Perspectives on multiple stakeholders and management control systems
Institutional and Stakeholder theory: Friend or Foe?

WORKING PAPER

Abstract

Organisations are increasingly being pressured by stakeholders to acknowledge and manage their interests (Phillips 2003; Freeman 1984). However, conflicts can arise where multiple stakeholders have differing interests, especially if certain stakeholder groups are prioritised above others when decisions are made about the allocation of scarce resources. The management accounting literature is limited in explicitly dealing with how multiple stakeholder objectives manifest in the management control systems of organisations. This paper discusses the conceptual overlaps and tensions between intuitional theory and stakeholder theory in an attempt to provide greater depth of analysis on how multiple and potentially conflicting stakeholder objectives manifest in management control systems. The paper is a conceptual. It first problematises the issues of multiple stakeholder objectives with management control system design and use. The paper then reviews three management accounting papers (Abernathy and Chua, 1996; Brignall and Modell, 2000; Mueller and Carter, 2007) which have adopted institutional perspectives for this analysis to highlight the limitations of institutional theory. Finally, the paper reconciles several terms used by the respective theories and develops a framework for management accounting researchers to draw from both institutional and stakeholder theories simultaneously to better inform future research design and findings. The framework draws heavily on the model of stakeholder identification and salience developed by Mitchell et al. (1997) and tested by Agle et al. (1999) to connect stakeholder characteristics to the design and use of management control systems.

Key words: stakeholder theory, institutional theory, management control systems

Section 1 Introduction

The objective of this paper is to extend discussion on the complementarities offered by institutional theory and stakeholder theory to assist investigation of how and why multiple and potentially conflicting stakeholder interests manifest in management control systems. There have been continual calls to address the issue of multiple stakeholder objectives by management accounting researchers (Otley, 1980; Abernathy and Chua, 1996; Chenhall, 2003) yet this issue has not been explicitly dealt with in this body of literature. Institutional and stakeholder perspectives on multiple stakeholders in isolation provide insight both on how stakeholders are managed and how stakeholder influence organisations. However, by drawing on these theories simultaneously researchers will gain deeper insights to the reflection of stakeholder interests in various management control systems.

This paper has three specific goals. The first objective is to problematise the issue of multiple and potentially conflicting stakeholder objectives in management control system design and use. In doing so, the paper considers overlaps and tensions between institutional and stakeholder perspectives in dealing with multiple stakeholders. Second the paper reviews three management accounting papers (Abernathy and Chua, 1996; Brignall and Modell, 2000; Mueller and Carter, 2007) adopting institutional perspectives to identify limitations of institutional theory in dealing with multiple and potentially conflicting stakeholder. Finally the paper reconciles several terms used by the respective theories and develops a framework for management accounting researchers to draw from both institutional and stakeholder theories simultaneously to better inform future research design and findings.

Organisations are increasingly being pressured by stakeholders to acknowledge and manage their interests (KPMG 2005; Phillips 2003; Gray 2002; Post 2002; Deegan 2002; Freeman 1984). However, conflicts can arise where multiple stakeholders have differing interests, especially if certain stakeholder groups are prioritised above others when decisions are made about the allocation of scarce resources (Phillips 2003). As a result it is argued that not all stakeholders can be satisfied simultaneously. These issues have been widely recognized since early management and accounting research (Cyert and March 1963; Simon 1964; DiMaggio and Powell 1983). However, the current business environment is presenting new challenges where issues such as climate change, ecological and social sustainability, and corporate social responsibility are becoming part of a broader societal concern and organisations are being held accountable for their contribution to these problems (Phillips 2003; WBCSD 2002). Consequently as addressing the interests a wider range of stakeholders is increasingly important to organisations, there is a need to investigate how the conflicts in interests between multiple stakeholders are managed, why stakeholders are considered salient, and how they impact management control systems.

Management accounting research has explored many aspects of management control systems (MCS); for instance, defining and classifying MCS (Anthony 1965; Ouchi 1979; Otley and Berry 1980; Flamholtz, Das and Tsui 1985; Brown 2006); the relationship between MCS and organisational performance (Govindarajan and Fisher 1990; Snow and Hrebinak 1980); MCS design and use (Simons 1990; 1995); and dysfunctional behavioural impacts of MCS (Hopwood 1972; Argyris 1952; Marginson and Odgen 2005). Much of this literature has focused on the factors that shape management control systems (Baxter and Chua 2003; Otley 1980; Chenhall 2003). This research is limited because whilst it is acknowledges that stakeholders shape the management control systems, the specific way in which stakeholders interests play out in the systems, and why, has received very little consideration (Chenhall 2003). Institutional perspectives (Meyer and Rowan 1977; DiMaggio and Powell 1983; Oliver 1991) on MCS provide some insight finding that decoupling often occurs between systems used for seeking legitimacy among stakeholders and those which are used for operational control (Covaleski and Dirsmith 1988; Abernathy and Chua 1995; Brignall and Modell 2000; Modell 2002). These approaches are limited as they have primarily focused on how stakeholder interests impact the performance measurement systems, and do not consider a broader range of controls. Additionally, research has not been conducted on how the characteristics of stakeholders affect how salient they are to the organisation and the impact this has on the reflection of their claims in the MCS.

The stakeholder literature has investigated these issues since the mid-eighties beginning with the seminal work of Freeman (1984) who argued that business has a social and moral duty to recognize and act on the interests of multiple stakeholders. Since then there has been extensive research focusing on defining who stakeholders are (Freeman 1984; Donaldson and Preston 1995; Phillips 2003), what their interests are (Donaldson and Preston 1995), how stakeholders can be classified in to different types (Phillips 2003; Clarkson 1995; Donaldson and Preston 1995; Mitchell et al. 1997) and how they influence the firm in different ways (Frooman 1999). Extant literature has also investigated links between stakeholder management and organisational performance (Margolis and Walsh 2003; Al-Tuwaijri et al. 2004; Preston and O'Bannon 1997) as well as the motivations that organisations may have in addressing multiple stakeholder concerns (Unerman and Bennett, 2004; Wicks and Berman, 2004; Perera et al. 2005; Berman et al. 1999; Phillips 2003). These questions have been considered under the broad umbrella of stakeholder theory, which has been limited to understanding the extent to which stakeholders impact the management decision process (Frooman 1999; Phillips 2003). Given that management control systems are used to inform management decisions and align employee goals to organisational objectives it logical to explore this gap in the literature.

This is a conceptual paper. The primary contribution this paper makes is the development of a framework for use in empirical management accounting research to provide a tool of analysis how multiple and potentially conflicting stakeholder objectives manifest in management control systems. In developing this framework the paper discusses the use interchangeable use of the terms stakeholder and constituent and it compares the argument of decoupling proposed by institutional theory to that of strategic stakeholder theory. The framework draws heavily on the model of stakeholder identification and salience developed by Mitchell et al. (1997) and tested by Agle et al. (1999). The framework proposes that the reflection of stakeholder interests in the design and use of management control systems is related to the salience of those stakeholders to the organisation. This is particularly important in light of the current business climate in which stakeholder management is of primary concern.

The paper is structured as follows. Section 2 presents a comparative analysis of institutional and stakeholder perspectives. Section 3 reviews three management accounting papers which have drawn from both these theories and highlights the limitations of these. Section 4 develops an integrative framework reconciling institutional and stakeholder theory for future research into stakeholder impacts on the management control systems. Finally section 5 concludes the paper.

Section 2 Comparative analysis of stakeholder and institutional perspectives

The objective of the section is to problematise the issue of multiple stakeholders and explain why it presents complexity in the design and use of management control systems. The section then discusses how both institutional and stakeholder theory have addressed multiple and conflicting stakeholder objectives and compares the strengths and limitations of each theory. By undertaking this analysis the section lays the foundation for an integrative framework developed later in the paper.

2.1 Multiple stakeholders and management control systems

What is an organisation and for whom does it exist is the pertinent question in organisational studies (Mitchell et al. 1997, Donaldson and Preston 1995). Different theoretical approaches have been adopted to consider this issue. Agency theory suggests that the organisation has the main purpose of maximizing the wealth of shareholders (Jensen and Meckling 1976). Resource dependence theory suggests that organisations must satisfy the interests of various resource providers (Pfeffer and Salancik 1978). Institutional theory suggests that an organisation conforms to the pressure of constituents in the organisational field (DiMaggio and Powell 1983). Stakeholder theory suggests that organisations have a variety of stakeholders and that a moral, social and legal obligation is owed to these stakeholders to satisfy their interests (Freeman 1984; Phillips 2003).

The extent to which 'stakeholders' are to be managed or satisfied varies from theory to theory. What is consistent, however, is the recognition that organisations have multiple groups which they are in a relationship with. These groups are given different names including 'stakeholders', 'contracting parties', 'resource providers', 'constituents'. Thus regardless of the theoretical lens applied it is argued that the organisation has multiple objectives arising from the multiple stakeholder groups with an interest in the firm. The nature of the relationship with the organisation ranges within and between stakeholder groups. It is argued that conflicts have the potential to arise when attempting to acknowledge and satisfy different stakeholders because of the divergent characteristics and interests of stakeholder, and limited resources within an organisation (Phillips 2003, Mitchell et al. 1997, Jensen 2001).

Management control systems are defined as the systems and processes in place which align employee behaviour to the organisational objectives (Anthony 1965; Ouchi 1979; Otley and Berry 1980; Flamholtz, Das and Tsui 1985). The study of management control systems necessitates the acknowledgement of multiple stakeholders and questions arise as to how systems are designed and used to accommodate divergent objectives; how stakeholders are prioritised in the management control systems; what technical and behavioural problems arise from attempts to align behaviour to multiple stakeholder objectives. Despite these problems being raised and calls for research (Otley 1980; Chenhall 2003), the management accounting literature is limited in addressing them.

2.2 Approaches to studying multiple stakeholders and management control systems

2.2.1 Institutional perspectives

The issue of multiple and conflicting constituents has been raised in institutional theory (DiMaggio and Powell 1983; Meyer and Rowan 1977). Institutional theory argues that institutions operate in and are influenced by an institutional environment rather than the need for efficiency (Meyer and Rowan 1977; DiMaggio and Powell 1983). Dimaggio and Powell (1983) identify three mechanisms through which organization change as a result of pressures exerted by constituents: coercive isomorphism that stems from political influences and the problem of legitimacy; normative isomorphism, associated with professionalisation; and mimetic isomorphism resulting from standard responses to uncertainty. The institutional environment is argued to be comprised of multiple constituents with potentially conflicting interests who exert pressure over the organisation (DiMaggio and Powell 1983; Modell 2003), and includes: key supplies, resource and product consumers, regulatory agencies, and other organisations or institutions that produce similar services or products (DiMaggio and Powell 1983). It is widely acknowledged in this body of literature that a problem arises for organisational design and control when inconsistent and conflicting constituent pressures arise (Modell 2002).

The range of responses to institutional pressures provides insight as to how stakeholder interests might manifest in MCS. Oliver (1991) developed a typology of strategic responses that organisations enact as a result of the institutional pressures that are exerted on them. Five types of responses are identified, acquiescence, compromise, avoidance, defiance, and manipulation. By identifying this range Oliver (1991) challenges the assumption that organisations passively conform to their institutional environment, and acknowledges that management choice plays a role in shaping organisations, depending on the nature and context of the pressures. In addition Oliver (1991) argues that these responses will depend on why these pressures are being exerted, who is exerting them, what these pressures are, how and by what means they are being exerted and where they are exerted. Oliver (1991) presents a set of propositions predicting the occurrence of the different responses. Two are of particular interest: first, that the greater the degree of constituent multiplicity, the greater the likelihood of organisational resistance to institutional pressures; and second, that the lower the degree of dependence of pressuring constituents, the greater the likelihood of organisational resistance to institutional pressures. Support for the typology and propositions has been provided by empirical studies adopting Oliver's (1991) framework (Abernathy and Chua 1996; Modell 2002; Brignall and Modell 2000). Another response widely discussed and supported in the extant literature is the de-coupling of systems used for legitimacy seeking actions and those for efficiency seeking ones (Modell 2002; Brignall and Modell 2000; Abernathy and Chua 1996; Covaleski and Dirsmith 1983; Meyer and Rowan 1977; DiMaggio and Powell 1983).The impact of institutional and technical environments on organisations has been debated (Modell 2002). While institutional theorists argue that organisations conform to external pressures to gain legitimacy (DiMaggio and Powell 1983), it is conceded that strategic choice also plays a role in shaping organisations (Oliver 1991; Abernathy and Chua 1996).

2.2.2 Stakeholder perspectives

Stakeholder theory is concerned with the nature of stakeholders' relationships with the firm in terms of both processes and outcomes for the firm and its stakeholders (Freeman 1984; Phillips 2003). This distinction is often referred to as distributive and procedural justice (Lind and Tyler, 1988; Phillips 2003). It particularly focuses on the acknowledgement and fair treatment of stakeholders in managerial decision making. Major themes in the stakeholder literature include identifying stakeholders, their interests, how they influence the firm, and how and why they are prioritized by management (Frooman 1999; Mitchell et al. 1997). Research in this field has also considered moral versus strategic motivations for stakeholder management (Freeman 1984, 1999; Phillips 2003; Jones and Wicks 1999; Donaldson and Preston 1995) and a more wholistic definition of what is meant by organisational performance (Carroll 1979; Preston and O'Bannon 1997; Phillips 2003).

There are three separate approaches of stakeholder theory: descriptive, instrumental and normative (Donaldson and Preston 1995 p. 206). Descriptive stakeholder research analyses stakeholder management as it is found (or not) in actual organisations (Donaldson and Preston 1995; Phillips 2003). This class provides no prescriptions or normative assertions about what is right and wrong, or desired in terms of stakeholder management. Instrumental stakeholder theory assesses the extent to which managing stakeholders and stakeholder relationships is conducive to the achievement of commonly asserted organisational goals (Donaldson and Preston 1995; Phillips 2003). Instrumental stakeholder research makes prescriptions, but does not question the moral legitimacy of the goals themselves. This type can also be considered as a strategic management model. Freeman (1999) argues that the premise of instrumental stakeholder theory is to argue that 'to maximize shareholder value over an uncertain time frame, managers ought to pay attention to key stakeholder relationships' and that the premise of normative stakeholder theory is that 'managers ought to pay attention to certain stakeholder groups'. Normative stakeholder theory addresses directly the moral justification of the organisation and the ethics of stakeholder management (Donaldson and Preston 1995; Phillips 2003). Under normative stakeholder theory, stakeholder and managers are agents of all stakeholders and have two responsibilities to ensure that the ethical rights of no stakeholder are violated and to balance the legitimate interest of the stakeholders when making decisions (Smith 2003). In this sense stakeholders are argued to have an intrinsic value and the interests of all stakeholders should be considered even if it reduces a company's profitability (Donaldson and Preston 1995; Phillips 2003).

Whilst stakeholder theory provides a deeper understanding and models for classifying who stakeholders are and what their interest in the firms is, the theory has not gone so far as to understand how they are managed within the organisation. Of course there has been research in this area, but it is particularly limited in terms of understanding the role that management control system play in directing employee behaviour and management decisions towards the achievement of multiple and potentially conflicting objectives.

2.3 Conceptual overlaps and points of divergence

The first and arguably most important overlap between the two theories is they both view organisations as being affected by external pressures. Institutional theory calls this the organisational field or institutional environment described as being made up of constituents (DiMaggio and Powell 1983; Meyer and Rowan 1977). Stakeholder theory concurs with the view that organisations have constituencies, termed stakeholders, and organisations are dependent upon constituency groups for their success (Phillips 2003).

Building on this both theories acknowledge that different stakeholders affect the organisation to varying degrees. Institutional theory describes three mechanisms of isomorphism driven by the pressures exerted by constituents (DiMaggio and Powell 1983). There are also references to powerful or dominant coalitions of constituents (Cyert and March 1963; Pfeffer and Salancik 1978). Similarly, stakeholder theory identifies various classifications of stakeholders and argues that these types result in a different acknowledgement and treatment of their interests (Phillips 2003). Numerous typologies have been developed to classify stakeholders in an attempt to understand who they are and the claims they hold over the organisation. Such distinctions include: normative versus derivative stakeholders (Donaldson and Preston 1995); primary and secondary stakeholders (Clarkson 1995; Carroll 1989); generic and specific stakeholders (Carroll 1989);

resource providers and resource dependents (Phillips 2003). These typologies provide a very useful way of thinking about who stakeholders are, the nature of their relationship with the firm, and how and why their claims are ranked differently by managers.

Finally, both institutional and stakeholder theories agree that potential conflicts arise as a result of the existence of multiple stakeholders, and that this presents a problem for the organisation (DiMaggio and Powell 1983; Phillips 2003). Both bodies of literature are limited in their discussion of balance and trade-offs between stakeholder interests, and there has been little empirical research conducted on the how management control systems are shaped by this conflict, and how they in turn play a role in managing it. The distinction between procedural and distributive justice tends to be referred by those applying stakeholder theory as it recognizes that balance can be conceived of as both an outcome and a process. Procedural justice is concerned with making and implementing decisions according to fair processes (Lind and Tyler, 1988; Phillips 2003). Conversely distributive justice is concerned with fairness in the distribution of rights or resources (Lind and Tyler, 1988; Phillips 2003).

The most obvious points of divergence between these two theories are the level of determinism in responding to stakeholders and the normative nature of stakeholder theory. Institutational theory argues that organisations are shaped by their institutional environment; that is organisations conform to the pressures of this environment and its constituents in order to obtain stability and legitimacy as opposed to achieving economic efficiency (DiMaggio and Powell 1983; Meyer and Rowan 1977). Although it is acknowledged that strategic choice plays a role (Abernathy and Chua 1996; Oliver 1991) conformity is largely described as passive. Conversely stakeholder theory is functional and largely normative. It focuses on management decisions about the acknowledgement of stakeholders (Phillips 2003) and argues that organisations play a role in the broader society and as such owe a moral duty to multiple stakeholders (Freeman 1984; Phillips 2003). The role of managers is therefore to recognize and act on various interests of stakeholders and their claims. This paper adopts descriptive stakeholder theory and does not attempt to confirm or negate the normative prescription of stakeholder theory about which stakeholders an organisation should satisfy.

Section 3 - paper review

This section presents a review of three papers (Abernathy and Chua, 1996; Brignall and Modell, 2000; Mueller and Carter, 2007) which adopt institutional perspectives on the design of management control systems. The review of each paper focuses on the key findings and conclusions related to how multiple and conflicting constituents’ interests play out in the management control systems. These papers have been selected as they highlight particular issues with the use of institutional theory in analyzing the potential conflicts of multiple stakeholders in management accounting research.

3.1 Abernathy and Chua 1996

Abernathy and Chua (1996) sets out to understand the design and operation of accounting control systems. Specifically they investigate the relationship between the control mix in an organization and the organizational field and whether strategic choice of the control mix is impacted by pressures from the institutional environment (Abernathy and Chua 1996). The study is conducted as a longitudinal case study in a large public teaching hospital in Australia and focuses specifically on three elements of a control system in this organization: the governance structure at the board and internal management level; the role of accounting controls; and the processes associated with the development of a different management culture. The study is motivated by several limitations in the understanding of the relationship between the institutional environment and the control mix. These limitations are also behind the motivation of the current paper. Namely the assumption that control practices are designed to secure external legitimacy and are always decoupled from internal operating control systems and the lack of deep understanding of how and why the issues of constituency power and interests play a role in control system design.

The main interest in this review is how the research sheds light on the questions of the power attributes of constituents impacts on control system design, the role of strategic choice and the relationship been controls designed for legitimacy and operating efficiency. Abernathy and Chua (1996) clearly establish a relationship between the degree of power a constituent possesses and the design of elements of the control mix. The state:

> '*Our case demonstrates that an organisation control mix is a function of the firm's institutional environment. Institutional pressure was exerted primarily through state funding agencies, which supplied 90 percent of the organisation's financial resources. They were clearly a powerful constituent*'. Abernathy and Chua (1996 p.595)

And relate the power of this constituent to the control mix:

> '*The different forms of pressure induced a particular organisational control mix within MMC – a concentration on first changing the organisation's governance structure as opposed to its ACS, the nonsynoptic promotion of a resource management culture, increase budgetary consciousness, and eventually the development of a clinical costing system*'. Abernathy and Chua (1996 p.595)

The paper also explicitly recognised the existence of other constituents and their role in shaping the control mix, however, Abernathy and Chua (1996) do go so far as to systematically classify other stakeholders or explain how the combined attributes of all constituents with an interest in the organization are reflected in the management systems and the trade-offs that are made between them. Here the analysis could have benefited from the adoption of typologies developed in stakeholder theory (e.g. Mitchell et al 1997) to more comprehensively classify the attributes of constituents not only by power relations attributed to resource dependence, but perhaps to attributes such as legitimacy and urgency of their claim (Mitchell et al., 1997). So while we do gain insight that there is a relationship between constituents and the control mix and this is further related to the resource dependence of the organization on the constituent, there is limited development on the problem of how constituent multiplicity is handled in the control mix. In addition, the organization selected is not necessarily reflective of the trade-offs required to be made in ordinary private sector organizations.

On the issue of the attributes of the constituents Abernathy and Chua (1996) draw heavily on the Oliver (1991) framework of strategic responses to institutional pressures. This framework reconciles institutional theory and resource dependence theory to argue that organizations do not only passively conform to constituents pressures as commonly asserted by institutional theorists rather there are a range of responses and these will depend on the level of resource dependence and organization has on any one constituent. While this paper makes a noteworthy contribution to the literature by providing empirical evidence on the Oliver (1991) framework the findings are limited due to the focus of Abernathy and Chua (1996) on the one dominant external constituent, the funding body. Regarding the decoupling relationship between legitimacy seeking actions and those for operational control the Abernathy and Chua (1996) provide sound, but limited conclusions. The assumption is questioned and empirical evidence is provided to support this line of argument, however, little explanation is provided as to why the assumption is potentially flawed and how there may in fact be links between actions takes for legitimacy and operational efficiency. Abernathy and Chua (1996) conclude their paper by stating that

> '*Future research is necessary to specify more clearly the relations among an organisations' technical and institutional environment and the strategic choices of powerful stakeholders*'. (Abernathy and Chua 1996 p. 599)

Adoption of perspectives drawn from institutional stakeholder theory may enable a more complete view of the possible overlaps between actions taken for securing a legitimate position in the external environment and those for operating efficiency. For instance this take on stakeholder theory suggests that actions undertaken in the best interests of the stakeholders will lead to the survival of the organization in the long run (Phillips 2003). Some empirical evidence has been collected on the relationship between positive environmental performance and financial performance in support of this argument (Deegan 2002).

3.2 Brignall and Modell (2000)

Brignall and Modell (2000) shifts attention to the power and pressures exerted by different group of stakeholders and investigates how these affect the use of performance information in organisations. They argue that little attention has been paid to the social processes whereby such systems are implemented or how they come to be used the way they are (Brignall and Modell, 2000 p. 282) as such our understanding of such systems would be greater enhanced by examining the power relations with various stakeholder groups (Brignall and Modell, 2000)

> '*The objective of this paper is to advance a framework grounded in institutional theory addressing the impact of the dynamic interplay between funders, professional groups within the focal provider organisation and the purchases of its services on the design and implementation of multi-dimensional performance measurement systems in the public sector*' (Brignall and Modell 2000 p. 284).

The analysis is conducted using empirical observations drawn from the U.K. and Scandinavian public sector organisations (Brignall and Modell 2000). In many ways this discussion builds on some of the limitations of Abernathy and Chua (1996) by acknowledging the need to examine how social processes play a role in MCS design and implementation and by expanding the stakeholders included in analysis thus acknowledging greater potential conflicts. The article highlights several unresolved questions dealing with the potential conflicts arising between multiple and conflict and how they impact various MCS.

A review of this paper raised the question 'are the terms stakeholder and constituent interchangeable?' when anlaysing the forces that shape management control systems. The first issue is a semantic one related to the interchangeable use of the terms stakeholders and constituents. Brignall and Modell (2000) commence the article with a discussion of the role of performance measurement systems to meet the needs of various stakeholders and then open a discussion about how the social processes (implying institutional processes) involving the varying degree of power and pressure of stakeholders impact these systems. The paper agues the need to acknowledge the institutional environment, but we question the choice of the use of the term 'stakeholder' in preference of constituent which would be more consistent with the terminology of institutional theorists. If indeed stakeholder is a more appropriate term for the discussion why not them acknowledge the term in the context of stakeholder theory and present a short note on the consistency between the meaning of stakeholder and constituent. This may or may not be trivial and Brignall and Modell (2000) are certainly not the only authors to use these terms synonymously, however, because these terms have implicit means within their respective theories, stakeholder theory and institutional theory, it is important to undertake a reconciliation of the consistency of their meaning and at least acknowledge the possible differences that they may contain. Do stakeholders and constituents mean the same thing? Do they include the same groups? In fact the derivations of the words are quite different and while the broad intention of the authors may be the same when applying them – these subtleties should be acknowledged. Section 4 of this paper will follow with a reconciliation of these terms.

Another concern raised by this article is the need for a deeper level of analysis of stakeholders. Brignall and Modell (2000) motivate the paper by arguing that studies on the design and implementation of systems have neglected the insights of institutational theory (p. 282). As a result the power and bargaining processes by which stakeholders influence the firm are not taken into account to understand what shapes management control systems (Brignall and Modell 2000). The paper then goes on to include such analysis by examining the power and pressures exerted by several stakeholder groups including the funding bodies, professional bodies, and purchasers and how this impacts the manifestation of their interests in the performance measurement systems (Brignall and Modell 2000). The authors then put forward several propositions linking the balance or trade-offs required between conflicting stakeholder interests to varying degrees of power they each hold. The authors do indeed fulfill their intentions of advancing the framework on the interplay between various stakeholders and the design and implementation of performance measurement systems. However, while they advance the framework with the development of five propositions they still leave room for further development. At the heart of institutional theory is the assumption that organisations conform to pressures of powerful external constituents to obtain legitimacy and retain access to scarce resources. But what if there are other dimensions to power which impact the way in which decisions are made on meeting the needs of constituents/ stakeholders? It is argued here that drawing on the frameworks categorizing stakeholders offered by stakeholder literature (e.g. Mitchell et al. 1997) would enable a much deeper level of analysis of the social processes impacting management control system design. For example, power can be derived from different bases, does this impact MCS design? In addition, stakeholders vary in the nature of their interest. They can be financial or non-financial and stated in different time horizons, they may have both active and passive interests. How do these interests infiltrate the MCS design? The attributes of stakeholders may also vary and vary over time. How does this impact MCS? Thus by drawing on models developed under stakeholder theory a greater level of analysis can be conducted, focusing on the multiplicity and conflict between stakeholders, and how they are prioritised in decision making.

Finally, related to the issue of multiple and conflicting stakeholder objectives (Brignall and Modell 2000) argue the role of management in determining the balance or trade-offs between meeting the needs of various stakeholders. Similar to Abernathy and Chua (1996) on this point they draw on Oliver (1991) to demonstrate the simultaneous interplay between management strategic choice and conformity to institutional pressures. We raise this point again because it provides a connection to the tenets of stakeholder theory that managerial determination is an active process influencing the way in which stakeholders are managed.

3.3 Mueller and Carter (2007)

Mueller and Carter (2007) present a case of accounting change in the British Electricity supply industry and explain how this change took place by examining the responsiveness of an organisation to the economic, political and institutional pressures in its field. While this paper does not deal directly with the issue of resolving the conflicts between multiple and conflicting stakeholders/ constituents it does touch on these issues and provides an other example in which limitations of the current institutional framework can be highlighted. Similar to Brignall and Modell (2000) Mueller and Carter (2007) also prefer to use the term stakeholder in place of the term constituents without consideration of the differences between these terms. For example, they state:

> '*By integrating the resource dependency dimension with a broader institutional framework DiMaggio and Powell (1983) argued that that organisations copy practices from prestigious organisation in order to be regarded as legitimate by powerful stakeholders*' (Mueller and Carter, 2007 p.182)

Another other issue is the limited number of stakeholders examined. Indeed it is broader than what has previously been looked at by the management accounting literature – but the interchangeable use of the terms stakeholder and constituents would indicate that all groups known as stakeholder should be considered unless good reasons are provided. They use the term stakeholders without giving reference to what is meant by the term in stakeholder theory.

In addition a detailed analysis of how the conflicts between 'many of the powerful new stakeholders' were resolved is not presented in any other way than a discussion of the varying levels of power. The article then discusses the rise of managerialism in organisations and the adoption of more managerialist practices over those previously adopted by the dominant engineering profession as a mechanism to retain legitimacy in the eyes of powerful stakeholders (Mueller and Carter 2007). Mueller and Carter (2007) contribute to the literature by adding a cultural and political dimension to analysis that has previously been conducted from an economic perspective. Notwithstanding the merits of such an extension a more definitive framework would be useful to distinctly classify the characteristics of each stakeholder group to explain how they influence or negotiation their agenda in the management control systems of the organisation.

3.5 Summary of issues arising from institutional perspective on MCS

The purpose of reviewing these articles was not to provide a full critique of each and the findings they make, but rather to consider how each has dealt with the issue of conflicting demands of multiple constituents with the application of institutional theory. While each article does progress the discussion and current frameworks further, they raise a number of issues on this matter. These include the question of whether it is appropriate to use the terms stakeholder and constituents interchangeably; whether there is in fact a dichotomy between actions taken for legitimacy among constituents and those for efficiency and operational control; the limited potential of current frameworks to analyse constituents' influence on accounting practice; and finally the question of the extent to which management play an active role in the strategic choices over management control systems in contrast to passive conformity.

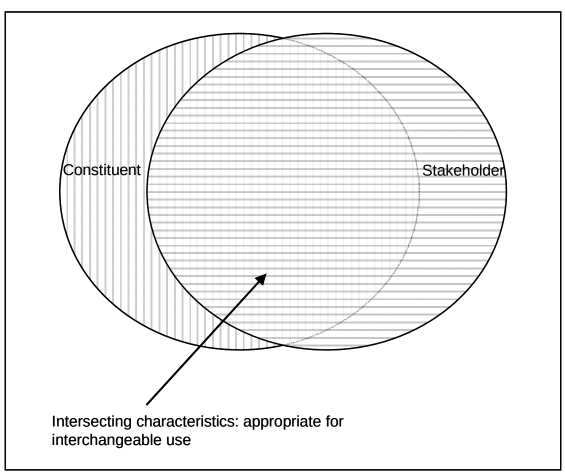
Section 4 Extending institutional analysis of MCS: drawing on stakeholder theory

This section deals with three questions related to the simultaneous use of stakeholder theory and institutional theory in management accounting research. These are: are stakeholder and constituents interchangeable concepts? How can stakeholders or constituents attributes be related to management control systems? And is does the assumption of decoupling between legitimacy seeking actions and those taken to achieve efficiency always hold? This section proposes a framework to be used by management accounting researchers to enable more detailed analysis of the nature of stakeholders in understanding how management control systems are shaped. It draws heavily on the model of stakeholder identification and salience developed by Mitchell et al. (1997) and Agle et al. (1999).

4.1 Are stakeholder and constituents interchangeable concepts?

Management accounting studies have often used the terms stakeholder and constituent as replacements of each other (e.g. Brignall and Modell 2000; Modell 2002, Mueller and Carter 2007). These two terms may in fact mean the same thing, rendering this discussion meaningless. However, we argue that these are two discrete constructs, each with a unique meaning and set of characteristics. While it may be appropriate to use them interchangeably in conducting and reporting research it is important to specify the conditions under which this interchangeable use is indeed appropriate. Based on this we raise the questions arise: when is a stakeholder a constituent and visa versa? When is a stakeholder not constituent? And what conditions are necessary for the meaning of stakeholder and constituent to intersect? We believe that this has important implications for theory development in management accounting as we seek to understand who and what impacts an organisation and the ability they have to do so. Therefore, it is important to undertake a reconciliation of the terms. The diagram below illustrates this problem. This section investigates the definitions of each term, and their meaning within the context of their respective theories institutional theory and stakeholder theory. Next, a comparison of the terms is undertaken to identify where the meaning and characteristics of each construct overlap and where they are divergent. We question whether the differences matter and propose that the terms may be interchangeable if a set of conditions are met.

Diagram 1 Reconciling stakeholder and constituent



Institutional theory employs the term constituent as part of an explanation of the homogenization of organisations (DiMaggio and Powell, 1983). They state 'Once a field becomes well established…there is an inexorable push towards homogenization' (DiMaggio and Powell, 1983 p.148). The organisational field defined as being made up of constituents: '*By organisational field, we mean those organisations that, in aggregate, constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations*' (DiMaggio and Powell, 1983 p.148). They go further to say that 'The virtue of this unit of analysis is that it directs attention…to the totality of relevant actors' (DiMaggio and Powell, 1983 p.148).

Several important points should be made regarding this definition of constituent. First DiMaggio and Powell (1983) note that fields only exist to the extent that they are institutionally defined. This sets quite a distinct boundary around who is and is not a constituent in any one organisation's field. Second, DiMaggio and Powell (1983) refer to the concepts of 'connectedness' and 'structural equivalence'. Connectedness refers to the existence of transactions tying organisations to one another and structural equivalence refers to the similarity of organisations to one another. In this sense DiMaggio and Powell (1983) again set up limitations around who is defined as stakeholder i.e. there is a tie in place. Finally, it is important to note their acknowledgement of a power relationship between constituents and the organisation influencing organisational isomorphism. With constant references to power relations, constituents appear to be mainly linked to the notion of coercive isomorphism, with fewer connections being made between constituents and mimetic and normative isomorphism.

Now turning attention to stakeholders, stakeholder theory claims that whatever the ultimate aim of the corporation or other form of business activity, managers and entrepreneurs must take into accounting the legitimate interests of those groups and individuals who can affect (or be affected by) their activities (Donaldson and Preston 1995; Freeman 1994; Freeman et al. 2004; Phillips et al. 2003; Phillips 2003) and these individuals or groups are known as stakeholders. There appears to be broad consensus throughout stakeholder, management and accounting literature on the theoretical definition of organisational stakeholders which stem from Freeman (1984 p. 46) who defines stakeholders as: *"…any group or individual who can affect or is affected by the achievement of the organisation's objective"*. There is less agreement; however, on the identification of stakeholders, their interest, and the priority they should be given by managers in making decisions (Freeman 1994; Mitchell et al. 1997; Phillips 2003). Major stakeholders of the firm are commonly identified as: shareholders, employees and unions, customers, government and regulatory authorities, joint venture partners, suppliers and alliances, local communities and citizens, and suppliers (Post, Preston, Sachs 2002; Phillips 2003; Berman et al 1999). There is debate as to whether the natural environment, activists and the media are considered as stakeholders (Phillips 2003).

In a review of the stakeholder literature Mitchell et al. (1997) reconcile 27 definitions of stakeholders. There are several important points they make for broadly defining the stakeholder concept. First, stakeholders may be both individuals and groups. Second, a distinction must be made between claimants and influences. That is, claimants may be affected by the organisation, but may not have the ability to influence it. This is explicated by Donaldson and Preston's (1995) definition of stakeholders stating that '*each group of stakeholders merits consideration for its own sake and not merely because of its ability, to further the interests of some other group, such as the shareowner*'. Influencers have power over the firm whether they have a valid claim or not and whether or not they wish to press their claims. Finally, stakeholder may have either an actual or potential relationship with the firm. This distinguishes stakeholders from non-stakeholders who have no relationship with the firm.

Comparison of constructs

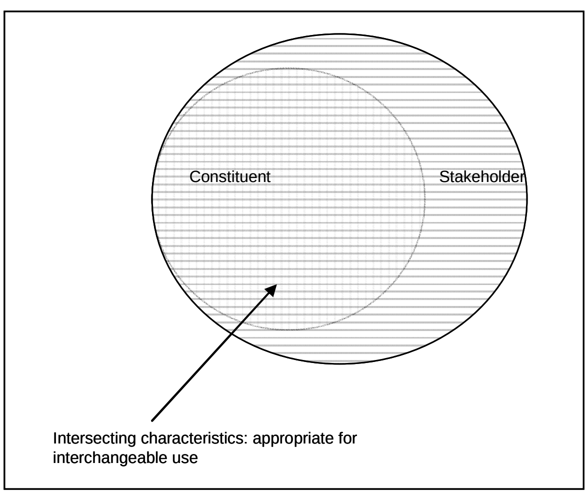
There are a number of commonalities in the terms 'stakeholder' and 'constituent' and it is easy to understand why they have been used in place of each other. Both terms are defined as the groups which have some form of a relationship with an organisation and some form of influence over the organisational goals, structure and management controls systems. The exact nature and ability of stakeholders and constituent relationships differ in their respective theories; however, each does recognise that stakeholders and constituents will be given varying levels of attention or acknowledgement based on the nature of this relationship. For instance, Freeman (1984) and Phillips (2003) argue that stakeholder are not equal and

Mitchell et al. (1997) provide a framework to explain on what basis they are given varying levels of attention. Similarly, constituents are acknowledged of having varying levels of power and coalition (Brignall and Modell, 2000; Modell, 2002; DiMaggio and Powell, 1983) with other constituent groups and this impacts the extent to which they impact organisational change. Thus, the use of these terms in each theory suggests that multiple groups (stakeholders or constituents) exist and they have the potential to have either competing or convergent interest in the organisation. Another commonality between the terms is the groups which are identified as being stakeholders and constituents: shareholders, employees and unions, customers, government and regulatory authorities, joint venture partners, suppliers and alliances, local communities and citizens, and suppliers (DiMaggio and Powell, 1983; Phillips, 2003). Although the term stakeholder does appear to be more inclusive of groups such as media, activists, and the media (Phillips 2003). These are groups which generally would not be considered as constituents as they lack the formal tie to organisational outcomes.

A number of differences are apparent in these terms. The first notable difference is the degree to which boundaries are set around stakeholders and constituents. Given that DiMaggio and Powell (1983) specify that constituents in the field are institutionally defined and appear to be restricted to those that have an ability to impact a firm whereas the term stakeholder is considered to be broader and allows for a greater acknowledgment of individuals and groups. This also relates to the idea that stakeholders are groups that have the ability to affect an organisations, but also maybe impacted by the organisation (Freeman, 1984). This difference, however, is somewhat questioned with Oliver's (1991) reconciliation between institutional theory and resource dependence theory suggesting that constituents are not only resource providers, but also resource dependant.

The origins of these two words are quite different. Constituent is drawn from political theory where a constituent is defined as 'someone who can or does appoint or elect (and often by implication can also remove or recall) another as their agent or representative. A constituency is all the constituents of a particular agent or representative'. Constituent is derived from the Latin 'stature' and means that it is makes up part of a whole. In the case of institutional theory, a constituent is argued to make up part of the whole organisational field which, through the exertion of isomorphic forces, shapes the organisation. On the other hand, a stakeholder relates to a person holding a stake, which was originally a gambling term, which meant that a person had made a claim or obtained a right to something. Despite the different origins, there is a similarity in their meaning that constituents have in someway a right to an outcome.

Diagram 2: interchangeable use of constituent and stakeholder



Another difference in the two terms the perceptions associated with each term is their implied or symbolic meaning. Constituent is a more neutral term where constituents are said to make up or constitute a part of a broader institutional environment. The value or the relationship with the organisation is not inherent within the use of the word. Conversely the term stakeholder tends to evoke a more value laden meaning (Freeman 1999) and if often used to imply equality by likeness to the term shareholders. It suggests the sentiment that they are on par and hold a part of the firm. Implicit within the definition of stakeholders is the obligation owed by the organisation. As a result contention often arises in identifying various stakeholder groups and distinguishing them from non-stakeholders (Phillips 2003), because it is dependent on whether moral obligations exist or not. Constituent, does not evoke this same emotional response, and although implies a right, does not imply an ownership of stake or obligation.

Interchangeable use

Based on a review of the definitions of the terms stakeholder and constituent and considering the theoretical context of each terms, we argue that it is at times appropriate to use these terms in place of each other. Despite this, these terms remain distinct constructs. Stakeholder appears to be used in a broader sense and encapsulates the concept of constituents. So while it may be appropriate to use stakeholder in place of constituent, it may not always be appropriate to use it constituent in place of stakeholder. Diagram 2 illustrates the overlaps.

4.3 Stakeholder attributes and management control systems: additional layers of analysis

The central tenant of institutional theory is to explain why firms look like each other (Dimaggio and Powell, 1983). The theory adopts the explanation that firms sit within an organisational environment, made up of constituents, and they conform to the pressures of that external environment (Dimaggio and Powell, 1983). The forces to which they react are known as coercive, mimetic and normative isomorphic forces (Dimaggio and Powell, 1983). Constituents are discussed at time as being part of a dominant coalition or as possessing power over an organisation (Dimaggio and Powell, 1983). The inference made is that the more dominant or powerful a constituent, the great influence they will have over the organisation and management control system (Dimaggio and Powell, 1983, Modell, 2002; Brignall and Modell 2000; Abernathy and Chua 1996; Oliver, 1991).

One limitation evident in management accounting literature adopting an institutional perspective is a disconnection between isomorphic forces and the characteristics possessed by various constituents. In many ways the description and application of coercive forces can be linked to the power relations of constituents, however, researchers have not taken steps to link other forces to attributes to constituents to explain how and when they take place. This limitation have been in both the conceptual and empirical development of the literature with empirical research generally limiting analysis to a select group of constituents and investigating their power relationship with the firm (e.g. Brignall and Modell, 2000; Abernathy and Chua, 1996). Despite this limitation, literature continues to acknowledge that multiple and completing stakeholder objectives exist. Only they fail to deal with how this problem is resolved in the design and use of management control systems.

Perhaps this is where the greatest benefit of simultaneous application of institutional and stakeholder theory may be gained. Stakeholder theory has been concerned with defining who stakeholders are, what their interest is, their relationship with the firm, and the extent to which they are prioritised (Freeman 1984; Jones and Wicks, 1999; Phillips 2003). Many typologies have been developed in an attempt to classify various stakeholders and explain why they receive varying degrees of attention by management. For example Donaldson and Preston (1995) describe normative and derivative stakeholders, Clarkson (1995) and Carroll (1989) describe primary and secondary stakeholders and Phillips (2003) makes the distinction between resource providers and resource dependents. The current paper proposes that a framework relating the attributes of various stakeholders to the design and use of management control systems will provide a greater level of analysis when attempting to understand stakeholders' impact on the organisation.

The Mitchell et al. (1997) model of stakeholder identification and salience argues that the question of stakeholder salience, that is the degree to which managers give priority to competing stakeholders, goes beyond the question of stakeholder identification. They argue that the relationship with each stakeholder group is complex (Mitchell et al., 1997), and the nature of that group must be better understood to explain why certain stakeholder groups receive management attention and priority (Mitchell et al., 1997). Their framework draws from various theoretical perspectives including institutional theory, resource dependence theory, transaction cost economics, and agency theory (Mitchell et al., 1997) to understand the relationship stakeholders have with the firm and to argue how and why managed should and do pay attention to different stakeholders and their interests. The Mitchell et al. (1997) model is argued to be the most appropriate model for relating stakeholder attributes to management control systems for several reasons. First, the development of the model, particularly the attributes power and legitimacy, draws from established theoretical foundations used in extant MCS literature; for example agency theory, resource dependency theory, transaction cost economics, institutional theory, and legitimacy theory. Second, the model provides a set of propositions relating the possession of stakeholder attributes to the extent of management attention given to them. This provides a basis on which a conceptual link between the management control package and stakeholder interests can be developed. Third, this model is more prominent and comprehensive in terms of stakeholder classifications (Phillips, 2003; Frooman, 1999; Roberts and Mahoney, 2004; Page, 2002) and it provides a framework for empirical research (Agle et al., 1999)[1]. Finally the model provides for a greater depth of analysis of how and why stakeholders influence MCS as opposed to other stakeholder distinctions.

Mitchell et al. (1997) argue the that the principle of who or what really counts rests upon the assumptions, first that managers who want to achieve certain ends pay particular kinds of attention to various classes of stakeholders; second, that manager's perceptions dictate stakeholder salience; and third, that the various classes of stakeholders might be identified based upon the possession, or the attributed possession of one, two, or all three of the attributes: power, legitimacy, and urgency. Mitchell et al. (1997) provide a definition of each attribute; however, there is scope to provide further clarification and/or sub-classification of these in the model.

There are many definitions of power (see for instance Weber, 1947; Dahl, 1957; Bierstedt, 1950; Mechanic, 1962; Blau, 1964; Kaplan, 1964 and Salancik and Pfeffer (1977). Common elements in these definitions are that the possession of power involves more than one party, power is a relative, rather than being absolute, concept, the concept of power implies that resistance to the will of one party or stakeholder exists, and that the exercise of power involves a political process (Cyert and March 1963; Crozier 1964; Thompson, 1967; Karpik 1972). This last point has significant implications in terms of the allocation of resources towards meeting various stakeholder interests. It is argued that the introduction of a politics to the decision process can distort rational decision making (Pfeffer 1981). In defining the power attribute Mitchell et al. (1997) draw mainly from Weber (1947), Dahl (1957) and Etzioni (1964). They state 'a party to a relationship has power, to the extent it has or can gain access to coercive, utilitarian, or normative means to import its will in the relationship'. The distinction of different power bases is central to the arguments developed in this chapter as to how and why stakeholder power impacts MCS. Mitchell et al. (1997) argue that a stakeholder may possess power to impose it's will on the organisation, however, unless it is aware of it's power and is willing to exercise it's power the stakeholder will not have high salience. Some studies in management accounting have made this link (e.g. Abernathy and Chua, 1996; Abernathy and Vagnoni, 2004; Markus and Pfeffer (1983). This paper argues further that the extent to which a stakeholder possesses power and the sources from which the power is derived (i.e. coercive, utilitarian and normative), and the extent to which they are willing to exert that power will impact the how their interests manifest in management control systems.

[1] Agle et al. (1999) empirically tested the propositions put forward by Mitchell et al. (1997). They obtained data from CEO's of 80 large US firms and studied the perceptions of these CEOs of stakeholder salience and related this to the possession of the three attributes. In addition they argued that CEO's own values affect the salience of stakeholders, and that stakeholder salience is related to corporate performance. Their findings support the propositions of Mitchell et al. (1997) that possession of stakeholder attributes does affect the degree to which management prioritizes competing stakeholders. They did not find sufficient evidence to support their additional arguments regarding the impact of CEO values and the links to corporate performance. This research is important in adding to the credibility of the Mitchell et al. (1997) model of stakeholder identification and salience and also demonstrating that the nature of stakeholders appears to play a greater role than management choice.

Similar to power there are many definition of legitimacy (Phillips, 2003; Deegan, 2000; Pfeffer 1981; Weber 1947) Mitchell et al. (1997) utilizes Suchman's (1995) definition 'recognizing that the social system within which legitimacy is attainted is a system with multiple levels of analysis, the most common of which are the individual, organisational and societal. This definition implies that legitimacy is a desirable good, that is something larger and more shared than a mere self perception, and that it may be defined and negotiated differently at various levels of social organisation' (Mitchell et al. 1997 p. 866:867). Various definitions of legitimacy have several common elements. First, legitimacy is related to factors more broad than simply a legal claim (Weber 1947; Pfeffer 1981; Suchman 1995). A stakeholder's legitimacy may be drawn from different legal, moral or social bases, and these can often overlap. Second, legitimacy is not a steady state attribute, like power it may be acquired or lost, and stakeholders are continually striving to maintain their legitimacy (Mitchell et al. 1997). Third, power and legitimacy are often discussed simultaneously; however, despite being closely linked they are conceptually distinct (Mitchell et al. 1997; Pfeffer 1981; Weber 1947). Legitimacy is often argued to be a source of power. In addition because power is often seen as a negative attribute (McClelland 1975) and it's exercising unethical, when power is coupled with legitimacy it transforms into authority (Pfeffer 1981; Weber 1947). The transformation of power into authority is important as it makes the outcomes achieved more socially acceptable, even when they come at a cost to other stakeholder interests (Pfeffer 1981; Weber 1947).

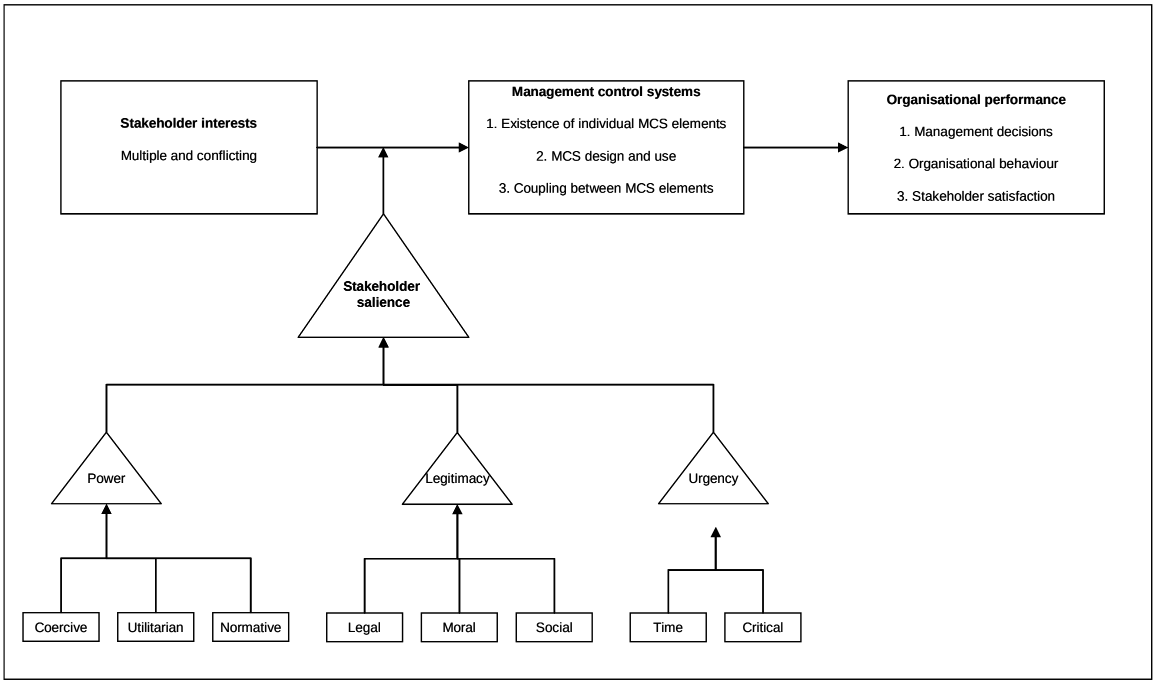
Empirical literature linking legitimacy and management control systems comes mainly from the studies adopting legitimacy and institutional perspectives. These studies investigate organisational responses to external pressures to obtain legitimacy, rather than focusing on how a stakeholders possession of legitimacy impacts how their interests play out in the management control systems. What remains unknown is how the stakeholder claims are classified as legitimate, and how their prioritization and the organisational response varies based on the type of legitimacy (legal, moral, or social) or its coupling with other attributes. The interests of stakeholders possessing the legitimacy attribute may manifest in the management control systems in a variety of ways depending on the type of legitimacy and the other attributes which are possessed. Mitchell et al. (1997) argues that a stakeholder may have a legitimate claim, but unless it is coupled with either power or urgency, the stakeholder's claim will not be considered salient. That is, legitimacy alone does not guarantee that a stakeholder will be prioritized. The stakeholder may be dealt with symbolically, but little operational change will occur to satisfy its interests.

Of the three attributes urgency is the least explored in the literature. Mitchell et al. (1997) argue its inclusion in the framework because power and legitimacy alone do not capture the dynamics of stakeholder-manager interactions. They state that adding urgency helps move the model from static to dynamic. Because literature on urgency is limited, few definitions are available for comparison. As such the current thesis accepts the definition proposed by Mitchell et al. (1997). Urgency is defined as the degree to which a stakeholders' claim calls for immediate attention (Mitchell et al. 1997). They state that two conditions are necessary for the possession of the urgency attribute: 1) when a relationship or claim is of a time sensitive nature and 2) when that relationship or claim is important or critical to the stakeholder. While this definition is sufficient to distinguish it conceptually, it is important to acknowledge that urgency is a perception based construct. The sense of urgency of a stakeholder claim may differ within the organisation, within the stakeholder group, and between the organisation and stakeholder group. There are no empirical studies of which the researcher is aware that explicitly investigate the relationship between the urgency of stakeholder claims and management control systems. As such there are significant gaps in what is known about how the time sensitivity of stakeholder claims affects how those claims manifest in the management control systems.

Empirical research has been limited in linking the attributes of stakeholders to how their interests manifest in management control systems. Studies have either investigated the impact of stakeholders very broadly, or have investigated one particular attribute, for instance the impact of powerful stakeholders. Adoption of the Mitchell et al (1997) model of stakeholder identification and salience allows empirical analysis of the combined impact of three stakeholder attributes of the management control systems. The diagram below illustrates how stakeholder salience provides a possible explanation as to why certain stakeholders are prioritised above others in the management control systems.

Such analysis would enable a between understanding of exactly how stakeholders interests are prioritised, and the interplay between the institutional and technical environments. The answers we are looking for may not be as straight forward as decoupled or not – rather some systems may be decoupled and others not – based on the common or divergent attributes. Building on Mitchell et al.'s (1997) model, the current paper argues that the possession of one or more attributes not only affects the priority given by management; it impacts how the interests of various stakeholders play out in the organisational objectives, and the management control package.

Diagram 1 Framework relating stakeholder salience to management control system design and use



The proposition presented in this paper is derived from the propositions set out in Mitchell et al. (1997). While it is difficult to predict exactly how the attributes of stakeholders will impact the management control systems, it is anticipated that the propositions put forward by Mitchell et al. (1997) and supported with empirical evidence by Agle et al. (1999) regarding the relationship between stakeholder salience and management attention will have flow on affects to the management control systems. That is, the interests of stakeholders possessing a greater number of attributes and to a greater extent will appear more prominently in the design of the management control systems, some systems may be decoupled to avoid conflict between interests or to manipulate perceptions of stakeholders, and some systems may be employed to deal with specific stakeholder interests. Therefore,

Proposition 1: The manifestation of stakeholder interests in the management control package (consisting of individual management control systems and the interactions between them) will be greater with the cumulative number of stakeholder attributes: power, legitimacy and urgency perceived to be present by management.

4.4 Decoupling or integration of institutional and technical environments

It is well established in both the stakeholder and institutional literature that multiple stakeholders or constituents exist. Stakeholder interests at times converge, but also have the potential to be in competition and this presents a dilemma for management when responding to there demands or pressures (whether this response is passive or active, known or unknown). The dilemma of being presented with multiple stakeholder claims or constituent pressures has been dealt with differently in each body of literature.

Traditionally institutional theory has suggested a decoupling between actions taken to secure legitimacy among external constituents and those for internal operational control (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). This concept is reflected in the fourth proposition of Meyer and Rowan (1997) '*Because attempts to control and coordinate activities in institutionalized organisations lead to conflicts and loss of legitimacy, elements of structure are decoupled from activities and from each othe*r'. Meyer and Rowan (1977) argue that the formal structure of many organisations dramatically reflects the myths of their institutional environment instead of the demands of their work activities, and that organisations reflecting institutionalized environments maintain gaps between their formal structures and their ongoing work activities. Meyer and Rowan (1977) argue that isomorphism with environmental institutions has some crucial consequences for organisations: (a) they incorporate elements which are legitimated externally, rather than in terms of efficiency; (b) they employ external or ceremonial assessment criteria to define the value of structural elements; and (c) dependence on externally fixed institutions reduces turbulence and maintains stability. As such institutional isomorphism promotes the success and survival or organisations. Incorporating externally legitimate formal structures increases the commitment of internal participants and external constituents (Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

While there has been empirical support for this decoupling (e.g. Covaleski and Dirsmith 1988) this assumption has been in subsequent writing (Oliver, 1991; Abernathy and Chua, 1996; Modell, 2002) to suggest that there are a range of responses to the demands of multiple constituents. Oliver (1991) presents a range of strategic responses by expanding analysis to include resource dependence theory and Modell 2002 explains that these two explanations have often been pitted against each other and represented as two extremes on a continuum. As such they are viewed as mutually exclusive, that is legitimizing actions are not efficient ones. However, this argument does not necessarily hold, and rather it can be argued that legitimacy seeking actions are not necessarily in conflict with those which aim to achieve economic efficiency (Modell 2002; Abernathy and Chua 1996; Powell 1991). It is useful then to consider these as two separate, but occasionally interdependent dimensions (Modell 2002). Although there has been limited research on the interplay between the institutional and technical environments (Modell 2002), this is a particularly interesting discussion to relate to instrumental stakeholder theory which argues causality between social performance and financial performance (Donaldson and Preston 1995; Margolis and Walsh 2003).

Instrumental stakeholder theory provides an alternative argument. Strategic stakeholder management (Berman et al 1999, Harrison and Freeman 1999) suggests that concern for stakeholders is motivated by the perception that is can improve financial performance. Freeman (1999) argues that the premise of instrumental stakeholder theory is to argue that '*to maximize shareholder value over an uncertain time frame, managers ought to pay attention to key stakeholder relationships*'. In this sense stakeholder groups are satisfied to lead to long term benefits. A major criticism of this view, however, is that it cannot provide a specific objective function for the corporation (Jensen 2000; Marcoux 2000). That is, by rejecting that the sole purpose of an organisation is the maximization of shareholder wealth and requiring a balance in acknowledging and satisfying multiple stakeholder interests, stakeholder theory is argued to provide no discerning way of guiding management or employee action (Phillips 2003). Stakeholder theorists acknowledge this weakness "…stakeholder theory does fail to provide an algorithm for day-to-day managerial decision making due to the level of abstraction at which the discussion is taking place" (Phillips 2003 p. 22). The criticism put forward by Jensen (2000) and others is limited in some respects because the "maximization of shareholder" wealth is a nebulous statement, and it is argued that to achieve this in the long term, multiple interests of stakeholders must be appropriately managed in the short term (Phillips 2003). This also raises the problem of what is meant by balancing stakeholder interests.

Stakeholder theorists argue, however, that stakeholder theory should consider both distributive and procedural justice (Phillips 2003). Phillips (2003 p. 25) argues that 'who gets how much of the organisational outcomes pie is an important question, but so is who gets a say in how the pie in baked'. Because distributive justice is extremely difficult to achieve, some argue that stakeholders may in fact be satisfied if they are involved in the decision process. This paper attempts to contribute by questioning the assumption that stakeholders must be deceived with ceremonial actions to ensure optional control, and rather suggests that management control systems may in fact be designed to reflect and balance the various interests, how they are used to communicate interests, and the role they play in the decision process. It is argued in this that the reflection of interests will be related to the nature of stakeholders and how salient they are to the firm in the proposed model which draws from Mitchell et al. (1997).

The concept of balance has not been thoroughly explored in the management accounting literature. Questions remain: what does balance mean? How is it achieved? Should balance be considered a process or an outcome? And how are management control systems be design and use to enable balance or balancing? Most attempts to understand this problem have been in studies of performance measurement (e.g. Kaplan and Norton; Brignall and Modell 2000). Much more research is required to enable greater acceptance of the idea that balancing multiple stakeholder objectives is achievable through management control system design and identifying the condition under which this is possible.

Section 5 conclusion

The objective of this paper was to present an argument that research adopting institutional perspectives on management control systems, particularly those which deal with the issue of multiple and conflicting objectives, will benefit by building into their frameworks stakeholder classification models from the stakeholder literature.

Institutional theory enables us to explain that management control systems are shaped by more than just technical environment and rational choices on the efficiency of systems. Rather there is a dynamic interplay with the social processes of the external organisational field (Modell 2002). The extent literature in this area has provided valuable insights to explain how and why accounting practice and change takes place in various organisations, and largely attributes these to the power-relations possessed by constituents in the organisational field. One major limitation of these institutional perspectives is that lack of analytical tools to deepen the analysis of how and why stakeholder interests appear in the extent, design and implementation of a variety of controls in different organisations. The stakeholder literature has made several advances in terms of identifying who stakeholders are, what they want, defining their attributes and relationship with the firm and developing models to classify these issues. By drawing on these models, researchers can advance the level of analysis on the forces shaping management control systems. This is particularly important given the developments in management studies recognizing that organisations stakeholder and objectives are more broadly defined and as such the management control system research should reflect this.

Opportunities for future research

This article presents a number of avenues for future research by highlighting the limitations in extent literature adopting institutional perspectives on management control systems. Of particular interest here is the progression of understanding on how the interests of multiple and conflicting stakeholders become apparent in the control systems. Researchers may extend the current body of research by drawing on models from stakeholder literature which classifying stakeholders. Institutional perspectives have gone to a certain extent by examining the power relationship between constituents and the organisation as an explain as to why certain accounting practices have been observed, however, it is argued that greater analysis is necessary to obtain a deeper understanding of how and why stakeholder interests are prioritised and traded-off in certain ways in the extent, design and implementation of management control systems. By adopting models such as Mitchell et al (1997) researchers will be able to conduct a more comprehensive analysis of the nature, interests and attributes of each stakeholder group to better explain their relationship with the firm and the subsequent reflection of these interests in the management control systems.

While this would be the most significant advancement of the current frameworks used to analyse institutional impacts of the management control systems some additional areas for development are also available. First, empirical research investigating institutional impacts on management control systems have been limited in the types of controls examined. Formal controls such as budgets, performance measurement and costing systems have been the primary focus of such research. Researchers are encouraged to broader the type of controls looked at and consider how these controls operate as a package to reflect the multiple and conflicting interests of stakeholders. Furthermore, the empirical settings have also been limited to single case studies in heavily institutionalized organisations such as the health care industry, university sector and electricity industry. Research can be expanded by conducting field studies across and within industries examining organisations which are susceptible to different stakeholder relationships and where the power structure of each stakeholder group varies.

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