

Re-conceptualizing Organizational Research in Indonesia – A Future Research Framework

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Abstract

The problems of corruption, collusion and nepotism, known by its abbreviation as *KKV* that have been widely institutionalized within the Indonesian society as acceptable practices, make formal systems – organization, organizational control systems and accounting included – decouple from their intended role as planning and controlling devices. Despite efficiency considerations, a symbolic window dressing to legitimize managerial conducts – either at macro or micro levels often becomes the main reason to adopt the systems. Institutional theory provides an alternative framework for researchers in the organizational area to study the phenomena in their natural contexts – to understand how formal organization, management techniques and accounting adopted and used in their actual practices.

Keywords: institutional theory; institutionalization; decoupling; myth and ceremony; legitimacy

Introduction

This paper intends to establish a theoretical viewpoint to interpret the adoption of formal organization and organizational control systems in Indonesia. The adoption of formal organization in the modern state of Indonesia cannot be separated from the role of New Order government under the Suharto era. It was

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during that era the Indonesian government robustly promoted formal organization as a way to be part of a modern state and society. However, it was the New Order government which promoted values and practices undermined the role and function of formal organization and organizational control systems – Corruption, Collusion and Nepotism known as *KKN* to the Indonesian society. As a matter of facts, formal systems had been widely adopting as a *symbolic window dressing*.

Institutional theory that provides a theoretical framework for analyzing the process through which the organization relates to its environment is appropriate to study organizations in these contexts. The way how formal system – organization structure, organizational control systems and accounting – exercised reflects the way how Indonesian society adopting the New Order's structures, culture and routines.

Institutional theory perceives that actors in organizations are passive in adopting macro's structures, values and routines. This view is to some extent problematic given the fact that in Indonesia, the actors are often actively involved and initiate the adoption. To overcome the problem of actors' passivity, this paper incorporates Weberian perspectives of closure theory of class, status groups and parties to analyze the struggle to hold power and resources among the interest groups within the organizations. Weber asserts that the plurality of contending groups of classes, status groups, and parties within organizations, whose economic, social and political interests could differ and overlap, is a "multiple-sided process of conflict on many fronts" (Chua and Poullaos, 1998, p. 159) that involves a power struggle inside. A theory of power concerning power mobilization that is developed by Hardy (1996), accordingly, is essential to be used in the model that will be developed in this paper in an attempt to analyze the power struggle.

The Genesis of Institutional Theory on Organization

Although institutions were identified and analyzed quite early by economists, political scientists and sociologists from the middle of last century, "organizations, as distinctive types of social forms, were not distinguished conceptually until relatively recently" (Scott, 1995, p. 16; Powell and DiMaggio, 1991; DiMaggio and Powell, 1983; Zucker, 1977; Meyer and Rowan, 1977). The early efforts of institutional studies on organizations can be traced back to the early efforts by the translation of Weber's work on bureaucracy into the English language. The translation stimulated many studies on organizations among sociologist at Columbia University, the Parsonsian institutional approach, the work of Simon (1945/1957) at Carnegie Mellon University and his

collaboration with March in 1958 and cognitive theory in social psychology (Scott, 1995, p. 17-22).

New Institutionalism developed during the mid-1970s across the social sciences. A successful effort to introduce institutional arguments into organizational sociology was made by Meyer and Rowan (1977) and Zucker (1977). Building on the institutional conception of Berger and Luckmann (1967), Meyer and Rowan (1977) believed that organizations were a result of rationalization of cultural rules functioned as myths which were adopted at the expense of organizational efficiency. Meyer and Rowan (1977, p. 341) said that "to maintain ceremonial conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures and actual work activities". Therefore, Meyer and Rowan concentrate on a macro perspective of organizations by emphasizing the impact of changes in the wider institutional environments on organizational forms.

DiMaggio and Powell (1983) developed and elaborated further this perspective by identifying three important institutional mechanisms - coercive, mimetic and normative through which institutional norms took effects on organizational fields. They emphasize structural similarity (isomorphism) as a result of competitive and institutional processes. Meyer and Rowan (1992) added the macro perspective by suggesting that although technical and institutional forces shape organizations, certain types of organizations are more subject to one than the other.

Zucker, on the other hand, emphasizes the micro perspective of institutions. She claims that institutional isomorphism among organizations often focuses on the content rather than the process of institutionalization. A micro-level approach focuses upon "institutionalization as a *process* rather than as a state; upon the cognitive processes involved in the creation and transmission of institutions; upon their maintenance and resistance to change; and upon the role of language and symbols in those processes" (Zucker, 1991, p. 104). Thus, a micro perspective of institutions emphasizes the power of cognitive beliefs to anchor behaviour.

Institutional Theory and Institutionalization

Institutional theory as a way of looking at organizations draws its name from the existence and importance of objective and exterior social knowledge to organizational behaviour (Fogarty, 1992, p. 332). It is assumed that the primary determinant of organizational structure is pressure exerted by external and internal constituencies on the organization to conform to a set of expectations (Brignall and Modell, 2000, p. 288). An institution, as a product of

institutionalization, is described as an organized, established, procedure often represented as the constituent rules of society that are experienced and analyzable as external to the consciousness of individuals (Jepperson, 1991, p. 143). In a more practical way, it is defined as regulatory structures, governmental agencies, laws, courts, professions, interest groups and public opinions (Scott, 1987a, p. 498-499; Oliver, 1991, p. 147) that have the ability to exert pressures on organizations and their members.

Therefore, since organizations exist in a social environment, with their predictable sequences of action and reaction (Oliver, 1991, p. 146-148), the theory primarily concerns cultural and social behavioural influences that construct rules, values and norms to provide legitimacy for the organizations when complied with. These social systems provide a source of legitimacy in the forms of social approval for organizations to maintain their activities (Fogarty, 1992, p. 333). In this case, organizational structures, therefore, become "reflections of rationalized institutional rules (Meyer and Rowan, 1977, p. 340), "symbolic displays of appropriate conformity" (Scott, 1987a, p. 507), and "shared knowledge and belief systems" (Scott, 1995, p. 13). Adopting structural attributes displayed by other significant organizations occasionally manifests gaining legitimacy through an alignment with rationalized institutional myths.

The institutionalization of an organization depends upon its perceived legitimacy. In Ritti and Silver's point of view (1986, p. 27), it depends on the ability of the organization to design the myth about itself and that, once created, this myth becomes part of the stock of a "thing taken for granted" within the current organizational culture. Accordingly, it is believed that a common means of gaining legitimacy is alliance with some rationalized institutional myth (Meyer and Rowan, 1977) occasionally manifested by the adoption of structural attributes displayed by other influential organizations through the process of isomorphism (DiMaggio and Powell, 1983).

Meyer and Rowan (1977) emphasized the role of rationalized belief systems in providing a structure for meaningful interactions and acceptable patterns of behaviour. "Symbolic elements of institutions are contained in socially constructed systems of shared meaning and it is through these elements that social control is exerted on organizations and in their decision making processes. (Accordingly), the symbolic functions of institutions are imposed upon organizational form and action through regulatory mechanisms or processes" (Nicolaou, 1999, p. 132 - 133).

Accounting, for example, symbolizes a rational tool for the managerial decision-making process taken within the organization. Accounting as a technical-calculative approach, highlights the meaning of rational tools in modern capitalist society (Weber, 1978), and thereby it is objective. Due to this

perspective, accounting numbers often used as symbolic considerations in managerial conduct are to be seen as rational and objective. Accounting has become a myth that cannot be tested objectively but is rationalized through the establishment of rules that have little to do with technical or economic efficiency (Scott, 1987, p. 114).

1.1 As a construct of the social environment, “institutionalization guides the way activities, processes, cultural events and organizations become accepted as ‘institutions’ and become viewed as normal and expected in everyday society” (Roggenkamp and White, 2001, p. 1060). Jepperson (1991, p. 150) points out that the process can be delivered through formal organization, regimes, and culture. Accordingly, structures, processes and roles become routinized, formalized and embedded in the organizational fabric and are self maintaining over long periods of time without justification, and resist change (Zucker, 1987, p. 446).

Since institutionalization has been defined as “the process by which actions become repeated over time and are assigned similar meanings by self and others” (Scott, 1987a, p. 495), institutional theory emphasizes the pressure and constraints of the institutional environment. Institutional theorists recognize that organizational participants can be constrained by institutional arrangements that limit the choice of variables, restraining certain patterns of resources allocation and prohibiting certain courses of actions (DiMaggio and Powell, 1983). It can be inferred that institutional theory sees formal structures of organizations as a reflection of the myths of their institutional environments (Meyer and Rowan, 1977, p. 341) that were built into society as a “reciprocal typification of habitualized actions by types of actors” (Burger and Luckmann, 1967, p. 54). “Such rules may be simply taken for granted or may be supported by public opinion or the force of law” (Meyer and Rowan, 1977, p. 341).

Institutional Isomorphism

Weber (1978) contended that bureaucracy, the rational spirit of the modern organization, was so efficient and powerful means of controlling people and, once established, bureaucratization was irreversible. He emphasized the role of accounting as a means of economic calculation and decision making in modern capitalism, which was needed, therefore, to calculate the most efficient way of rationally orienting economic transactions. Stated in Brubaker’s words (1984, p. 11), “social structure of the rational market exchange elicits the *subjective disposition* to act on the basis of impersonal calculation, money accounting provides an *objectified, supra-individual technology* for carrying out these calculations, for determining unambiguously the ‘best’, meaning the most profitable, opportunity for exchange”.

However, as mentioned by DiMaggio and Powell (1983, p. 147), the causes of bureaucratization and rationalization have changed. They state that structural change in organizations seems to be driven by processes that make organizations more similar without necessarily being more efficient and competitive. This process of homogenization is called isomorphism. Hawley (1968) defines isomorphism as a constraining process that obliges a unit in the population to resemble other units that face the same set of environmental conditions. Because of isomorphic pressures there is a tendency for organizations within a given domain to become structurally and practically similar. This process that leads to organizational homogeneity, is called institutional isomorphism (DiMaggio and Powell, 1983; Covaleski, et al, 1993; Carpenter and Feroz, 2001; Nicolaou, 1999).

To cope with environmental uncertainty, organizations may undertake isomorphic activity in a rational and deliberate manner (Galaskiewicz and Wasserman, 1989). In this case, they are aware of imitating others in their environment. Furthermore, organizations may also undertake actions that are isomorphic without realizing that they are imitating other environmental players. They may attribute rational objectives to the isomorphic response, when in fact little rational evidence exists to justify organizational actions. The latter process, while seemingly unlikely, is completely in accordance with the concept of institutionalization and the notion that institutional processes and functions are often taken for granted. The concept is a useful tool for understanding the politics of ceremony that encompass modern organizations (DiMaggio and Powell, 1983, p. 150). This relates to organizational competition for political power, social fitness and institutional legitimacy.

DiMaggio and Powell (1983) identify three mechanisms through which institutional isomorphism occur: 1) Coercive isomorphism that stems from political influence and the problem of legitimacy. It is basically the response to "formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function" (p. 150); 2) mimetic isomorphism as a result of standard responses to uncertainty. In this situation, organizations tend to model themselves on other successful organizations; and 3) normative isomorphism that is associated with professionalization. This arises when "professionals operating in organizations are subject to pressures to conform to a set of norms and rules developed by occupational/professional groups" (Abernethy and Chua, 1996, p. 573)

Coercive Isomorphism

Coercive isomorphism is driven at least by pressure from other organizations on which an organization is dependent and an organization's pressure to conform to the cultural expectations of the larger society (DiMaggio and Powell, 1983, p. 150). Such cultural expectations that could be an institutional environment reflect the conformity of an organization with public expectations and demands. The pressure could be sensed as force, as persuasion, or as invitations to join in collusion. Included within the category of coercive pressures are those that emanate from government mandate, resource interdependence, state-sponsored legitimacy, and more subtle political processes (Lawrence and Winn, 2001, p. 628).

In some situations, organizational change is a direct response to government mandate (DiMaggio and Powell, 1983; Lawrence et al., 2001, p. 628); public demand (Nicolaou, 1999); and resource dependence such as financial dependence (Carpenter and Feroz, 1992; 2001) and knowledge and equipment/technological dependence. Conformity to these pressures is more often ceremonial than actual since the main purpose is to gain and maintain organizational legitimacy (DiMaggio and Powell, 1983). Accordingly, it can be said that conformity with institutionally acceptable structures and practices leads to legitimacy.

Imposition is a mechanism used by regulatory institutions to influence the organizational structures. This refers to the situation when institutional elements that are created as a social response to organizational conflict with the organizational field, interpret societal standards and impose constraints on the organizational structures and processes (Grewal and Dharwadkar, 2002, p. 86). Even though the organization can either resist or accept them, there is a tendency that it meets such impositions with resistance and institutes superficial/ceremonial changes to protect against the unwanted consequences of noncompliance. Once enacted as laws, the constraints are likely to force organizations to make necessary changes in their structures and processes (DiMaggio and Powell, 1983, p. 150). Accordingly, imposition can be distinguished between imposition by means of authority and imposition by means of coercive power (Scott, 1987, p. 501-502).

Research using institutional theory undertaken by Covalleski and Dirsmith (1988, p. 585) found that a state's budget, as the end product of the processes of institutionalization was infused with power and self-interest influence. They also explain how powerful groups and individuals use power to enforce compliance with institutional rules when their interests are threatened. In this case, DiMaggio and Powell (1983) identify budgeting as a specific form of

coercive isomorphism that is often used by government for funding requirements.

Mimetic Isomorphism

As stated by Palmer et al. (1993, p. 104), institutional theory assumes that at the time an organization is being founded or reorganized, it selects among alternative structures or practices on the basis of efficiency considerations. Subsequently, the organization will adopt forms that are considered legitimate by other organizations in its field, regardless of the structures' or practices' actual efficiency. This process has occurred as a response to environmental uncertainty caused by organizational technologies that are poorly understood (March and Olsen, 1976); goals ambiguity; or environment that creates symbolic uncertainty (DiMaggio and Powell, 1983, p. 151). Therefore, faced with unavailability of a clear course of action, it is sensible that organizational leaders may decide that the best action is to copy a successful peer.

Uncertainty is a powerful force to promote imitation. As modeling is a response to uncertainty (DiMaggio and Powell, 1983), mimetic isomorphism, a notion identified by Scott (1995) as the cognitive pillar of institutionalization, is a process of organizations to copy similar organizations in their field that they perceive to be more successful and legitimate. It can be said that the process is a response to organizational uncertainty in identifying the best course of action (Carpenter and Feroz, 2001, p. 571). "The ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than to any concrete evidence that the adopted models enhance efficiency" (DiMaggio and Powell, 1983, p. 152).

Accordingly, "choice-making in institutions is often symbolic in the sense of window-dressing activity" (Mouritsen, 1994, p. 198). To the organization, it is important to reassure external audiences of the existence of rationality. Organizations as institutions need to communicate to their observers that they make legitimate decisions in rational matters as is proved by the use of the process used by successful organizations within the same field. Borrowing Lawrence et al.'s terminology (2001, p. 628), this behaviour appears to be associated with effectiveness. The phenomenon reflects "symbolic behaviour (whereby) individuals and groups are frequently hypocritical, reciting sacred myths without believing them and while violating their implication" (Mouritsen, 1994, p. 199).

Normative Isomorphism

Professionalization can promote procedural legitimacy to set up a working environment, control output, and create a basis for occupational

autonomy (DiMaggio and Powell, 1983; Scott, 1987). There are two main sources for the pressure of professionalization: first, formal education and legitimation in a cognitive base produced by university specialists provides legitimacy for intellectual resources in a society; and second, the growth and elaboration of professional networks that span organizations propagate similar and new standards and models (DiMaggio and Powell, 1983, p. 152). Both are important sources of institutional isomorphism. It is collective mobilization of those with cultural licenses and action by those that have “collective authority over what is acceptable theory” (Meyer and Scott, 1992, p. 202) that can only successfully challenge institutional legitimacy. Therefore, they believe that legitimacy is a question of cultural theory.

Bureaucracies that continuously engaged in cultural innovations are more likely to have influence when professional associations support the efforts (Meyer and Scott, 1992, p. 200; Meyer and Rowan, 1977, p. 346-347). Carpenter and Feroz’s study (2001) found that professionalization of the government accounting community has created a constant institutional pressure for governments to adopt and use GAAP. This is consistent with the suggestion by institutional theory that myths constructed by professional associations have robust legitimacy based on the belief that they are rationally effective (Meyer and Rowan, 1977, p. 347). Thus, normative pressures stem from cultural expectations that actors feel compelled to honour because they are rooted in professional affiliations (Lawrence et al., 2001, p. 628).

Interests and Institution

An institutional perspective assumes that organizational participants can be constrained by arrangements that limit the choices available, restraining certain patterns of resources allocation and prohibiting certain courses of actions (Powell and DiMaggio, 1991). As viewed by most institutional theorists (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Zucker, 1987), besides institutional agents, institutional constituents such as public opinion and interest groups exercise pressures and expectations on organizational actors. As a result, organizations may engage actions that are less motivated by self-interested behaviour to comply with external norms or practices. The reason is simply because it would be unthinkable to do otherwise (Rowe and Wehrmeyer, 2001).

However, “elite intervention may play a critical role in institutional formation” (Powell, 1991, p. 191) that once established, will be supported and adopted by organizations that benefit from prevailing conventions. Elites could be the architects and products of the institutionalized rules and expectations they create. Although in the institutional literature power is mentioned implicitly, the interaction between the institutional environment and organizations needs to be

related to power as a reflection of elites' self-interests. Organizations may be interest driven, however interests tend to be socially defined from the institutional perspective (Oliver, 1991, p. 149). DiMaggio (1988, p. 9) supports this argument by saying that "actors' self-interested behavior tend(s) to be smuggled into institutional arguments rather than theorized explicitly".

Related to this issue, Scott (1987a) has clearly mentioned that interests tend to be institutionally defined and shaped within the institutional perspective. He clearly mentions that interests are determined and pursued within organizations in the forms "that actors in one type of setting, called firms, pursue profits; that actors in another setting, called agencies, seek larger budget; that actors in a third setting, called political parties, seek votes; and that actors in an even stranger setting, research university, pursue publications" (Scott, 1987a, p. 508). Hence, powerful actors within an institution are always committed to some values or interests in shaping organizational structure.

The nation-state and the professions are the forces for rationalization in the modern era (DiMaggio and Powell, 1983, p. 147). Nevertheless, they are not necessarily sharing the same interests. Professional bodies generally develop decentralized administrative structures that leave maximum discretion in the hands of individual practitioners. By contrast, state officials tend to create centralized bureaucratic arrangements that give discretion to those at the top of the structure and allow relatively little autonomy to local managers. Therefore, state actors are more likely to employ coercion in pursuing their ends and more likely to attempt to create a formal organization network to carry out their purpose. "The professions are expected to rely primarily on normative or mimetic influences and to attempt to create cultural forms consistent with their own aims and beliefs" (Scott, 1987a, p. 509).

Political contests among competing interests will determine the ability of environmental agents to define the reigning forms of institutional structure (Scott, 1987a, p. 509). Institutionalized rules and structures, accordingly, depend on the power of the organizational actors in translating and using societal expectations. Scott (1987a, p. 509) provided the insight by arguing that "outcomes will be influenced not only by differential resources and sanctioning facilities but will also be strongly shaped by the agents' differential ability to lay successful claim to the normative and cognitive facets of political processes: those identified by such concepts as authority, legitimacy and sovereignty". As emphasized by Covalleski et al (1993, p. 66), the process of institutionalization is "profoundly political" and reflects power of interests and actors who mobilize them.

In defining organizational fields, DiMaggio and Powell (1983) explicitly explain the role of actors' self-awareness and self-interests. They hold the view

that “fields only exist to the extent that they are institutionally defined. The process of institutional definition, or ‘structuration’, consists of four parts: an increase in the extent of interaction among organizations in the field; the emergence of sharply defined inter-organizational structures of domination and patterns of coalition; an increase in the information load with which organization must contend, and the development of a mutual awareness among participants in a set of organizations that are involved in a common enterprise” (DiMaggio and Powell, 1983, p. 148)

Effects of Institutionalism on Organization

It has been realized that institutionalization is a cultural and political process that concerns legitimacy and power much more than efficiency (Carruthers, 1995, p. 315). Many studies demonstrated that the technical surface tends to cover the hidden agenda of political and cultural issues (Grandlund, 2002; Carpenter and Dirsmith, 1993; Carpenter and Ferroz, 1992; 2001; Bealing et al, 1996; Brignall and Modell, 2000; Covalieski, et al, 1993; Collier, 2001). This situation creates conflicts between institutional/ceremonial rules as organizational rational choices in demonstrating legitimacy to the public and technical rules/efficiency (Meyer and Rowan, 1977; Meyer, 1992).

Scott (1995, p. 125) asserts that organizations that confront both ceremonial and technical rules often respond to them “by developing specialized units equipped and empowered to deal with each type of demand. Loose coupling between differentiated units is a characteristic feature of all organizations, indeed of all open systems”. Even though these responses, according to Meyer and Rowan (1977), are more symbolic than real, Scott (1995, p. 129) maintains that their meanings are shaped and exert great social power and also that symbolic structures represents organizational concern to environmental agents.

Institutionalized organizations protect their formal structures from evaluation on the basis of technical performance by minimizing inspection, evaluation, and control of activities and by handling coordination, interdependence, and mutual adjustments among structural units informally (Meyer and Rowan, 1977, p. 357). As an activity to maintain ceremonial conformity, the advantages of decoupling or loose coupling are clear. It enables organizations to legitimate formal structures while the actual activities differ in response to technical and practical considerations (Meyer and Rowan, 1977, p. 357).

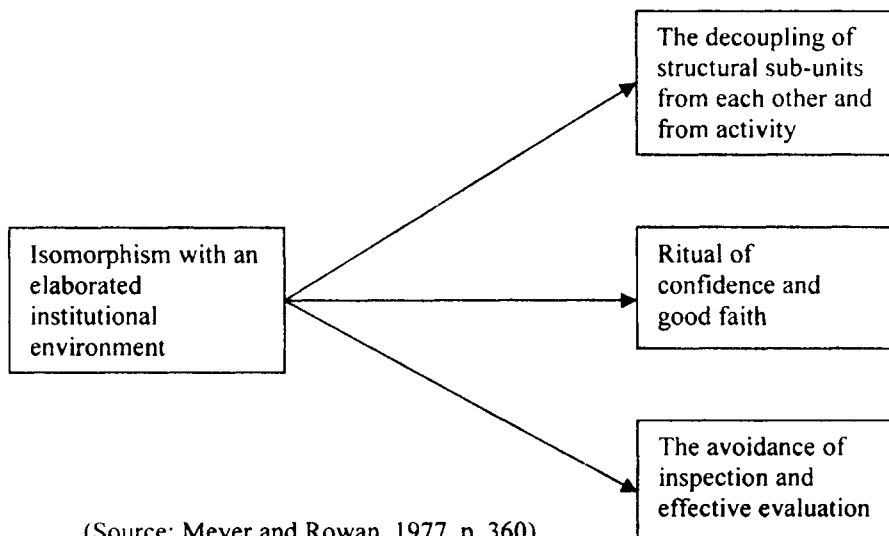
Consistent with the notion of decoupling, organizational formal structures that reflect “a kind of symbolic window-dressing” (Carruthers, 1995,

p. 315) need to appear rational in front of external constituents (Mouritsen, 1994, p. 198). As a response to external pressures, for example, management control systems used by organizations tend to reflect the symbolic and ceremonial role of appearing efficient and responsive to financial constraints rather than as a technical-rational role consideration (Ansari and Euske, 1987; Covalleski and Dirsmith, 1988; Berry et al, 1985).

The assumption that people are acting in good faith keeps the activities of decoupled organizations in orderly fashion (Meyer and Rowan, 1977, p. 357-358). This logic of confidence is directed to maintain plausibility and legitimacy of the organization itself in order to avoid “embarrassing incidents and preserves the organization from the disruption of an implausible performance by an actor” (Meyer and Rowan, 1992, p. 90). The most visible aspect of the logic of confidence in the educational system, for instance, according to Meyer and Rowan (1992, p. 91) is the myth of teacher professionalism even without necessarily having professional training for teaching. This has happened because the environments of all organizations that have maintained high level of confidence and good faith have highly institutionalized rituals of inspection and evaluation (Meyer and Rowan, 1977, p. 358). Thereby, inspection and evaluation that tend to delegitimize organizations is ceremonial.

The following diagram (figure 1) shows the effects of institutional isomorphism on organizations.

Figure 1: Effects of Institutional Isomorphism on Organizations



Managerial Responses to Institutional Processes

Early institutional theorists assumed that, confronted with external institutional demands, organizations have no option but to comply (see, for example: Berger and Luckmann, 1967; Selznick, 1957). However, recent institutional theorists challenge this idea (Oliver, 1991; Scott, 1995; Beckert, 1999). Focusing attention on the variety of individual organizations' responses, Oliver (1991) combines institutional and resource dependence perspectives to accommodate interest-seeking and active organizational behavior arguing that organizational responses to institutional pressures are not assumed to be invariably passive and conforming across all institutional conditions. Both perspectives have similar assumptions that organizational choice is possible within the context of external constraints, and that organizations always attempt to obtain stability and legitimacy (Oliver, 1991, p. 146-150; see also, Carpenter and Feroz, 2001).

Within organizations, management may respond to institutional pressures differently. Accordingly, Oliver (1991) develops a conceptual framework to examine and evaluate organizational responses to pressure toward conformity with institutional processes. The pattern in which the institution is diffused is distinguished between coercive pressure and voluntary diffusion stemming from mimetic or normative isomorphism (DiMaggio and Powell, 1983). In this case, she proposes five strategic responses, which vary in active agency by organizations from passivity to increasing active resistance: acquiescence, compromise, avoidance, defiance, and manipulation as seen in the following figure 2.

Strategies	Tactics	Examples
	Habit	Following invisible, taken for granted norms
Acquiescence	Imitate	Mimicking institutional models
	Comply	Obeying rules and accepting norms
constituents	Balance	Balancing the expectations of multiple
	Compromise	Pacify
institutional elements		

	Bargain	Negotiating with institutional stakeholders
Avoid	Conceal	Disguising nonconformity
	Buffer	Loosening institutional attachments
	Escape	Changing goals, activities or domains
Defy	Dismiss	Ignoring explicit norms and values
	Challenge	Contesting rules and requirements
	Attack	Assaulting the sources of institutional pressure
Manipulate	Co-opt	Importing influential constituents
	Influence	Shaping values and criteria
	Control	Dominating institutional constituents and processes

(Source: Oliver, 1991, p. 152)

Figure 2: Managerial Responses to Institutional Processes

The Problematic Concept of Decoupling

“Modern Western society privileges a particular form of rationality, and so organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality” (Carruthers, 1995, p. 315). Taking this view into account, institutional theory has placed a strong emphasis on symbols in order for an organization to attain legitimacy. Organizational structures become symbolic displays of appropriate conformity to institutionalized rules (Scott, 1987, p. 507). “The way organizations are organized and operate, to the extent they are visible to the public, are purposely designed to accommodate social expectations” (Fogarty, 1992, p. 333).

However, from a technical point of view, what organizations actually do is unclearly connected to what their structures suggest they do. That means the accomplishment of complex and probably indeterminable work of organizations requires decoupled internal operating processes (Meyer and Rowan, 1977, p. 340-341). Decoupling is significant due to a substantial discrepancy between formal structure and organizational practice in the forms of attribution rationalized procedures and rules to cultural rather than technical processes.

The relationship and the difference between technical and institutional factors are complex and sometimes, the two are hard to distinguish (Scott and Meyer, 1991, p. 123-124) whereas the real world keeps confusing the two (Carruthers, 1995, p. 318). Scott and Meyer view the relationship as mutually exclusive states. They consider that at the same time, societal sectors could be more or less technical and more or less institutional. Banks, airline companies, and public utilities are examples of organizations that are subject simultaneously to have developed both kinds of pressures since the organizations face efficiency/effectiveness demand as well as pressures to conform to procedural requirements. In response, the organizations tend to establish relatively elaborate administrative apparatus.

In this context, decoupling plays an important role by allowing an organization to maintain its formal structure without having to compromise its actual operations. However, it is unlikely that critical audiences give legitimacy to an organization that visibly violates its own formal structures so that it has to be managed carefully (Carruthers 1995, p. 319).

Orton and Weick (1990, p. 206-207) identify three factors as possible causes of decoupling/loose coupling. The first factor is causal indeterminacy that refers to "unclear means-ends connections, which are explored in writings on bounded rationality, selective perception, uncertainty, ambiguity, and intangibility of production materials" (p. 206). The second factor, that is called fragmented external environment can typically take the form of dispersed stimuli or mismatched expectations as illustrated by many researchers who have argued that organizations must somehow reconcile incompatibilities between institutional pressures and technical pressures (see, for example: Meyer and Rowan, 1977; Covaleski and Dirsmith, 1983; Collier, 2001). Lastly, fragmentation of an internal environment such as "few participants are constantly involved or care about every dimension of the organization's

* Diverse understanding in applying the concept of organizations as loosely coupled systems has inspired Orton and Weick (1990) to develop a loose coupling theory that focus separately on causation, typology, effects, compensations, and outcomes.

operations" (Pfeffer, 1978 as quoted by Orton and Weick, 1990, p. 207) can lead to loose coupling or decoupling.

In organizational perspective, accounting practices are often viewed as a legitimating instrument for organizations through the construction of an appearance of rationality and efficiency (Covaleski *et al.*, 1996, p. 8-9; Carruthers, 1995, p. 319). Budgeting, for example, is possibly considered as a symbolic performance rather than a decision making processes (Anshari and Euske, 1987); a means of communication rather than a means of control; and an expression of values rather than an instrument for action (Czarniawska-Joerges and Jacobsson, 1989, p. 29). If accounting is used to justify decisions and to make them look good rather than to make them rational, the rationalized accounting is decoupled from actual organizational decision-making. However, accounting manipulations must be done behind the scenes in order to be effective. The organization will confront difficulty in maintaining appearances if the decoupling becomes too transparent (Carruthers, 1995, p. 319).

Borrowing Mouritsen's idea (1994, p. 205), as an institution, accounting is a cultural object that transmits criteria of appropriateness across different organizational and social contexts in the form of the financial criteria of rationality. Since appropriateness is socially constructed, rationality is determined by social interaction so that *accounting is not merely systematic empty window-dressing*. In order to be effective, accounting presupposes the existence of institutional patterns relevant to its operation that are reinforced through accounting systems used as facilitating media. Accordingly, accounting systems bind social contexts since they carry notions of formal rationality, productivity and profit-maximization across particular organization contexts. The accounting figure, taking into account Weber's formal rationality, represents managerial performance in "rationalized society" (Mouritsen, 1994, p. 205).

Incorporating Power and Theory of Closure

Power has been viewed as *functional* in the hands of managers who use it in the pursuit of organizational goals, and *dysfunctional* in the hands of those who challenge the goals and seek to promote self-interest. It has been viewed as the means by which *legitimacy* is created and as the incarnation of *illegitimate* actions. Power has been equated with *formal* organizational arrangements and as the *informal* actions that influence outcomes. It has been seen as *conditional on conflict* and as a means to *prevent conflict*. It has been defined as a resource that is *consciously* and deliberately mobilized in the pursuit of self-interest, and as a system of relations that knows

no interest, but from which some groups *unconsciously* and inadvertently benefit. It has been seen as an *intentional* act to which causality can be clearly attributed as an *unintentional*, unpredictable game of chance. The study of power has created a *behavioral* focus for some researchers and *attitudinal* and ideological factors for others. Power has been berated for being *repressive* and lauded for being *productive*. (Hardy, 1995, p. xx - xxi).

The quotation shows the confusion that exists concerning the definition of power. Power and politics cannot be separated. If power is to produce intended effects in line with perceived interests, "politics is the practical domain of power in action" (Burns, 2000, p. 569). Power is a force through which events can be affected, whereas politics involves those activities or behaviours through which power is developed and used in organizational settings (Pfeffer, 1981, p. 7).

Hardy (1996) develops a framework of power mobilization consisting of power over resources, power over processes and power over meaning that relates to process of institutionalization. Power over resources concerns the modification of the behaviour of others to influence specific actions by deploying or restricting key resources such as information, ability to hire and fire, rewards, punishments, funding, authority, expertise. It involves continual use of 'carrot and stick' persuasion/coercion.

Power over decision-making is creating new awareness by "opening up processes to new participants, issues and agendas" (Hardy, 1996, p. 7). The new awareness is directed to sustain the new behaviour within the existing institutional values and norms.

Power over meaning is directed to influence actor's perception, cognitions, and preferences to accept symbols, rituals/existing institutional structures and practices or to convince that institutional change is legitimate, desirable, rational or inevitable (Hardy, 1996, p. 7). This idea is consistent with Pettigrew (1977, p. 85) who states that "politics concerns the creation of legitimacy for certain ideas, values and demands-not just action performed as a result of previously acquired legitimacy. The management of meaning refers to a process of symbol construction and value use designed both to create legitimacy for one's own demands and to 'de-legitimize' the demands of others".

Power has become an important factor in Weber's closure theory of conflicting classes, status groups and parties. Classes, according to Weber (1978, p. 927) represent "possible, and frequent, bases of communal action". A 'class' is when a number of people that have in common a specific causal component of

their life chances are exclusively determined by economic interests in the possession of goods and income opportunities under the conditions of the commodity or labor market.

In contrast to classes, “a status signifier and a common identity or communal spirit” (Chua and Poullaos, 1998, p. 158) determines the existence of status groups. Weber’s (1978, p. 932) characterized status groups are not purely economically determined, but they are also closely associated with the “status situation” that is determined by “a specific, positive or negative, social estimation of *honor*”. They may be differentiated by religion, language, ethnicity, and gender. A study by Hammond and Streeter (1994) provides evidence of the long history of African Americans as a group that was excluded from the practice of accountancy by the dominant groups of White Americans through CPA certification processes that had been dominated by institutionalized racism. When, the status groups seek support from the government agencies for political action, they become parties or power groups (Chua and Poullaos, 1998, p. 158-159).

Proposed Organizational Research Framework

In spite of the lack of research evidence in Indonesia during the New Order era and after about the real role of formal systems adopted – organizational structures, organizational control systems and accounting (Wahyudi, 2004), Indonesian organizations continue to adopt the formal systems as being modern. Since the New Order government, Indonesia had been adopting western-style democratic governmental structures to be judged as a modern state. At the same time, the government, and Indonesian society in general, promoted values, interests and practices that contradicted the framework adopted, and tend to blend. Therefore, practically, institutional processes are routinely disguised as technical ones so that the government (and private institutions) can maintain their institutionally prescribed appearances via formal structures without having to compromise actual practices (Carruthers, 1995, p. 318).

This process of institutionalization had been taking place at the macro-level/environmental level and at the individual organizational level in Indonesia. At the individual organizational level, institutionalization is reflected in the forms of structures, processes and roles adopted from the macro-level and that become routinized, formalized and embedded in the organization and self-maintaining over long periods of time without further justification and elaboration (Zucker, 1987). Throughout the New Order government period, formal systems and structures had been used and utilized as a “symbolic window-dressing” (Mouritsen, 1994, p. 203) and “rationalized myth” (Meyer

and Rowan 1977). Widely practiced within the government bureaucracies and intensified by the bureaucratic-authoritarian regime of the government, the process of institutionalization of the systems and structures had been widely accepted by the organizations and Indonesian society. Decoupling/loosely coupling, therefore, becomes a significant issue and justified because formal structures, including accounting system, are not necessarily adopted for efficiency but primarily for legitimacy.

Private institutions had been widely imitating the way the New Order government managed the state. The modeling could be explained from two points of view. First, the New Order government's cultures, values and practices had achieved institutional status and become powerful myths, thereby those institutions needed to conform to obtain legitimacy. Within this view, externally initiated organizational, managerial and accounting practices are used to improve perceived organizational legitimacy[†]. The use accordingly is symbolic. Second, as a process, the institutionalization of the myths into the institutions was overwhelmingly political and reflected the interests and relative power of the institutions' power holders over other stakeholders.

The process of institutionalization at the organizational level can be associated with what Hardy (1996) called the mobilization of power over resources, decision-making and meanings. Those hold the power intentionally exercised the organization's resources to modify staff behaviour by using "carrot and stick" approaches and concentrating decision making processes in their hands. Exploiting language of the organizational development – a terminology that widely exercised by government officials to deter those who opposed government policies and actions, for instance, can influence staff perception, cognitions and preferences to accept existing power – to legitimize and "rationalize" domination of power holder.

Concepts of class, status groups and party of Weber can be used to enrich the analysis of the political struggle to exclude certain groups of ethnic and religion from organizations and the motives of the institutionalization process. It can be explained, for instance, when by design, those in power appointed staff members from his religious or ethnic group to dominate managerial positions in order to maintain and strengthen their position. At the end, the practices support the power holder.

The following figure 3 shows the proposed organizational research framework that can be used by those who intend to analyze the institutionalization of the New Order cultural and political values into

[†] This value had been taking place and widely accepting by Indonesian society since the New Order era of president Suharto.

organizations. The institutionalized processes that lead to organizational success may be considered “remote from the effect of efficient technical processes” (Roggerkamp and White, 2001, p. 1058). This framework provides incentives other than efficiency and effectiveness that drive organizational behaviour in which hypothetico-deductive research methodology that relies on statistical data analysis is seldom to catch the phenomena.

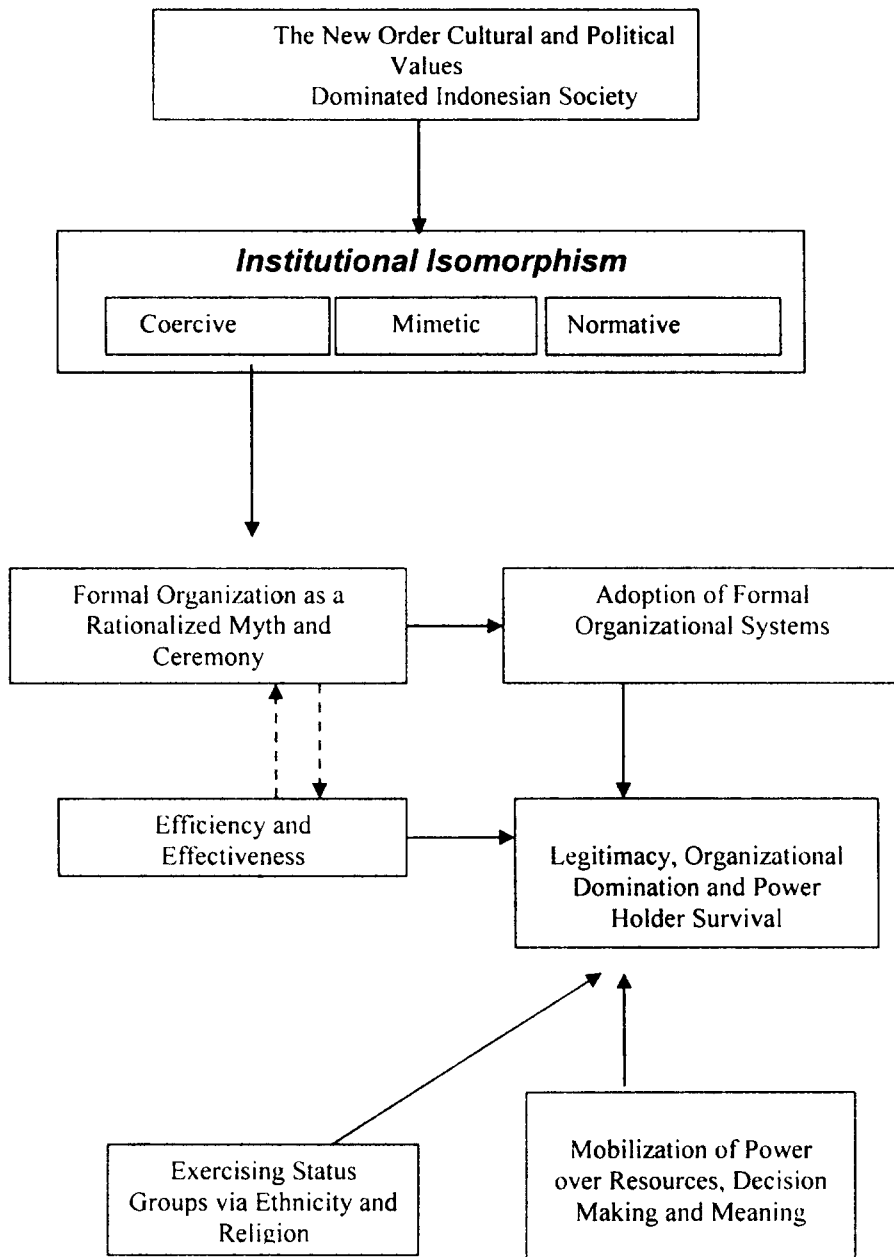


Figure 3: Theoretical Framework for Organizational Research

Concluding Remarks

The framework is essential to study organization and organizational control systems in Indonesia in their natural contexts via case studies. It paves the way for researchers enter into the process of interpretation by involving his/her understandings, experiences and expectations in the process (Moules, 2002). The process of research, therefore, is not merely letting the case speak for itself. Case studies that deeply involve the researcher into the subject being studied are encouraged to embrace this framework. This can be an alternative perspective and a valuable contribution to the Indonesian organizational scholars and postgraduate students who intent to explore organizations beyond its formal system adopted that most likely drive the organizational success.

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