Human agency in management accounting change
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2 Institutional theory

2.1 Introduction

The introduction to this thesis argued that the stage is set for a research approach that explicitly recognises the social rooting of management accounting practice. As such, a wide variety of theoretical efforts come into play, as many writers have recently explored the role of accounting in its social environment. This thesis draws on institutional theories as explanatory devices for management accounting changes at the Rabobank, as these allow for a view of accounting as socially embedded practice.

Although institutions cannot be uniquely defined, for this purpose the definition could be: ‘a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people’ (see Scapens, 1994). However, choosing a definition remains rather arbitrary, as different meanings reflect many different approaches to institutional theory (Mäki, 1993, p. 3; DiMaggio & Powell, 1991, p. 1). New Institutional Economics (NIE) differentiates itself most from other approaches as it retains a notion of bounded rationality and it assumes (limited) economic optimisation ‘through economising on transaction costs’ (Scapens, 1994, p. 308). Moreover, some applications of NIE assume a degree of opportunism that affects the behaviour of the actor. Whereas New Institutional Economics uses the concept of institutions in relation to transaction costs, Old Institutional Economics (OIE) emphasises the enabling and constraining qualities of institutions. It assumes considerable uncertainty in the range of alternatives available to agents and in the possibility that agents can evaluate these alternatives in time. In this sense, OIE challenges the assumption of rationality found in neo-classical economics. New Institutional Sociology (NIS) also deals with institutions, but it treats them largely as a given. Moreover, the processes of institutionalisation over time are not well developed by NIS. Instead, its focus is primarily on how and why firms conform to institutionalised beliefs in society. While institutions are an integral part of organisational life in the view proposed by OIE, the view held by NIS treats institutions as largely exogenous to the firm.

This range of views on institutionalism is bound to give rise to questions regarding the differences between them. What are the properties of the different views? How do they differ? How can they best be applied? And how do they relate to each other? And most importantly to this thesis: how do these strands of institutional theory help us to understand processes of management accounting change? In order to assess the usefulness of the different strands of institutional theory for a study on management accounting change, one needs to confront their properties and assumptions. The next section will describe some of the properties of the three strands of institutional theory addressed here: New Institutional Economics, New Institutional Sociology and Old Institutional Economics. The purpose to this thesis is to clarify the properties and assumptions of the
various institutional theories so that the most appropriate theories can be selected for the research question that was posed in chapter 1.

2.2 New Institutional Economics

New Institutional Economics (NIE) is known from many different strands of theory. Agency theory, Game theory, Transaction Cost Theory and Public Choice processes of e.g. rent seeking are all parts of the strand of New Institutional Economic theory. This section discusses Transaction Cost Economics (TCE). The early pioneers of the transaction cost reasoning (originating in the work of Coase, 1937) were especially interested in the boundaries of the firm, an issue that was later reformulated into the make-or-buy decisions (Williamson & Ouchi, 1981, p. 348). Transaction cost economics (TCE) exists in many variants, but the variant promoted by Oliver Williamson has received the most widespread application (Ghoshal & Moran, 1996, p. 16). It is regarded as a response to the stringent assumptions made by neo-classical economics (Van der Meer-Kooistra & Vosselman, 2000, p. 54). TCE makes use of transactions and their associated costs as the primary unit of analysis (Williamson, 1998, p. 36). TCE is essentially a theory of coordination of transactions between and within business organisations. It assumes that organisations incur costs of transactions, such as costs of contracts, supervision costs, costs associated with opportunistic behaviour, and costs associated with specific assets (in particular those that are not easily used for different transactions). TCE argues that firms will select the governance structure that minimises the costs of effecting a transaction. Markets, firms, common law and regulations all provide alternative forms of governance (Palay, 1985, p. 156). Williamson (1973) proposed that depending on a number of general dimensions of transactions, different modes of contracting exist (through the market or through the hierarchy or through an intermediate form referred to as “obligational market contracting”).

Transaction costs are costs that are usually ignored in standard economic theory, but play an important role in TCE. But, similar to neo-classical theories, NIE appeals to the idea of optimisation. As Hira & Hira state: ‘rather than seeking to replace neoclassical economics, the new institutionalists wish only to modify the rational choice, utility-based neoclassical model by relaxing some of its assumptions. The new institutionalism focuses on the central assumption of zero transactions costs in neoclassical economic models as the main gap to be filled’ (2000, p. 269). Williamson notes that ‘many would-be theories of economic organization are primarily retrospective, in that they offer an ex post explanation of what has transpired’, but that ‘sooner or later, candidate theories of economic organization must go beyond ex post rationalization and offer predictions’ (1998, p. 35, emphasis in original). His ultimate goal is to predict beforehand which structure decision makers will choose, given the dimensions of the transactions. One of the most attractive features of New Institutional Economics is its ability to generalise
human qualities. It ‘is attractive in the sense that rational choice perspectives seem to allow for a “universalization” of individuals’ political actions, just as a market-based model allows for the aggregation of individuals’ economic behaviour’ (Hira & Hira, 2000, p. 268).

Below, I will describe five features embedded in TCE reasoning that are critical to the functioning of the theory. They are thus partly responsible for the focus of the theoretical ideas. Moreover, the section below will address a potential problem with TCE that reduces the usefulness of TCE reasoning for this thesis.

2.2.1 Critical features in TCE

This section is divided in four sub-sections. The first sub-section will briefly discuss the three dimensions of transacting conditions, distinguished by TCE. Then the next two sub-sections explain the two behavioural assumptions of opportunism and bounded rationality; both of which create the need for elaborate contracting. And finally, the fourth sub-section addresses a problem with TCE: its ‘invisible hand’ approach (Langlois, 1989), meaning that it perceives the drive for efficiency as an inherent feature of institutions, without providing an explanation for the emergence of these institutions. This lack of attention for the emergence of institutions will constitute the argument why TCE is not the most appropriate theory for this thesis.

Dimensions of transacting conditions

Williamson identifies three critical dimensions that describe transactions, and thus influence the choice for a particular governance structure: the frequency with which transactions recur, the uncertainty (disturbances) to which the transactions are subject, and the condition of asset specificity (Williamson, 1998, p. 36). The frequency of transacting is the number of times that a transaction takes place within a given amount of time. Uncertainty results from the inability to predict events in the environment. And finally, asset specificity relates to the specificity of organisational assets involved in specific transactions; e.g., specific investments or particular technologies. Asset specificity describes that assets are part of specific contractual relationships, from which they cannot be released or they can only be released at a cost. Asset specificity is especially important, as it formulates a condition of mutual dependency. It takes a variety of forms, among which are site specificity—e.g. stations located closely together to facilitate transacting; physical asset specificity—e.g. specialised production equipment; human asset specificity that arises from learning; and dedicated assets that are purchased for specific customers (Williamson, 1985, pp. 95-96). Williamson (1985, 1997, 1998) argues that the combination of these three dimensions (frequency, uncertainty and asset specificity) determine for a very large part the optimal governance structure; i.e. transactions can be effectuated through the market, or through the internal organisation, or through an
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intermediate form. TCE uses two behavioural assumptions that allow TCE theorists to make inferences on the selection of a governance structure: opportunism and bounded rationality. These will be discussed next.

Opportunism
Opportunism refers to a more sophisticated form of self-interest seeking, namely self-interest seeking with guile. ‘Opportunism suggests calculating behaviour more sophisticated than the usual assumption of simple self-interest. Opportunism refers to “making false or empty, that is, self-disbelieved threats or promises,” cutting corners for undisclosed personal advantage, covering up tracks, and the like’ (Williamson & Ouchi, 1981, p. 351). The assumption of opportunism dictates more sophisticated calculating behaviour of the actor than assumed in neo-classical theories. TCE argues that the presence of opportunism in itself is not a problem per se; it is the combination of opportunistic behaviour and bounded rationality (see next sub-section) that creates the need for elaborate contracts. The basic idea of transaction cost theories boils down to the following: A situation where individuals have the propensity to behave opportunistically on the one hand, and the individual property of bounded rationality on the other. In this situation, the task is to organise transactions that will economise on bounded rationality ‘while simultaneous safeguarding those transactions against the hazards of opportunism’ (Williamson & Ouchi, 1981, p. 351). As Williamson assumes that agents are looking for personal gain (opportunism), contracts need to be drawn up to attempt to minimise this opportunism. The costs associated with these contracts are an example of transaction costs. In Williamson’s (1985) view, contracts enforce legal rights ex post. However, organisations can also employ other means, such as specific investments to demonstrate “credible commitments”. These “credible commitments” signal to the other party that the organisation intends to honour the agreements as it has a clearly visible interest in its outcomes. For example, an investment in a specific asset places the organisation in a position in which it has an interest in honouring the contracts. As such, it provides information on the probability that it would engage in acts of opportunism. Williamson discusses this notion of “credible commitments” particularly in relation to intermediate structures, which are located between discrete market contracting on the one extreme and hierarchical organisation on the other (1985, p. 163).

It is important to note that given the overall aim of economising on transaction costs, the assumptions of opportunism and bounded rationality are essential to the functioning of the model. Therefore, the next section will explore the notion of bounded rationality somewhat further.

Bounded rationality
Bounded rationality is an assumption that attributes qualities such as the propensity to optimise on a (limited) number of different alternatives. It assumes more moderate qualities than the neo-classical agent, who is assumed to maximise based on a superhuman ability to assess all available alternatives. Bounded rationality allows for an imperfect
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ability to assess all alternatives. Therefore, individuals do not maximise, but only optimise with the information at their disposal. Indeed, Williamson states that bounded rationality ‘is behavior that is intendedly rational but only limitedly so’ (1997, p. 22; 1998, p. 30). This means that all complex contracts are unavoidably incomplete.

The notion of boundedly rational behaviour is not particularly problematic when the original objectives of TCE are considered. TCE was developed as a positive theory to explain the boundaries of the firm. Specifically, this positive theory set out to explore why firms exist and continue to exist in competitive markets. However, more recently, it has been extended to explain behaviour within firms (Ghoshal & Moran, 1996, p. 16). This constitutes of a problem as the prediction and explanation of organisational behaviour is relatively different from that of individual behaviour. When studying firm behaviour as a whole, only basic assumptions of individual rationality may suffice, as one does not seek explanations of individual behaviour. In other words, the explanandum is on a different level to that of individual behaviour. ‘Economics does not seek to explain individual behaviour per se, an undertaking that would no doubt require a picture of the agent that is quite complex and hence ‘realistic’ in any number of senses. Rather, economic theory most often uses assumptions about individual behaviour as an intermediate element in the explanation of various economic phenomena (changes in price and quantity, for example)’ (Langlois & Csontos, 1993, p. 115). Therefore, a highly abstract agent may be very well suited for the description of the behaviour of the firm, as any quality of this agent that does not purport directly to perceived firm behaviour is ignored (Curwen, 1976, p. XV).

But the notion of bounded rationality can prevent TCE to predict behaviour within organisations, as that would require a more elaborate depiction of individuals. As Argyris (1973, p. 254) observed, it is not likely that a single, isolated individual can ever reach any high degree of rationality, simply because the environment is too complex.

Bounded rationality causes imperfect ex-ante contracting, thereby introducing the need to adjust contracting as more information becomes available. However, the choice of the optimal governance structure is assumed to be a choice that is made under conditions of perfect rationality. ‘Whereas transaction cost theorists have successfully incorporated bounded rationality into their analyses of the comparative efficiency of alternative designs, there has been much less attention paid to the implications of bounded rationality at the design-selection level’ (Roberts & Greenwood, 1997, p. 351). As such, TCE is not entirely consistent in its views on human behaviour: it accepts imperfect ex-ante contracting, because of the notion of bounded rationality, but it also assumes that the agent is able to select the most appropriate governance structure for a given configuration of uncertainty, asset specificity and frequency of transacting.

A number of arguments used by TCE have attracted some criticism over the years. One category of this criticism relates to the source of the drive for efficiency. Rutherford (1989) and Langlois (1989) both question the ‘invisible hand’ approach that NIE assumes. They both argue that the assumption of an invisible process of selection, leaving
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institutions that are most efficient, can lead to a limited applicability of the ideas of NIE. Langlois puts it like this: ‘The maximisation metaphor is an extremely appealing and powerful “positive heuristic” for a theoretical structure. It is easy to use, and it provides an explanation in terms of a widely applicable set of fundamental ideas. But only in a very restricted set of situations is it in fact a substitute for looking at the actual process by which institutions come into use and are maintained over time’ (1989, p. 294; cf. similar comments made by Rutherford, 1989, p. 313). The next section will discuss two separate processes that can account for the drive for efficiency assumed by TCE. It also indicates why this drive for efficiency limits the application of TCE for this thesis.

‘Homo transaction cost economicus’ vs evolution: the source of the ‘invisible hand’
New Institutional Economics rests on either of the two following principles: the assumption of man as ‘homo transaction cost economicus’ or the evolution principle. The first principle implies that man is naturally concerned with efficiency. He would then be 'homo transaction cost economicus' (Buckley & Chapman, 1997, p. 132). This view implies that individuals can and will perceive all transaction cost minimising arrangements beforehand. The evolution principle (the second principle) argues that the market will favour the most efficient organisational form and that it will eventually drive out those that are less efficient.

The assumption of ‘homo transaction cost economicus’ is unlikely to hold as the mere ability of men to assess all alternatives beforehand has been doubted, even by TCE itself. As Dow observes: ‘Intentionality arguments collide with the transaction cost school’s emphasis on bounded rationality. If agents cannot cope with contracts featuring complex contingencies….it is doubtful that they can select in advance an efficient decision making procedure to use in adapting to future contingencies’ (1987, p. 27). Moreover, individuals prefer the energy saving properties of acting rationally, and engage in this type of behaviour routinely. This has also been remarked by Ritzer (1993, p. 35), who notes: ‘people rarely search for the best means to an end on their own. Rather, the previously discovered best possible means to innumerable ends have been institutionalized in a variety of social settings.’ Lastly, Schumpeter asserts that individuals act based on routines and habits, that are consistent with wider beliefs of what is to be considered “rational”. When knowledge and habit ‘become as firmly rooted as a railway embankment in the earth,’ individuals do not undertake much calculating action. Accordingly, ‘there is very little of conscious rationality, still less of hedonism and I [individual] egoism (Schumpeter, 1934,1961)’ (Raines & Jung, 1992, p. 113). Ultimately Schumpeter suggests that if individuals act rationally (consistent with their established ideals) it is because they have learned from experience how things are done and prefer the energy-saving feature of fixed habits of thinking. It is for these reasons that ‘homo transaction cost economicus’ may not be a viable assumption upon which to base the workings of TCE.

The evolution principle causing the drive for efficiency does not necessarily relate to the most efficient form that can be identified, but it can be limited to structural arrangements
that have actually been applied (Vosselman, 2000). As Vromen (1995, p. 60) observes: ‘Following Simon (1983), …. only a weak form of selectionism is tenable. A strong form of selectionism would hold that the most efficient form possible will of necessity be established. Weak-form selectionism entails ‘survival of the fitter’, not ‘survival of the fittest’. Evolutionary selectionism rests critically on the motive of survival. Buckley & Chapman note that ‘the only analytically robust definitions of “successful adaptation” and “betterment” are coterminous with survival itself’ (1997, p. 129). TCE is thus about the adaptation of governance structures in response to pressures for survival of the organisation. It is logical that competitive pressures play an important role in the functioning of TCE. As we assume that TCE works through a weak-form evolutionary process (Vromen, 1995) and as this implies a satisficing decision maker, it is competition that drives the need for an optimal governance structure. The level of competitive pressure determines the level of efficiency that would be perceived as minimal for the organisation. Sub-optimal intra-organisational arrangements may persist over long periods, as competitive pressures operate on whole organisations with varying intensity (Roberts & Greenwood, 1997, p. 352).

Agents at different positions in the organisation can perceive competitive pressures differently, and thus different views would be taken of the need for efficiency enhancing measures; i.e. different satisficing levels of efficiency can exist among different people depending on their position within the organisation and their outlook on the environment. The line of argument proposed by Roberts & Greenwood (1997) is that the institutional environment enables and constrains decision makers in their efforts to be as rational as possible. This is in line with the evolution principle. If one wants to explain decisions using TCE, one needs to go beyond frequency of transacting, asset specificity and uncertainty, to clarify how the institutional environment influences the pressures faced by decision makers. Williamson (1997, 1998) acknowledges the importance of the institutional environment in which the organisation operates. However, his view of the institutional environment is limited. He explicitly argues that the institutional environment consists of ‘the formal rules of the game’, especially property (polity, judiciary and bureaucracy) (Williamson, 1998, p. 26). Langlois (1989) argues that this limited view on institutions reduces the applicability of TCE outside those institutions that are typified by a drive for efficiency maximisation. He notes: ‘we have good reason to think that many processes leading to institution do not select for efficiency (that is they maximise something other than wealth or the negative of the sum of production and transaction costs)...It seems much more reasonable to look beyond the maximisation metaphor to a consideration of the actual processes involved. That an institution economises on transaction costs is an important part of the story; but it is not the whole story’ (Langlois, 1989, p. 294).

In conclusion, one can argue that in the absence of a ‘homo transaction cost economicus’, TCE assumes an institutional environment that emphasises the achieving of efficiency as primary motive for action. This is especially the case in market relations; but TCE
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provides little evidence that relations within organisations and between people are governed by the same principles. For many applications of TCE this poses no problem, as it does not seek to describe or explain relations at such a low level. But to this thesis, it does pose a problem, because here we must take into account the wider institutional environment so as to provide a richer image of management accounting change at the level of social groups and the individual.

Therefore, I will shift the focus to a set of theoretical principles that allows me to assess the effects of a wider range of externally induced preferences in the organisational setting. Transaction Cost Economics emphasises the legally sanctioned role of institutions, but institutions have a broader effect on organisations and its participants. An institution may not only constrain the action choices of agents, it can also ‘enable’ the bounded-rational agents to economize on the information processing needed for decision making’ (Aoki, 2000, p. 18). Institutions do not only constrain options, they establish the very criteria by which people discover their preferences (DiMaggio & Powell, 1991, p. 11). NIE describes processes of structural co-ordination with the purpose to affect transactions as efficiently as possible (minimising costs of transaction). As such, the following features make the TCE variant of NIE theory unsuitable for the purpose of this thesis: the provision of an explanation for the process of management accounting change at the Rabobank;

1. TCE assumes that a drive for efficiency comes either from a natural propensity of people to act as efficiently as possible or from economic (institutional) pressures. These assumptions cannot be used for this work, as it needs to explore which institutional influences exist at the cooperative Rabobank. It cannot merely assume that efficiency is driving the changes that are observed.

2. The unit of analysis of TCE is the transaction, and individual behaviours are simplified to accommodate the analysis of transactions. The current study is interested in the interactions between people before and during a process of management accounting change. For this purpose, the simplified individual will not do.

3. TCE is no process theory. By this, I mean that TCE does not describe the processes by which organisations change. Rather, it identifies an optimal governance structure for a given configuration of asset specificity, frequency of transactions and uncertainty. It does not address how the organisation arrives at the desired governance structure. This ‘how’ question is essential to this work, therefore, it cannot rely on TCE.

Furthermore, the economic rationality assumed by TCE may not hold when interactions within specific social groups are studied, since rationality is an institutional phenomenon, not a universal property of human action. As DiMaggio & Powell note: ‘the very notion of rational choice reflects modern secular rituals and myths that constitute and constrain legitimate action’ (1991, p. 10). These rituals constitute rules of acceptable means to desirable ends: ‘modern societies are filled with institutional rules which function as myths depicting various formal structures as rational means to the attainment of desirable
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ends’ (Meyer & Rowan, 1991, p. 46). These last quotes belong to the domain of New Institutional Sociology, a theory that uses a different concept of institutions and their role in society.

2.3 New Institutional Sociology

Most social analysis has been built upon two distinct models of organisational actors: the rational actor model and the institutional model (Tolbert & Zucker, 1996, p. 176; Pfeffer, 1981, p. 2). The rational actor model assumes the individual to be a rational decision maker, constantly engaged in the calculation of costs and benefits from alternatives. As such, the rational actor tries to make optimal decisions. The institutional model assumes an ‘over-socialised’ individual whose decisions are mainly influenced by prevailing social norms, and not by any reflection or resistance based on personal interest. This model resembles the decision model discussed by Pettigrew et al., who argue that actions can be seen as ‘politically and socially approved tokens of concern’ (1992, p. 15). Tolbert & Zucker (1996) propose that these two general models of the individual (overly rational vs. ‘over-socialised’) should not be seen as two opposing views, but rather as two ends of a continuum of decision-making processes and behaviours. They note that what is needed ‘are theories of when rationality is likely to be more or less bounded’ (p. 176, emphasis in original).

New Institutional Sociology (NIS) addresses the behaviour of organisations as motivated by forces in wider society. It argues that organisations will seek legitimacy by adhering to rules and norms that are valued by society and, more specifically, by certain institutions in society. The mechanism through which organisations adopt similar procedures is termed institutional isomorphism. Isomorphism is ‘a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions’ (DiMaggio & Powell, 1983, p. 149). Early NIS theorists sought to explain how different organisations in many respects conformed to similar standards of behaviour and how they employed similar structures. Moreover, they sought to explain the stability in these standards of behaviour and organisational structures.

2.3.1 Institutional isomorphism

Hannan & Freeman (1977) note that early views of isomorphism (such as those discussed by Hawley, 1968) argue that distinguishable differences in environmental features tend to lead to different optimal organisational structures and practices. As a result, one can find similar organisational configurations in similar environments. The earlier ideas on isomorphism regarded the environment as static and homogeneous. But Hannan & Freeman suggested significant extensions to these views, which provided more clarity on the processes of competition that drive organisations to adopt ‘optimal’ organisational
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configurations. Furthermore, they propose refinements that suggest that organisations face competing demands from various and changing environments. Nevertheless, Hannan & Freeman (1977) continued to assume a system of rationality, which encompasses measures of economic fitness and market competition (DiMaggio & Powell, 1983, pp. 149-150). They were primarily interested in competitive isomorphism, which is mostly concerned with organisational adaptation as a result of competitive pressures. DiMaggio & Powell (1983, 1991) were primarily interested in institutional isomorphism. Institutional isomorphism is the domain of NIS theory. Institutional isomorphism emphasises that organisations do not only compete for resources, but also for political influence and institutional legitimacy. It points to the influence of political power and ceremonies that are aimed at increasing legitimacy of the organisation (cf. Meyer & Rowan, 1991).

Meyer & Rowan (1991) argue that, as large rationalised organisations expand their dominance over other domains of social life, organisational structures have come to reflect these rationalised and institutionalised rules of society. Berger and Luckmann have asserted that society imposes an objectified reality upon individuals, based on these institutionalised rules. ‘All institutions appear in the same way, as given, unalterable and self-evident’ (1979, p. 77). They appear as undeniable facts, although institutions are human made. Individuals are confronted with an objective structure of facts presented to them on a day-to-day basis (cf. Weber, 1976, pp. 54-55). The rules of society are presented to the individual as unchangeable objective facts and the application of these rules is a routine matter, according to the established norms of rationality. ‘The rational thought process spreads and becomes ingrained in the decision making process. If this accurately describes economic action, rational behavior is a learned response rather than innate, organic behavior’ (Raines & Jung, 1992). Weber argued that ‘market behavior is influenced by rational purposeful pursuit of interests. The partner to a transaction is expected to behave according to rational legality and, quite particularly, to respect the formal inviolability of a promise once given’ (1968, p. 636). Especially in Western society, where it gets increasingly difficult to pinpoint the boundaries of the market sphere (‘Rational administration pushes out nonbureaucratic forms, schools assume the structure of the workplace, hospital and university administrations come to resemble the management of for-profit firms, and the modernization of the world economy proceeds unabated’ (DiMaggio & Powell, 1991, p. 78)), it is this manner of providing reasons for actions that has gained moral superiority similar to the way that ‘economic markets place a premium on rationality and coordination’ (Meyer & Rowan, 1991, p. 42).

Rationalised institutions create myths of formal structure, which shape organizations (Meyer & Rowan, 1991, p. 51). Scott uses the example of schools to argue that ‘much of the orderliness of and coherence present in American schools is based upon institutionally defined beliefs rather than on organisational structures’ (1987, p. 506). A further example is the introduction of the case-mix accounting system in American hospitals. Covaleski et al. argue that the DRG framework and case-mix accounting are ‘practices whose principal
purpose is at once to express and demonstrate a conformity with institutionalized rules and expectations’ (1993, p. 76). Another example could be the rise of corporate training programs (Scott & Meyer, 1991) and even the act of management is an example. It provides rationalisation for the activities of the organisation to inside, as well as outside constituents, thereby increasing the illusion of control over events. ‘A preference or bias in favour of interpretations of power and personal efficacy will colour the explanations of action developed and held within organizations’ (Pfeffer, 1981, p. 4). The manager himself acts as a symbol for rationalised organisational activities and its outcomes. (Pfeffer & Salancik, 1978, p. 16; see: Söderlund & Vilgon, 1993).

DiMaggio & Powell (1983) distinguish three mechanisms of institutional isomorphic change: Coercive isomorphism, Mimetic isomorphism, and Normative isomorphism. These three mechanisms cause organisations to become increasingly alike. Therefore, one can argue that NIS is more a theory that explains similarities amongst organisational structures than change in organisations (Greenwood & Hinings, 1996). The 3 mechanisms of institutional isomorphism will be discussed next.

Coercive Isomorphism

Coercive isomorphism relates to the formal and informal pressures that result from coercive authority. This coercive authority comes from the organisation’s dependency on other organisations and the cultural expectations in the society in which the organisation functions (DiMaggio & Powell, 1983). Organisations may alter some of their structural features quite directly as a result of changing legislation (think of stricter anti-pollution laws, employee health and safety codes and consumer laws), but they can also change more organically in response to changing societal preferences. DiMaggio & Powell (1983) and Meyer & Rowan (1991) argue that these organisational re-configurations can be in large part ceremonial, but that does not mean that they are inconsequential. Rather, they convey the message to the various stakeholders in the organisation that the organisation is responsive to the preferences of the society in which it operates. This adherence to societal preferences helps the organisation to secure economic resources, influence and power.

Mimetic Isomorphism

A second process leading to institutional isomorphism is called Mimetic Isomorphism. DiMaggio & Powell (1983) argue that uncertainty is a powerful incentive for imitation. In particular, ambiguous goals, poorly understood technologies or symbolic uncertainty may cause organisations to model themselves on other organisations. The introduction of Japanese management techniques in US firms constitutes an example of changes caused by mimetic isomorphism. American firms (and so called knowledge entrepreneurs) observed the successes of Japanese manufacturing industries and introduced their
understanding of the techniques used by the Japanese firms. In addition, DiMaggio & Powell (1983) argue that one of the reasons that organisational structures tend to be homogenous is that there are not many different organisational models to imitate. Therefore, attempts to select an organisational structure to deal with ambiguity and uncertainty are often based on similar organisational templates. The change from a functional structure to a multidivisional structure is an example.

Normative Isomorphism

The third source of isomorphic organisational change is normative isomorphism. It stems from pressures from professionalisation. DiMaggio & Powell (1983) argue that two aspects of normative isomorphism are of particular interest: (1) the grounding of formal education and of legitimation on a cognitive base produced by university specialists; and (2) the growth and influence of professional networks that allow new practices to be diffused rapidly across organisations. Universities function as knowledge centres that influence the development of professional norms and values for organisations. As such, they promote normative standards that make professionals comparable; i.e. their behaviours can be measured against these normatively determined standards. Examples are professional associations for accountants, medics and lawyers. These professionals have strong ties with their professional bodies, which determine the criteria for ‘proper’ and professional behaviour (cf. Greenwood et al., 2002). These criteria are strongly influenced by universities and professional training centres. ‘To the extent managers and key staff are drawn from the same universities and filtered on a common set of attributes, they will tend to view problems in a similar fashion, see the same policies, procedures, and structures as normatively sanctioned and legitimated, and approach decisions in much the same way’ (DiMaggio & Powell, 1991, p. 72). Normative Isomorphism related to professional managers focuses our attention on the norms and values embedded in the act of management. Managers operate in a set of roles, a web of relationships with internal and external groups and individuals. They are constrained by their own structure of reality, which is influenced by normative pressures and accepted ideas on ‘proper’ behaviour (e.g. see: Berger & Luckmann, 1979; Pettigrew et al., 1992; Javidan & Dastmalchian, 1993).

2.3.2 Decoupling

These three sources of isomorphic change (coercive authority, mimetic change to resolve uncertainty, and normative pressures) cause organisations to adopt comparable structures and practices. They compete not only for economic resources, but also for institutional legitimacy. Essentially, NIS has pointed to additional ways in which the organisation attempts to gain legitimacy, not only in economic terms (e.g., sales and profit), but also in social terms, to be seen as a contributor to society. However, the presence of institutional pressures does not mean that organisational structures are not also heavily influenced by
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technical requirements posed by the products and markets in which they operate. Therefore, a tension may build between the technical requirements and the institutional requirements posed on the organisation. Javidan & Dastmalchian (1993) have noted that ‘each of the set of stakeholders present different challenges in terms of desired behaviors, values, and attitudes’. DiMaggio & Powell (1983) and Meyer & Rowan (1991) proposed that organisations can decouple particular structural features of the organisation from its primary activities. Organisations can demonstrate compliance with norms and values in society by having structures and practices that are (partly) ceremonial, while the actual ways of working are not greatly affected. DiMaggio & Powell (1983) argue that this decoupling allows the organisation to adhere to various institutional demands, while organising its primary processes more efficiently than would be possible if it were to adhere to all institutional requirements. It must be noted that decoupling does not necessarily mean that the actual ways of working remain unaltered, while requirements from external institutions are kept at arm’s length. Siti-Nabiha & Scapens (2005) argue that decoupling can also create a (temporarily) stable organisation. This stability may then create the conditions to introduce change in the organisation. However, older views of decoupling focused on contradictory institutional pressures on the organisation that were alleviated by introducing structures and practices that were predominantly ceremonial in character.

2.3.3 NIS and changes in the management accounting system

Scott & Meyer (1991), Scott (1991) and Richardson (1987) argue that accounting can be employed to satisfy external constituents, while ‘shielding’ internal processes from too much intrusion by these external constituents. Accounting procedures, such as budgeting, serves this role when funding authorities are located outside the organisation (e.g. hospitals and public services, such as the police and fire department). Friedland & Alford (1991) argue that the accounting system introduces socially constructed categories of material action, such as “profit” or “debt”, and as such represents institutions that exist in wider society. In their view, accounting has come to constitute some of society’s preferences, and this has more consequences for the operations of the organisation, than the “accounting-for-legitimacy” view suggests. Friedland & Alford argue that “profit” and “debt” are ‘culturally and politically constructed categories whose definition changes historically with shifts in accounting policies and tax laws’ (1991, p. 245). Meyer & Rowan make a similar point when stating that ‘modern accounting creates ceremonial production functions and maps them onto economic production functions…. Monetary prices, in postindustrial society, reflect hosts of ceremonial influences, as do economic measures of efficiency, profitability, or net worth’ (1991, p. 51) In these views, changes in accounting systems stem from changes in wider societal preferences or institutions. For example, Skaerbaek (1992) argues that the introduction of a new accounting system at a theatre in Copenhagen was an attempt to introduce a form of accountability in the theatre. However, this challenged the artistic standards of the theatre, representing a potential
conflict between two sources of institutions. This example exposes both the strength and
the weakness of NIS theorising. NIS sensitises the observer to the socially constructed
nature of practices, such as accounting, and the role it plays in social interaction.
However, it also points to the emphasis on stability in NIS theory. NIS points to the forces
that lead to isomorphism, but it does not address the forces that cause institutions to
change.

NIS ‘is always in danger of forgetting that labelling a process or structure does not explain
it’ (Zucker, 1991, p. 106). It describes the general processes that can be observed from the
premise that institutional forces cause organisations to resemble each other. NIS provides
various reasons for the emergence of stable organisational configurations (legitimisation,
responses to uncertainty, professionalism); but it does not account for the unpredictable
and fluid nature of organisational change. It derives all explanations for observations from
arguments which place external institutions in the centre of the analysis. NIS depicts the
need for structural change as an inescapable consequence of institutional change. In this
view, the individual is assumed to be primarily motivated by a desire to conform to
institutional pressures. This institutional determinism (the assumption that the individual
is motivated by a desire to conform to institutional pressures) leaves NIS open to
criticism. In particular, the assumption of organisational passivity and the failure to
address strategic behaviours and conscious interventions have been criticised in the past
(Covaleski & Dirsmith, 1988; Oliver, 1991).

2.3.4 More recent developments in NIS

In the previous section, I touched upon two areas that are underdeveloped in NIS, and that
are problematic for studies of change: (1) NIS was originally a theory more concerned
with explaining stability than change; and as a consequence (2) it does not explain how
institutionally constrained actors can challenge and change those institutions. More
recently, NIS theorists have made several attempts to extend NIS theory to cope with
these problems. This section will explain these refinements.

Oliver (1991) introduced a degree of wilfulness on the part of the institutionally
constrained actors. She discusses the various strategies that an organisation can deploy in
response to institutional pressures. She therefore questions the notion of institutional
determinism, as she argues that people can make attempts to resist institutional pressures.
She proposes that institutions do not cause a course of action to be selected, but rather
they are variables in a selection process of alternative strategies, that constitute a varying
degree of active resistance to institutional pressures. Baum & Oliver (1996) combined
ecological and institutional explanations for organisational action to combine institutional
arguments with resource dependency arguments. The advantage of this view is that it
allows the combination of institutional pressures and also purposeful economic action,
while earlier NIS theories largely ignored this type of action. Oliver (1992) sketched the
2. Institutional theory

outlines of a theory that addresses the way in which institutionally constrained people are able to bring about institutional change. She focused on the determinants of institutional erosion, dissipation and rejection. Instead of NIS’s emphasis on cultural persistence, she studied the factors that affect deinstitutionalisation, and thus she created the outlines of a theory based on NIS, which can explain change as opposed to NIS’s earlier focus on stability.

Greenwood & Hinings (1996) built further on the work of Oliver (1992). They proposed a framework of radical change, in which they bridge NIS and OIE. They model organisational change as a series of processes that are influenced by the institutional context. As such, they introduced a view that perceives organisational change as a complex process that is not only affected by institutional pressures, but also by the rationality of the market context in which firms operate. Similar to Baum & Oliver (1996), Greenwood & Hinings proposed that institutional pressures do not prevent actors from acting reflectively, but rather that change consists of a web of different processes that affect the outcomes of change. Siti-Nabiha & Scapens (2005) presented a theoretical framework that retains an OIE perspective, but also addresses issues that used to belong to the NIS domain such as decoupling. They did so by addressing the processes of change, focusing on both internal and external institutional influences. Roberts & Greenwood (1997) also used a processual view, but they proposed a combination of NIS and NIE. They used the foundations of NIE, consisting of the notion of comparative-efficiency in design selection as a starting point. This type of design selection means that an organisational design will be adopted based on the expected improvements it will bring to the efficiency of the organisation. Roberts & Greenwood (1997) adapted this view to include institutional pressures and constraints that influence this selection process. However, contrary to Greenwood & Hinings (1996), Roberts & Greenwood (1997) do not address the process of change, but rather the selection of change.

The early NIS pioneers discussed institutions primarily in terms of stable organisational structures that reflect institutionalised beliefs about legitimate and rational processes and structures. As Oliver notes: ‘the emphasis in the institutional literature on legitimation processes, organisational conformity and enduring organisational change has tended to preclude inquiry into the factors that cause organisations to challenge, discard or abandon legitimated or institutionalised organisational practices’ (1992, p. 564). Since then, different authors have tried to expand NIS to include explanations of change. The authors discussed here have in common that they attempted to introduce a processual view of institutional change. Oliver (1992) and Greenwood & Hinings (1996) studied the processes of institutional change using a theoretical framework that is grounded in NIS reasoning, but that also includes insights from OIE. Roberts & Greenwood (1997) combine insights from NIS and NIE to provide a processual view of organisational design selection.
2. Institutional theory

However, these efforts have not addressed the position of individuals in these processes or the effects of institutions on the actions of individuals. The frameworks discussed here remain quite impersonal, as they do not address the link between individual action and the wider institutional environment, nor do they clarify the role of the individual in institutional change. The later NIS inspired articles have provided some valuable insights in the process of institutional change, and the work of Greenwood & Hinings is particularly interesting as it studied the dynamics of institutional change by combining viewpoints from NIS and OIE. Whereas NIS emphasised persistence, OIE uses changes in social entities as a starting point. Therefore, the next section will discuss the principles of OIE in more detail.

2.4 Old Institutional Economics

This section addresses Old Institutional Economics (OIE). This ‘theory’ emerged early in the twentieth century, and is the oldest theory of the three discussed in this chapter. OIE grew out of dissatisfaction with existing economic theory. Its proponents, such as Veblen, Ayrens and Commons, were critical about the assumptions of mainstream economics. In particular, assumptions relating to the presumed rationality of economic actors and the concept of equilibrium conditions are challenged by OIE. OIE theorising revolves around common beliefs, norms and values that bind together action patterns. As such it provides additional explanations for human action, apart from those proposed by ‘traditional’ economics.

OIE is not a clearly delineated theory. Rather, it is a collection of ideas that Hodgson (2000, p. 318) describes as following:

(1) Although institutional economists are keen to give their theories practical relevance, institutionalism itself is not defined in terms of any policy proposals.
(2) Institutionalism makes extensive use of ideas and data from other disciplines, such as psychology, sociology and anthropology in order to develop a richer analysis of institutions and human behaviour.
(3) Institutions are the key elements of any economy, and thus a major task for economists is to study institutions and the processes of institutional conservation, innovation and change.
(4) The economy is an open and evolving system, situated in a natural environment, affected by technological changes, and embedded in a broader set of social, cultural, political and power relationships.
(5) The notion of individual agents as utility-maximising is regarded as inadequate or erroneous. Institutionalism does not take the individual as given. Individuals are affected by their institutional and cultural situations. Hence individuals do not simply (intentionally or unintentionally) create
institutions. Through “reconstitutive downward causation” (Hodgson, 2000) institutions affect individuals in fundamental ways.

These general principles of economic action are clearly different from those belonging to ‘traditional’ economic theory. With regards to human behaviour, OIE is situated between transaction economics, that is provides an undersocialised account of human behaviour and institutional sociology that provides an over-socialised account of behaviour (Granovetter, 1985; Roberts & Greenwood, 1997). OIE maintains that human action is constrained by institutions, but it also recognises that institutions enable people to come to meaningful action. For example, Sjöstrand (1993) regards institutions as infrastructures for human action. In OIE, institutions can be either formal or informal. Formal institutions are grounded in existing procedures, manuals and formal rules. Informal institutions do not have a formalised basis, but they have rule-like status due to the perceptions that these institutionalised practices ‘have always been done that way’.

OIE emphasises that institutions appear unalterable and permanent. This is partly, because they tend to be self-reinforcing. As noted above, institutions constrain actions to those that fit the tacit assumptions that are part of the institution. Sjöstrand (1995, p. 19) argues that institutions are constituted by and reinforced through social (inter)actions. This will be explored further in chapter 10, but the point made here is that OIE recognises the self-enforcing quality of institutions. Moreover, OIE argues that institutions are not independent of the individuals that inhabit the various social settings; rather, institutions exist through behaviours of these individuals. As such, there must be some distinguishable relation between institutions and individual action. In this, OIE differs from the other approaches discussed in this chapter. Both NIE and NIS assume that institutions exist independently from individual behaviour. OIE sees individual behaviour as an integral part of the institutions that govern much of social life: ‘institutions simplify action choices; they are not separate from, but are part of, the individual (inter)actions’ (Sjöstrand, 1995, p. 21). However, although OIE recognises the relation between institutions and individual behaviour, it does not pursue a detailed explanation of this relation or the processes leading to changes in institutionally induced behaviours. Moreover, with its emphasis on the self-reinforcing qualities of institutions, OIE is not particularly sensitive to questions related to the source of change. If people perceive each other’s actions and behaviours in terms of the institutions common to their social group, how can change ever occur? In fact, I distinguish two problems related to OIE, that are relevant for this thesis. These will be shortly discussed next.

The first problem related to OIE, is that it does not provide insights into the drivers for institutional change. OIE assumes institutions to be present, but it does not clarify when people come to that conscious recognition that institutional arrangements are no longer adequate. In other words, it does not clarify when individuals come to the collective recognition that something needs to change (Seo & Creed, 2002). The second problem related to the usefulness of OIE to this thesis is that OIE as a set of theories does not
provide an explanation or detailed description of the relation between individual action and the presence of institutions. It provides an alternative to the assumption of the economically rational actor, and it outlines some of the influences on human (inter)action, other than an all-consuming desire to gain welfare or a mindless adherence to external institutional pressures. But it does not clarify how processes of institutional change proceed on a micro level. Although the focus of many OIE theorists has been on a macro-level, being concerned with organisations and societies (e.g. see Nelson & Winter, 1982, for a study of institutional change on a macro level), little is known about the impact of institutions on individuals or about how individuals are able to alter institutions.

However, in the last decade, a number of authors have used the principles of OIE to come to an explanation of institutional change. I will deal here with two of them as they are often referred to in this thesis. Barley & Tolbert (1997) argue that institutions are encoded in behavioural regularities or ‘scripts’ (‘Observable, recurrent activities and patterns of interaction characteristic of a particular setting’ (p. 98)) that are enacted in ‘the realm of action’. Actions can replicate or revise these behavioural regularities. Finally, these regularities can be externalised in the institutional realm, meaning that these behaviours are rendered independent from the particular circumstances of their conception. They have become ‘just the way things are’. Basically, Barley & Tolbert argue that institutional change can occur through alterations in behavioural regularities over time. These regularities thus constitute and are constituted by institutions. Basically, changes in scripts can cause changes in institutions. Barley & Tolbert (1997) conceptualised behavioural regularities by the notion of scripts, while Burns & Scapens (2000) have focused on rules (formal rules and procedures) and routines (actual behavioural patterns). Burns and Scapens have explicitly modelled how the interdependence between action and structure may lead to institutional change. This is depicted graphically in Figure 2-1.
Burns & Scapens argue that institutions are encoded in rules and routines\(^1\) (arrow a). These rules and routines are enacted (arrow b) and reproduced (arrow c) through actions undertaken by the individual actors. Yet through this ongoing enacting and reproduction, changes to rules and routines emerge that, under specific conditions, can be institutionalised (arrow d). Once rules and routines have been institutionalised, ‘in the absence of ‘external’ changes, such as advances in technology, or a take-over crisis, there is unlikely to be a reopening of previously agreed arrangements and therefore routines may become somewhat resistant to change’ (Burns & Scapens, 2000, p. 10). These institutional arrangements comprise the taken-for-granted assumptions that a certain pattern of behaviour is the norm for the social group of which one is part. Burns & Scapens (2000) also note that rules can affect routines in the sense that new rules can lead to an adaptation of existing routines, but the opposite is also possible. Routines can be formalised to preserve current ways of working and to facilitate the entrance of new members into the group. Although institutionalised routines are resistant to change, they

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\(^1\) Note that Barley & Tolbert (1997) argued that institutions are encoded in scripts.
2. Institutional theory

argue, change is possible. Yet, the framework does not specify how human agency takes its form. How do people organise themselves to come to coordinated action that has the potential to alter the institutional arrangements in their social setting? How does the interaction between rules and routines manifest itself to an employee in an organisation? How does the institutionalisation of rules and routines work? These are questions that relate to the role of human agency in institutional theory. Burns & Scapens (2000) offer a framework to assess the process of institutional change. But ‘the framework is offered as a starting point for researchers interested in studying management accounting change, and through such studies, the framework will be extended and refined’ (Burns & Scapens, 2000, p. 3).

So far, I have argued that OIE allows for a more comprehensive conceptualisation of the individual than NIE. OIE allows us to abandon the ‘traditional’ view of the individual. NIS emphasises legitimacy as the motivation for much human action, but this resulted in the criticism that NIS theory depends on an over-socialised individual (Granovetter, 1985). Moreover, NIS theory is primarily concerned with organisations and societies as the unit of analysis; institutions are regarded as external to organisational participants. OIE may provide a solution to these problems; however, I also identified two difficulties associated with OIE theories that are not resolved by the OIE inspired literature: (1) OIE does not provide any insights into what causes people to recognise the inadequacy of institutions; or put differently: where institutional change comes from; and (2) OIE does not provide explanations of agency in the process of institutional change; the role of individual behaviours therein.

2.4.1 The onset to change: what causes institutional change?

The first problem associated with OIE is that it does not theorise about the onset to change. It does not provide clarity about how institutionally constrained individuals can change the institutions that shape their preferences, actions and conceptions of rationality. This issue was not adequately addressed by Barley & Tolbert (1997); as Seo & Creed note: ‘they still leave an important theoretical dilemma unresolved: when and how do actors actually decide to revise behavioural scripts when their actions and thoughts are constantly constrained by the existing institutional system? In explaining institutional change, Barley and Tolbert propose, first, that a critical number of actors must make a collective, conscious choice before they can make a multilateral departure from established patterns of social reproduction (scripts) and, second, that a bigger contextual change (e.g. technological and economic shock) may be necessary before actors can make such a collective choice’ (2002, p. 224). Seo & Creed go on to argue that Barley & Tolbert do not explain where this shock comes from, nor do they clarify how the process of collective recognition and choice proceeds. The same holds for the work of Burns & Scapens (2000), who distinguish between revolutionary change (change that radically challenges existing institutions and routine ways of working) and evolutionary change.
(change that takes a rather long time, and which is shaped by a combination of random factors and organisational inertia, that can lead to resistance to the change). Revolutionary change is a significant disruption of established routines. Such change makes it necessary to establish new meanings through which to make sense of organisational activities; as such, it involves a conscious choice for change. Evolutionary change, on the other hand, does not necessarily involve choice. It is the process of change in routines that occur in response to wider institutional changes (Scapens, 1994, p. 312). But they do not discuss the process that leads up to the changes in themselves. Although these authors argue that change is path-dependent, they do not extend the consequences of this path dependency to the recognition of a need for change.

Many studies of accounting change (Burns & Scapens, 2000; Euske & Riccaboni, 1999; Ezzamel et al., 1997) argue that the traditional functional rationalist approach does not sufficiently capture the complexities involved in the process of organisational change (Scapens, 1994). But then, this literature does not focus on the timeframe that precedes the implementation of change. The conception of a need for change remains rooted in a traditional rationalistic approach. Case studies on management accounting change motivate the need for the change by referring to external pressures or simply as a demand by senior management that is considered ‘given’ (e.g. Vaivo, 1999; Ezzamel et al., 1997). The paradox that arises is: although the OIE inspired literature on management accounting change rejects the notion of rational optimising individuals when looking at the implementation of change processes, it does not do so relating to the perceived need for the change. The need for management accounting change is presented as self-evident and independent from the organisational context. The reason for the disruption of existing routines remains largely unquestioned.

Seo & Creed (2002, p. 225) argue that one of the primary causes of institutional change is what they call ‘institutional contradiction’; the ruptures and inconsistencies that emerge within established social arrangements. They argue that this institutional contradiction produces tension and potential conflict, which can shape consciousness and lead to actions to change the present order. Seo & Creed’s analysis and their use of institutional contradiction provides a useful framework for studying the conception of changes in the management accounting practices at the Rabobank. It sensitises theorists to the tensions that come to exist between and within institutions. However, Seo & Creed do not elaborate on how these ruptures and tensions materialise themselves to organisational participants, who are under their influence. Therefore, although this thesis takes the hints that are provided by Seo & Creed (2002), it needs to go beyond their pointers, and to discuss how institutional contradiction affects the people involved.
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2.4.2 Explanations for the process of change and the individual’s role therein

Attempts have been made in recent years to elaborate on the process of institutional change. Although these efforts do not necessarily qualify as OIE per se, they draw on its objections to the ‘traditional’ depiction of the individual and the use of other theories, such as sociology and psychology. Two of these efforts are particularly worth noting, as they attempt to describe the process of institutional change on the level of social groups. Barley & Tolbert (1997) and Burns & Scapens (2000) have both attempted to provide a partial solution to the first problem that was identified above (OIE’s inability to provide an account for the process of change on a micro level). They have adopted the argument that institutions constrain and enable action through behavioural regularities. These approaches will be discussed shortly here.

Seo & Creed have recognised the lack of attention for the role of human agency in OIE and frameworks inspired by OIE. They argued that institutional change can arise from agency embedded in incompatible institutional arrangements. They refer to this phenomenon as praxis. Praxis involves: ‘(1) actors’ self-awareness or critical understanding of the existing social conditions in which their needs and interests are unmet; (2) actors’ mobilization, inspired by the new, collective understanding of their social conditions and themselves; and (3) actors’ multilateral or collective action to reconstruct the existing social arrangements and themselves’ (2002, p. 230). This notion of praxis provides a more detailed understanding of human agency, but it assumes that agents are primarily motivated to act if their needs and interests are unmet (see ad. (1) above), as well as it involves an active search for alternatives (Seo & creed, 2002, pp. 230). As such, it hints at the assumption of economic optimisation that early OIE theory criticised. It represents a movement that Granovetter describes as a movement ‘from a position, earlier in the twentieth century, of drawing eclectically on several other disciplines, to a stance of building its arguments almost entirely out of neoclassical materials’ (1992, p. 3). Although the notion of praxis presents a possible explanation of the process of action that may lead to institutional change, it remains limited in that it does not address human aspirations, ambitions and desires on a micro scale. However, Seo & Creed’s discussion (2002) does direct attention to two problems associated with the OIE inspired management accounting change literature. OIE does not clarify how people come to that conscious point that they realise that action is in order and it does not explain how institutional change is presented to the institutionally constrained individual, e.g. through tensions in the actual use vs. intended use of accounting practices and systems.

Old Institutional Economics is a stream of theoretical ideas that accommodates the study of management accounting changes rather well. It allows for an eclectic approach that serves as an understanding of the processes underpinning changes in accounting systems and procedures. The practices of management accounting can be seen as the rules and routines that constitute and are constituted by the institutions present in a social setting.
As such, institutional theory in general and OIE in particular are promising for the study on the process of institutional change. However, I identified two problem areas that need resolving in order to clarify how individual behaviour is affected by institutional changes and changes in the accounting system. Both problem areas are related to the way in which human agency is possible for institutionally constrained individuals. (1) How do institutionally constrained individuals recognise a need for management accounting change and decide to act upon this need; i.e., how does the decision for intervention materialise; and (2) how do these individuals give form to institutional change; i.e. how do individuals actually intervene in particular institutions which are constituted by accounting rules and routines? Seo & Creed (2002) have recognised these issues and they have provided hints on how to address them. Their attention to human agency in institutions and their analysis of the representation of the need for institutional change is especially useful for this thesis. As such, they have started to fill in the blanks left by OIE and the management accounting change literature inspired by OIE. This thesis will discuss the theoretical issues outlined above, drawing on insights from various disciplines, with the objective to contribute to the institutional perspectives on management accounting change, that have emerged in the management accounting literature.

2.5 Discussion

This chapter has provided an overview of institutional theory. More specifically, it discussed three streams of institutional theory: New Institutional Economics (NIE), New Institutional Sociology (NIS) and Old Institutional Economics (OIE). The purpose was to clarify the focal points of the various institutional theories. NIE was identified to be closely associated to ‘traditional’ economics, in that it adopts the image of a boundedly rational individual. Moreover, NIE, in its application of Transaction Cost Economics is especially concerned with the evolution of the governance structures of organisations. As such, the cost of transacting is the unit of analysis. Moreover, Transaction Cost Economics does not describe or explain processes of organisational adaptation. Rather, it identifies optimal future states of the organisation’s governance structure under specific conditions. These considerations make NIE an unlikely candidate to theorise about the process of institutional change. NIS does not employ a process view either. It regards individual behaviour as primarily governed by external institutions and driven by a desire to increase the legitimacy of oneself and the organisation in which one works. Although NIS may explain the emergence of practices such as Activity Based Costing and the Balanced Scorecard, by referring to the acceptance of these practices by the wider business community as legitimate and desirable, it does not describe how the process of implementation of new practices proceeds. NIS therefore focuses more on organisational responses to wider institutional pressures, and as such its view of the individual may be regarded as deterministic (in that human actions are primarily dictated by the presence of institutions). OIE is not a theory in itself, but a set of principles that allow for eclecticism. As a result, theories inspired by OIE can be sophisticated with regards to the qualities of
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the individual. OIE has inspired a number of theorists to apply the notion of institutions, as discussed by OIE, to processes of organisational change. Barley & Tolbert (1997), Burns & Scapens (2000), Seo & Creed (2002) and Phillips et al. (2004) have attempted to model how the process of institutional change proceeds. However, this chapter has identified two areas that need elaborating: the recognition of a need for change and the way human agency materialises are topics that need to be clarified in order to discuss the changes in management accounting practices at the Rabobank.

Some of the main features of the three streams of institutional theory are summarised in Table 2-1:

<table>
<thead>
<tr>
<th>Unit of Analysis</th>
<th>New Institutional Economics (TCE-variant)</th>
<th>New Institutional Sociology</th>
<th>Old Institutional Economics and the works inspired by OIE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumptions on individual</td>
<td>Bounded rational</td>
<td>Institutional determinism</td>
<td>Individual constructs social realities</td>
</tr>
<tr>
<td>Process view?</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Changes addressed</td>
<td>Governance structure</td>
<td>Institutionalised formal practices (budgeting; Activity-Based Costing)</td>
<td>Behavioural regularities</td>
</tr>
<tr>
<td>Institutional focus</td>
<td>Efficiency</td>
<td>External legitimacy</td>
<td>Behavioural regularities</td>
</tr>
</tbody>
</table>

Table 2-1: Features of three streams of institutional theory

This thesis is about the processes of change that are instigated by a formal change program. The knowledge it needs to yield must include the ways in which social groups deal with programs of organisational change. The theoretical basis of the thesis will therefore contain theories that stem from OIE. More specifically, it will use the frameworks devised by Barley & Tolbert (1997) and Burns & Scapens (2000) as a starting point for exploring human agency in institutional theory.

As argued above, these frameworks leave some blanks. These frameworks for addressing (management accounting) change within organisations do not address two important issues: (1) how do institutionally constrained individuals recognise a need for change and decide to act upon this need; i.e., how does the decision for intervention materialise; and (2) how do these individuals give form to institutional change; i.e. how do individuals
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actually intervene in institutions? Therefore, I need a theoretical framework that explicitly addresses these issues. Furthermore, the theoretical framework must guide our investigation of accounting changes inside the Rabobank. In order to do so I need a framework that allows us to draw inferences about the linkages between the institutional environment and individual behaviour (such as habits and routines). This will be the topic of the next chapter. Chapter three will propose a theoretical framework that will be used to inform our inquiry of accounting change at the Rabobank.