘rational-myths’. That is, for an organization to be recognized and accepted as a valid one, it is expected to conform to ‘rational-myths’ as; adopting similar job titles/positions, procedures, departments and organizational roles

etc. as those of similar organizations. If there is no ‘Conformity’, no homogeneity, no resource allocation, no survival and firm will be considered as illegitimate. As per the afore-mentioned scholars, four types of conformity methods exist practically as responses to three isomorphism mechanisms as; (a) Personal conformity; many specialized roles in organizations to be filled with certified professionals as recommended by professional and professional bodies, (b) Procedural conformity; organizations are influenced to do certain things in certain ways as; introducing standard operating procedures (SOP), adopting total quality management (TQM), program evaluation review technique (PERT) etc. (c) Categorical conformity; rules serve as guidelines to pattern organizational structures which serve as ‘vocabularies of structures’; ex. university departments, job positions and roles and finally; (d) Structural conformity; firms adopting specific structures and hiring people such as, Safety Officers, Affirmative Action Groups etc. from successful firms/consultants. DiMaggio and Powell, (1983), (as cited in “IT and Bridging Strategies” n.d. paras 1-6,) *have stated that these conformity methods are especially applicable to Western, developed countries that implies the idea that the application of Conformity Methods “is dependent on the advancement of the economy concerned”.*

3 CONCEPTUALIZATIONS

3.1 Isomorphic Pressures and Institutionalization of Management Accounting Practices

In the overall context of NIS theory framework and in line with the foregoing discussion on literature findings, the authors postulate that three elements of institutional isomorphism namely, Coercive, Mimetic and Normative result in institutionalization of rules, norms and practices etc. in organizations. Based on that, it gives rise to the first Proposition as follows.

Proposition 01: Isomorphic pressures as; Coercive, Mimetic and Normative, positively influence the institutionalization of MAPs in organizations.

Based on referred literature and drawing from the first Proposition, the researchers have formulated the Conceptual Model as delineated in the Figure 1 below which also, demonstrates that such relationship is being moderated by four Conformity Methods as explained and argued underneath leading to the derivation of Propositions 2 – 5 as appended below.

3.2 Moderating Effects of Conformity Methods on Relationship between Isomorphic Pressures and Institutionalization of Management Accounting Practices

As already explained under the foregoing literature review, i.e., in the discussion of conformity methods, the noted scholars have identified ‘Conformity’ as the most prime and distinct characteristic in the institutional theory, which is of four types as; (a) personal conformity; (b) procedural conformity; (c) categorical conformity; and (d) structural conformity, which are means of responding to isomorphic pressures emanated from macro environment). Meyer and Rowan, (1977); DiMaggio and Powell, (1983) (as cited in “Institutional Theory and Bridging

strategies” n.d. para 1), have pointed out that Isomorphism is the master bridging process in institutional environments: that occurs through the incorporation of institutional rules norms and practices etc., within particular organizational structures, through which they become more homogeneous, more similar in structure, as time goes on,” (*basically within particularly identified institutional environment and context* - Scot, 2004 p. 209).

Adding to the scholarly findings critically discussed under the literature review, it was found as Knetter, (1989) revealing in (“Institutional Theory”, Anon., n.d. para. 8) that *there is quite enough evidence proving that organizations in different natures of economies react quite differently to challenges of isomorphism pressures*. This is well supported by the assertion made by Lin and Yu (2002) (as cited in Uyar 2010, p. 114) as,”application of management accounting in less developed countries remains unsatisfactory and studies on this area are rare in the literature, and *this may be due to the relatively under-developed status of economic and business administration in less developed countries*”. Authors at this point too argue that *the application of ‘Conformity Methods’ that were subjected to this discussion is dependent up on the advancement of the economic status of the country concerned*. In line with that, Oliver, (1991) (as cited in Aier and Weiss, 2012, pp. 1076-1078) have found that while some may follow institutional pressures almost blindly, *some others will perceive it all as constraining (as it actually is) and unnecessary evil, thus, trying to defy and manipulate respective endeavours giving five types of response strategies* as, That is, (1) Acquiesce; least resisting form of responding to new requirements as, basically resemble blind adherence to new propositions, albeit in different ways such as; habit, imitate and comply, (2) Compromise; while still being in the spirit of conforming to and accommodating (new) corporate demands, organizational units following this strategy are more active in promoting their own interests by employing tactics such as, balancing, pacifying and bargaining, (3) Avoid; this strategy aims at circumventing the conditions that make conforming behaviour necessary adhering to tactics of concealing, buffering or escaping, (4) Defy; defiance does not try to cover up anything and it is more active as well as unequivocal form of resistance to imposed processes applying three corresponding tactics as, dismissal, challenge and attack, and (5) Manipulate; this strategy aims at actively altering, re-creating or controlling imposed content or the power exerting institutions through co-opting, influencing of controlling tactics. When drawn attention to further comments made by DiMaggio, (1988); Fligstein, (1989); Scott, (1987); Zucker, (1988) (as cited in Yazdifar, Zamanb, Tsamenyi, and Askarany, 2008, p. 407) *NIS suffers from inadequate consideration of the relationship between environment/institutional determinism (e.g., parent companies) and cultural and political factors within (subsidiary) organizations*. Going by such, these scholars have further recommended that *NIS, thus needs to be complemented by other perspectives that have been presented under the section 2.6 above*.

Drawing from the above scholarly findings, it is argued and postulated that in one hand, three institutional isomorphic pressures do not directly result in institutionalization of rules, norms and practices by organizations (*i.e. which is in contrary to NIS theory discourse*) and on the other hand, four conformity methods discussed above are applicable contextually, i.e. depends on the level of advancement of the economy of the country concerned and such situation directly impacts on such institutionalization process. Therefore, this discussion and the intellectual analysis lead to

the conclusion that the relationship between the above antecedent of, three isomorphic pressures and the consequent of, institutionalization of MAPs in organizations/Pis is moderated by the aforementioned four conformity methods. Drawing from this, the following propositions sum up the implications of such critical discussion and the argument presented.

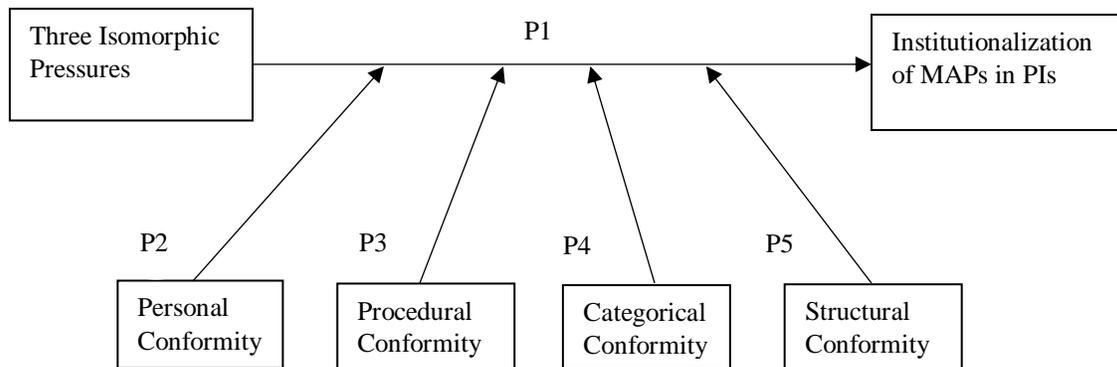
Proposition 2: Personal conformity method moderates the relationship between three isomorphic pressures and the institutionalization of MAPs in Pis of developing countries.

Proposition 3: Procedural conformity method moderates the relationship between three isomorphic pressures and the institutionalization of MAPs in Pis of developing countries.

Proposition 4: Categorical conformity method moderates the relationship between three isomorphic pressures and the institutionalization of MAPs in Pis of developing countries.

Proposition 5: Structural conformity method moderates the relationship between three isomorphic pressures and the institutionalization of MAPs in Pis of developing countries.

Figure 1: Conceptual Model of the Study



Source: Author

4 CONCLUSIONS

Despite the invaluable benefits and advantages provided by the adoption of MAPs leading to the progress of the organizations, empirical literature evidence provided in this report proves that the adoption of MAPs by the PIs in developing countries, is rather slow and low. Based on in-depth literature survey, specially, on NIS and MA domains as well as empirical evidence accumulated through literature review on all the other aspects discussed in above, this paper posits that four conformity methods moderate the presumed relationship between three isomorphic pressures and institutionalization of rules, norms, practices etc. which is spelled out in the NIS theory discourse. Also, through the literature survey it was revealed that this weird but interesting phenomenon to be studied and investigated is an “unexplained” and needs to be addressed intellectually.

Accordingly, the authors presume that with the proposal to enhance the existing model of NIS theory as depicted in the foregoing Conceptual Model, this study will shed more light on existing body of knowledge of the focused theoretical domain providing an alternative perspective regarding the practical application of three isomorphic pressures exerted by macro environment on organizations. Finally, a new direction, i.e., to test this enhanced model empirically, is proposed which in turn would lead to the provision of promising avenues for further development of both, the NIS theory and the empirical research domain of MA.

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