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This paper aims to provide a better understanding of strategizing and accounting through an in-depth investigation of the budgeting practices in a large construction company. It proposes a microanalysis of budgeting conversations in which raw budget figures were questioned, debated, and modified before they were finally recorded in the accounts. Three micro-practices of strategizing in the context of the budget fabric are identified: activating local projects by invoking the usefulness of numbers; reporting to internal and external partners by constructing the plausibility of numbers; conciliating local contingencies to global coherence by authorizing acceptable numbers. These micro-practices contribute to maintaining a fragile but indispensable equilibrium between the control necessities and the autonomy of local managers in the context of the new partnership strategy. The paper ends by discussing the existence of an internal activity of smoothing of the accounts needed to accomplish the new strategy. Further research should discuss the implications of the budget fabric in order to better understand the role of strategizing and accounting at different levels of organizations.

Keywords: strategizing, budgeting conversations, budgetary slack, smoothing in practice

“There are inspirational parts to doing strategy – the getting of ideas, the spotting of opportunities, the grasping of situations. But there is also a perspiration – the routines of budgeting and planning... the sitting in expenditure and strategy committees” (Whittington, 1996, 732).

Introduction

This paper will look at the budget fabric in order to understand how strategy and accounts are enacted – and interplay - “in practice” (Whittington, 2006, Arhens & Chapman, 2007). It focuses on an accounting practice which is at the interface of the material activities that the actors aim to translate into the cold language of financial numbers: budgeting. Generally produced by middle management – a category considered as mainly in charge of “strategy in practice” (Balogun and Johnson, 2004, 2005; Mantere, 2005; Rouleau, 2005) -, budgets are supposed to be grounded by strategic orientations. In theory, the strategic targets are delineated into budgetary forecasts, with their financial amounts and their priorities. This top-down process is then supposed to be fed back by a bottom-up process (reporting) in which gaps between the expected world and the “real” one are analyzed in order to decide on corrective measures (Anthony, 1965, Simmons, 1987, Govindaradjian, 1988). Such a view assumes that the reporting activities are rationally and formally accomplished in conformity with strategic orientations. This paper will demonstrate that rather than correct their activities to bring them in line with global objectives, managers spend a large amount of time “playing with numbers” in order to adjust them to the performance indicators instead of changing the reality.

This paper is grounded in a case study of two subsidiaries of a French construction company, the fourth largest in its sector in France. Field research was conducted by the first author in a subsidiary located in the south of France (500 employees, 50 sites, dedicated to the construction of airports, schools and other public buildings). In-depth interviews were mainly held by the first author with management controllers, site engineers and operational managers. In addition, this researcher observed actual operations on-site for a full year (one day a week) and official documentation on the budgetary process was collected. Drawing on this data set, the paper proposes a microanalysis of three conversational sequences during the course of which we observed the raw figures of the budget being questioned, debated, and modified before they were finally recorded in the global accounts.

We will argue in the discussion that the main issue facing the actors involved was not the accuracy of the account that was thus generated, but the necessity of developing an interpretive flexibility between internal and external actors at the core of the strategic process. In the conversational sequences analyzed, the actors were not so much focused on what was true and false as they were concerned with defining which numbers were the acceptable ones. This resulted in numerous operations of “smoothing the accounts” which were accomplished through a set of specific micro-practices of strategizing in the context of budget fabrication: activating local projects by invoking the usefulness of numbers; reporting to internal and external partners by constructing the plausibility of numbers; conciliating local contingencies to global coherence by authorizing acceptable numbers. These micro-practices contributed to

maintaining a fragile but indispensable equilibrium between the control necessities and the autonomy of local managers in the context of the new partnership strategy.

The contributions of this paper are threefold. First, the paper contributes to developing research at the interface of strategizing and accounting by providing detailed empirical data on the dynamics of how numbers are practically negotiated through conversations. Second, it emphasizes the role of middle management in performing strategy through its neuralgic position in reporting financial data. Third, the paper provides a reflection about the interpretive flexibility of numbers and the way in which strategy is practically fabricated to produce an appearance of unanimity while still accommodating a diversity of distinct rationalities and logics.

The paper begins by briefly summarizing the literature about the recent attempts in strategy and accounting to understand how both are enacted in practice. The next section focuses on the case study, presenting the research design and providing an overview of the company's strategic orientation and the accounting process. The paper then reports three conversational sequences that illustrate how managers dealt with numbers in their budget reporting activity. In the following part, the paper proposes a model of smoothing the accounts in practice. Finally, the paper ends by suggesting that further research should discuss the implications of the budget fabric to better understand the role of strategizing and accounting at the highest level of organizations.

Strategizing and budgeting in practice: a missing link

Strategy and accounting are two disciplines that have recently been the subject of many attempts to better understand how both are enacted in practice in a variety of social situations. On the strategy side, a practice perspective on strategizing focuses on the day-to-day activities, routines and conversations of strategists and tries to understand who they are and what they do (Johnson, Melin & Whittington, 2003; Jarzabkowski et al., 2007; Whittington, 1996, 2006). According to Jarzabkowski et al. (2007), from a strategy-as-practice perspective, strategy is conceptualized "*as a situated, socially accomplished activity, while strategizing comprises those actions, interactions and negotiations of multiple actors and the situated practices that they draw upon in accomplishing that activity.*"

Until now, most empirical studies of strategizing that do exist typically deal with diverse management topics that can influence the making of the strategy. For example, many studies are concerned with the implementation of major change (Balogun and Johnson, 2004; 2005; Falkenberg & Stensaker, 2007; Rouleau, 2005), firm renewal (Regner, 2003) or the internal dynamic of top management teams (Paroutis and Pettigrew, 2007). The use of monitoring and control systems (Jarzabkowski and Wilson, 2002; Jarzabkowski, 2003), the coordination of the firm's capabilities and resources (Salvato, 2003; Ambrosini et al., 2007) and managerial skills (Samra-Fredericks, 2003; Hodgkinson and Clarke, 2007; Denis et al., 2007) constitute other examples of central topics of the SAP perspective.

Even though this perspective acknowledges the necessity of taking into account the role of managerial tools and models, very few studies deal with numbers. However, we can find two exceptions. In a recent paper, Denis et al. (2006) showed how numbers are powerful tools for the definition, transformation and diffusion of strategy. Drawing on a case study in a public hospital, this article shows how figures can, even in a system characterized by ambiguous

goals and diffuse authority, come to acquire and provide authority in organizations. By constructing the conditions of the objectivity of numbers, by demonstrating the consistency, the transparency and the competence of their numbers, and also by disempowering their adversaries, the promoters of the system of numbers finally succeed in conciliating diverse values and interests and embedding this **system** in a shared web of meaning. Even though this is an accurate argument to demonstrate the power of numbers in strategizing, the paper does not show how members of the Regional Board built the number system they draw upon. In fact, the paper focuses on the way the Board uses the number system to justify their restructuring decision. We now need more studies examining how numbers are actively constructed and interpreted by managers who are dealing with them in their daily practice, which can have an impact on the whole strategy.

Another exception is the work of Lowe and Jones (2004) which deals with the formulation of performance indicators and the emergence of strategy at the micro level within a single organization. The building of a strategic control system within a fishery company is analyzed through a representative selection of conversations between operations managers, marketing managers and accountants, dealing with the establishment of a system of key performance indicators. The paper describes how the impact on tacit knowledge and its transfer among the managers' team is essential in the making and implementation of the control system which is used to introduce a strategic change in the enterprise. This paper adds evidence on the necessity of looking more closely at the routines and conversations through which managers are negotiating the implementation of a numbers system in order to support a new strategy and calls for further studies to this effect.

On the accounting side, since Hopwood's (1972) seminal article, a constructivist view of the role of accounting data in performance evaluation and management control has been largely recognized (Chua, 1986, Hopwood, 1987, Burchell et al, 1980, Morgan, 1988, Miller and Napier, 1993; Mouck, 2004). Generally speaking, these works claim that numbers are more than neutral, they are the complex results of managerial preferences and organizational politics providing legitimacy and meaning within and around organizations (Arhens & Chapman, 2007). However, our knowledge of the actual dynamic of how figures are locally negotiated through conversations and routines, although not a neglected area, nevertheless suffers from a lack of detailed empirical analysis. While many of these studies locate accounting in a framework of communicative interaction, few have explored the interactive and communicational basis of accounting, in that they do not analyze the actual face-to-face "backstage" interactions involved (Samra-Fredericks 2005a, 2005b). In other words, it is argued that it is in the accounting process that reality is produced, but most researchers do not *show* how such production transpires in the daily practices of managers.

This is also true for the studies that have examined the role of budget in organizations. Following the works of March and Simon (1958), an important stream of research has tried to understand the impact of budget on people's behaviour (and respectively the impact of people on budgets (Hofstede, 1967, Argyris, 1952, Schiff & Lewin, 1968) and the biases (budgetary slack) that can occur in these behaviours (Cyert & March, 1963, Lukka, 1988). Most of the studies have tried to identify the *causes* -or the factors- of this budgetary slack creation. It is generally contended that a rigid budgetary control style (evaluation of employees mostly on whether or not they achieve their budget) might induce managers to negotiate for highly achievable targets (ie slack creation) or to focus on business matters that improve current period performance (ie managerial short term direction) while sometimes causing harm to the long-term effectiveness of the enterprise (Covaleski & al, 1987, Van der Stede, 2000, see

Dunk (1993) and Merchant (1985) for controversial evidence on this topic). The *consequence* of a slack has led to more controversial debates: is the slack functional or not? (Schiff & Lewin, 1970; Otley, 1978; see Merchant (2000) for an actualization of the debate). But none of these studies has really tried to enter into the daily practices of budgeting in order to understand better the purposes and the means of those who create and use the slack.

Until now, little research has been done to understand how both strategy and accounting are enacted – or performed - “in practice” through daily activities. In this paper, we will particularly look at the activity of budgeting. We consider that budgets are at the interface of the material activities that they aim to translate into the cold language of financial numbers and the organizational strategy that numbers need to represent and legitimize. More specifically, we will look at meetings showing how managers from different levels of the organization perform strategy through budgeting conversations. But before looking at these conversations, we will present the research design and provide an overview of the company’s strategic discourse and the accounting process of a site project.

The case study: budgeting in a construction company

The organization studied is a construction company, fourth largest in its sector in France. The field research was conducted by the first author in a subsidiary located in the south of France (500 employees, 50 sites, dedicated to the construction of airports, schools and other public buildings). This activity sector illustrates the transformations that contemporary organizations are undergoing: characteristics such as hands-on project management, a need for continued links between conception and realization, and an emphasis on multidisciplinary work. In the projects we studied, site engineers were given considerable autonomy in how they organized their projects and managed their workforce. Informal co-ordination, we were told, is the key to sustained competitiveness in this sector. Perhaps more than in other sectors, the dry language of figures faces the challenge of making sense at the core of a complex set of activities, with their contingent temporalities, adaptations and compromises.

In-depth interviews were held with more than 30 individuals (financial officers, operational managers, site engineers, management controllers, accountants, planners, software systems engineers). In addition, the first author observed actual operations on-site for a full year (one day a week). These observations included following and recording (where possible) day-to-day activities of accountants, management controllers and site engineers, visits to sites, and participating in budgeting committees involving operational managers, site engineers, management controllers and others. Official documentation on the budgetary process was collected. These formal materials were complemented by more informal relationships with two management controllers and one operational manager.

We concentrated our analysis on control meetings where the raw data, such as orders, billings, receipts, and the like, had periodically to be transformed into an overview of the state of a particular site. Formalized in the official policy directive, the aim of these meetings was “to compare the initial forecast with the revision of the final financial outcome in order to take corrective measures.”. Looking at these meetings allowed us to use a multi-level actors design (Mantere, 2005; Vaara & Laine, 2007) and to see how both operational and strategic decision-making processes were informed “in practice” through the budgeting process.

The first author observed 27 meetings of this kind over a period of 4 months, involving 9 sites projects in two subsidiaries of the company. Each time, a copy of the budget documents was retained and analyzed in the light of the conversation about this budget during the meeting. Because of the confidential nature of these meetings, it was not possible to record them, other than manually, with the limitations this kind of materialization implies (the impossibility of transcribing every word spoken, especially when participants speak at the same time). However, the transcriptions we use in this paper were submitted to the participants for post-meeting validation, and confirmed by them as an accurate record.

As is common in qualitative research, we analyzed the data in two stages, trying to make sense of them through repeated iterations between theory and data (Langley, 1999). We first conducted a sequential analysis of the conversations held in each meeting in order to identify the main reporting issues discussed by the managers (Samra-Fredericks, 2003). From this first order analysis, it clearly appears that in the majority of these conversational sequences these managers did not so much pay attention to what was true and false, since they were explicitly focusing on numbers in the accounts, and almost never on what reality lay behind them (Fauré & Taylor, 2008). In a second order analysis, we tried to understand for each conversational sequence identified what they were doing by asking very simple questions, based on the way Rouleau (2005) analyzed middle managers' strategic conversations: *who* was allowed to say which numbers were the acceptable ones? to *which audience?* in which *strategic context?* and *how do they proceed* to calculate them?

In this paper, we will pay particular attention to three conversational budgeting sequences that exemplify different calculations commonly used by the participants. In order to better understand the context in which the budgeting conversations are shaped, we will first provide an overview of the company's strategic orientation and budgeting procedure. We will then present three sequences of budgeting conversations that will be analyzed and discussed further.

Strategic orientations and budgeting procedure

The company's strategy is the result of an important formalization effort initiated in 2000. Coordinated by one of the chief executives, an *ad hoc* committee defined three categories of offer:

- Traditional offers: response to a public offer, few negotiations with the customer
- Specialized offers: business characterized by a technical, material or human differentiation
- Partnership offers: new mode of contractual relationship with so-called "partners" (customers, subcontractors, etc.) based on collaborative research of adapted solutions

The company promotes this last category of offer through a slogan: "we share the value with our supplier." Its meaning is conditional "If the budget goes over we take the loss, if the budget is under we share the profits." In return, the customer must agree to negotiate directly with the company instead of submitting a public offer. The company greatly favours this type of offer. The slogan is repeatedly circulated among the company's customers, suppliers and employees, notably through the Internet site and PowerPoint presentations. Human, organizational and financial resources (new reps, administrative priorities) are dedicated to this type of project. The linkage of this strategic orientation to the budgeting process is realized through an indexation of each kind of project to the company's budgeting database. It

is thus theoretically possible to follow the financial evolution of the new strategic commercial target and to compare it to the other commercial categories. The top management is relied on to take great care of this reported performance.

Indeed, this orientation conforms to the general strategy adopted by the major companies of the sector. Called “partnership business” or “integrated offer,” the new commercial target promoted by the company responds to construction sector constraints (variability of commercial targets and heterogeneity of technical processes) and new sources of value (co-definition of the project with the customer, closer link between the conception of the project and its realization). These global changes involve not only a new commercial strategy, but also a new organization of work on the site (project management, multidisciplinary teams, loose monitoring (Duc, 2002).

Those important changes also had implications on the budgeting procedure. In the chronology of the company’s structuring, the budgeting procedure was formalized before the implementation of the new strategic orientations. The budgetary procedure that had been laid out in the early 1990’s in an official policy directive specified four steps and the responsibilities of those involved at each step:

- the initial forecast, produced by the planning branch, using projections by the sales department, on the basis of architectural plans or other projections and standard ratios established at previous sites;
- the new forecast, that delegates the responsibility of the site to a site engineer and that takes into account the scheduling of the tasks and the composition of the site team;
- a periodic control based on the revision of the final financial outcomes compared with the initial forecast;
- the final budget to be transmitted to the post-construction auditing department.

This formalization of the budgeting procedure obeys the mainstream doctrine in budgeting which claims that management control systems should inform the company’s strategic orientations (Anthony, 1965, Simmons, 1987, Govindaradjan, 1988). The strategy is stated through quantitative operational objectives (top-down process) and middle management needs to provide periodic quantitative reports (bottom-up process) showing through numbers if they have achieved the financial forecasts or not. Periodically, the realization of these objectives is controlled through budgeting meetings. If a gap appears, middle management has operational autonomy to implement corrective measures. In the company studied, this feedback mechanism occurs mainly during the third step of the procedure: the monthly control meetings. Three actors were typically involved in these meetings:

- The Management Controller and accounting delegate (MC): he was the guarantor of the accuracy of figures and of their integration into a statement that covered all the sites of the project he was responsible for;
- The Site construction Engineer and manager (SE): he was the person responsible for operations, including co-ordination with collaborators such as subcontractors, financial officers and whoever else related to the quality of work and the security of the site.
- The Operations Manager (OM): he was responsible for the global management of all sites in his region and their conformity to the company’s strategic orientation. He was also the hierarchical superior of the site engineer and the management controller.

With the introduction of the new strategy, this budgeting procedure becomes more complex since this activity involves more and more actors at multiple levels of the company (the architect, the crew chief, the suppliers). The system of budgetary control appears to be working its way through the complexities of dealing with a dialectical issue: how to assure centralized control without destroying the fragile dynamic of an extensive network of locally-run enterprises. The budgeting conversations we are now going to analyze do not deal explicitly with the company's new strategy. However, this new strategy is contextually embedded in these budgeting conversations. They show how managers from different levels of the organization perform the new strategy needed by the global evolution of the construction sector through dealing with budgeting matters. These budgeting conversations constitute a loosely woven fabric of strategy composed of situation-specific variations on a central theme: the calculation of accurate figures in order to achieve the company strategy.

The budgeting conversations

We will now examine three conversational budgeting sequences extracted from our data set. These conversational sequences have been chosen for three reasons. First, they focus on different stages of the budgeting procedure, recreating artificially but hopefully in an illustrative way, the dynamic of budgeting the sites. The first interaction takes place before the beginning of the work, when site engineers are preparing with the management controller the structure of the future budget (choosing a subdivision of budget lines). The next two conversational sequences occur during budgetary control meetings (third step of the procedure) when these lines are filled by stated figures and compared to the initial forecast. The second interaction occurs just after the beginning of the work, when the attainability of the final financial outcome targeted is still very uncertain (and thus accounts and calculations can still be contested). The third interaction takes place once work progress is partially achieved (late and with already irremediable financial loss).

Second, they exemplify some basic micro practices of calculation during budgeting. Each of the three sequences selected focus on three calculations (subdividing lines, creating a line, projecting stated shortfalls), but others could have been chosen (calculating the cost of one task unit, imputing indirect costs on a project) for the same analytic purposes. Indeed, in the meetings we witnessed, calculations were omnipresent. Their modes of use – the way actors proceed to effectively calculate numbers- can considerably vary:

- by the mode of calculating: with or without a computer, written or mental, up front and visible or off to one side, and out of sight
- by the complexity of the operations: simple arithmetic operations (addition, subtraction, multiplication, division) or combinations (calculating the cost of a task unit, or a productivity ratio)
- by the exactitude of the calculations: sometimes the calculations were incomplete, or they were approximations or there were errors that no one noticed. Occasionally, the result was already known and the exercise amounted to a simple verification, using a different methodology
- by the level of agreement: the procedure might founder on misunderstanding or disagreement, the hypothesis of the calculation might be contested.

Our objective is then to understand to what extent this interpretative flexibility of numbers could be at the core of strategizing practices.

Third, the conversational sequences selected illustrate how the discussions not only deal with the truth of the figures calculated, but also with the way the micro practices of calculation can

be justified and presented to targets exterior to the interaction (top management, the customer, the subcontractors, the providers and so on). This means that during the conversations, the accounts and the calculations are constantly contextualized by numerous contexts of meaning (or sense-making frames). What we are tracking in our analysis is how the specific strategic context of meaning of the company studied (as described in the previous section: partnership strategy, accountability of site engineers through management at a distance by figures) comes to shape the discussions and decisions of the participants of budgeting committees during micro practices of budgeting.

Conversational sequence 1: Budget lines subdivided by tasks

After the commercial negotiations and before the beginning of the work comes an intermediate step during which the initial budget has to be transformed in a more operational way. A site budget is the sum of all the expenditures related to the site. Theoretically, it could be presented as a checklist of accounting bills. Nevertheless, this manner of presentation does not allow analyzing the specific cost of tasks that involve several expenditures (foundation, walls, floors, etc.) and several “partners” (subcontractors, providers). The final structure of the budget must achieve equilibrium between the accounting control necessities and the autonomy of the local manager in planning the tasks and dealing with the partners. Thus the subdivision of the budget lines is a regular topic of negotiation between SE and MC.

The meeting occurs at the beginning of the construction project. The budget structure is not yet determined and the participants must choose the future subdivision. It corresponds to the second step of the budgeting procedure (the new forecast). Three participants intervene during this meeting:

- a first SE who is leaving the company (SE1)
- a new SE who is going to continue the work (SE2)
- a young management controller who helps them enter the budget in the database (MC)

This unusual situation reveals some “clandestine” choices of the site engineers in their day-to-day budgeting practices: why and when do they subdivide or group budget lines? How do they estimate the value of each line? How do they relate lines to each other? The following sequence summarizes the main points raised at the end of the meeting (the whole conversation would be too long).

The site consists in three similar buildings. So, three subdivisions are possible: by building, by task or a combination of both. Nevertheless, whatever subdivision they choose, the participants have to respect the initial global forecast determined between the firm and the customer during the commercial negotiations.

*SE1: The budget on the **workforce** is OK. There is still the materials and the **subcontractors**.*

MC: For the material, what do we do? Should we create a line for each building?

*SE1: No, **it is not useful for the analysis**.*

SE2: It might depend if we have terraces or other specificities on one building.

*SE1: Let's see the map (they examine the map hang up on the wall). No it's ok, they are all the same. (To the MC) So **you subdivide the material line by task: foundation, wall and floor**.*

The MC begins to enter the budget structure on his computer while the site engineers continue speaking.

SE1: *On the equipment, normally we have nothing to buy, the **crew chief** has his own truck. On the electricity, we might have a cost overrun, we should foresee a specific line. On the foundation, we do everything. On the floors we have a **subcontractor** but we provide the material.*

SE2: *That's ok for me. On transportation, isn't it a little underestimated?*

SE1: *Yes, but we have an over estimation on hiring.*

SE2: *OK. All the "**consultation**"¹ has been validated?*

SE1: *Yes, we checked everything.*

SE2: *The crane?*

SE1: **I have the bill: \$1012.3**

SE2: *All of this seems quite simple indeed.*

SE1: *Yes. Let's see with the MC if it's ok. (asking the MC) What does it give?*

MC: *(comparing his screen with the initial forecast) **the sum is correct.** On the material subdivided, I have a total of 20,864 m³. Times \$25 per m³, that's \$521,600. And we have \$521,700 on the initial forecast.*

The choice is to subdivide the materials' budget by task and not by building. From a financial point of view (for the MC and potentially the OM), knowing the consumptions (concrete, steel, paving) of each building would have provided a "better tool of analysis": it would have become possible to divide this amount by the global cost of each building and then compare the result to the standard ratio of a building's consumption cost. For the management control system of all the projects, it would have been more efficient.

The SE1 knows by experience that calculating the consumption of each building is not fully relevant for controlling costs in day-to-day activities. This subdivision corresponds to the chronological evolution of the site construction: the buildings are not built one by one, but simultaneously in order to optimize the organization of the crews and the equipment provided internally or by the subcontractors. And the daily coordination between these actors is strategic for minimizing costs. In other words, the presentation of the budget by materials instead of by building would help the SE in analyzing the progress of the work in both a material and a managerial way while a subdivision by building would not. This is what the SE1 wanted to express when he said: "It is not useful for the analysis."

In this conversational sequence, the two SEs exert their autonomy (i.e., the possibility of dividing the budget according to their own rules of working). This autonomy is acceptable insofar as it is exercised within some meta-rules that define the objectives that must be reached (objectives normally determined by the company's global strategy). In fact, this autonomy is possible insofar as there is a global coherence between the documents provided by the site engineers and the company's forecasts. The second part of the excerpt expresses this sine qua non condition of budgeting, which is a symbolic way of confirming through numbers that the strategy will be achieved. Instead of trying to impose a subdivision by building, the MC limits his control role by checking the equality between two amounts inscribed on two different sources (the budget and the initial forecast).

This formal control exercised by the OM through the MC involves some "clandestine" practices on the part of the site engineers. As they know that any inequality in the accounts is potentially subject to justification, they can be tempted to artificially manipulate the figures in

¹ "Consultation" is a technical term that designates all the contractual negotiations that must be done with the subcontractors and the providers before the beginning of the work.

order to reduce the inequalities. For example, if they think they will potentially lose money on one line of the budget (which means an inequality between forecast figures and stated figures), they can try to compensate for it by a potential gain on another line. These manipulations even have a metaphorical expression in the company studied: “fat forecasting” (in analogy with the fat reserves in the body). In accounting theory, this is called a “budgetary slack” (or a budgetary bias): “a deliberately created difference between the budgeting actors’ forecast about the future (“honest budget estimate”) and his submitted budget figure (budget proposal)” (Lukka, 1988, 282).

As we can see in the exchanges between the two SEs, at the same time as they are dealing with fat and thick forecasts, they are also dealing with their future relationships with other entities involved in the project (the “consultations”), the risk (“we might have a cost overrun”) and the contractual documents (bills) associated with these relationships. Indeed, the whole budget tries to picture a network of actors and temporalities involved in the site engineer’s field of responsibilities, i.e. to balance a system of interconnected “slacks.” All along the work progress this equilibrium can evolve, but a site under control is considered a site that does not involve hierarchical transformations in the structure of its budget.

The next two sequences explore precisely these transformations during the following step in the procedure: the periodical control meetings. Their dynamic is artificially recreated by choosing two interactions that occurred at the beginning and at the end of the projects.

Conversational sequence 2: Overestimation of the work progress

The aim of the control meetings is to “periodically compare the initial forecast with the revision of the final financial outcome” (internal document) in order to make sure that the strategy is achieved. This revision of the final financial outcome is calculated through a linear projection of the shortfalls stated at the time of the meeting. It is automatically calculated by the budget software, once the work progress of the task is entered by the SE.

Let us take an example. Imagine that the construction of a 10-meter wall is estimated to require 100 hours of work and to cost \$1000. If the unit is the meter, then the construction of one meter is supposed to require 10 hours (productivity=1 m/10h) and costs \$100. Imagine then that, at the 50th hour of work, a control is performed that reveals that only 4 meters are completed (stated work progress= 4/10 = 40%) instead of the 5 that should be completed (forecast work progress=50%). We can then hypothesize that if we lose one meter at the 50th hour, we will lose two meters at the 100th hour (one meter divided by 50% of the task). As a meter costs \$100, the company will lose \$200. This linear projection of cost gaps proportional to the time already used offers an estimation of the final cost overrun of the wall.

Indeed, this formula is based on the hypothesis that work cannot be accelerated in order to be finished in time. Sometimes, crews spend more time than expected at the beginning of a task, but will then improve their productivity so the estimation of the final cost made through the linear projection is not realistic. In this case, it can be possible to over evaluate the work progress recorded in order to reduce the final cost given by the projection formula. Nevertheless, the more the work is getting close to the end, the more the linear projection hypothesis is accurate and the less this kind of manipulation becomes acceptable. This second sequence illustrates how this plausibility is negotiated in practice.

The site construction began in the middle of March. It is part of the partnership category, thus the relationship with the customer is particularly sensitive. The meeting occurs at the beginning of April. Of the 1000 meters of foundations forecast, only 50 meters are completed (work progress = $0.05=5\%$). 3000 hours of work were forecast for this task (targeted productivity = $1\text{m}/3\text{h}$) and 500 have already been used (stated productivity = $1\text{m}/10\text{h}$) instead of the 150 with the targeted productivity ($150 = 50/(1/3)$) so the gap stated is equal to 300 hours ($=450-150$). The calculation of the final shortfall is: $300/0.05 = 6000$ hours. This is a huge amount that is difficult to present to the customer. Thus, its plausibility will mainly animate the debates.

MC: Let's talk about the planning.

SE: It's clear that we are late.

MC: What happened?

SE: I've some uncertainties.

MC (looking at the document): 10 hours of work per meter instead of 3 on the foundations (inverse productivity)!!!

SE: Yeah. We underestimated the depth of the foundations. We lost time before becoming aware of it.

MC: It gives a huge final shortfall. 6000 hours times \$25 per hour: that's \$150,000 of added costs.

*SE: Yes I know but it's only initial gaps. The **mechanics of the formula give impressive figures at the end**, but stated now, it's only 350 hours lost.*

MC: I think we can't present this to our customer.

*SE: It depends when we have to present it. **If we could wait** until April 20th, it would be better.*

Either we improve the productivity and it's ok, or not and we'll have to see.

MC: I'll see them the 19th.

SE: All right, I will re-present the budget.

In this situation, the hypothesis that underlies the formula of linear projection (work will not be accelerated) is rejected ("the mechanics of the formula...") through a conditional argument ("either we improve the productivity and it's ok, or not and we'll have to see"). Although one of the terms of this conditionality remains quite "obscure" ("we'll have to see"), this conversational resource enables the site engineer to displace the debate from a question of the *trustworthiness of the figures* to a question of the *plausibility of the figures*. The choice is temporally and spatially local:

- The position of the participants is clearly dilatory ("If we could wait").
- Their arrangement must not be known by external actors ("We can't present this to our customer")

Finally, the SE follows the implicit proposal of the management controller and agrees to "re-present the budget." This means that he will reduce the shortfall on the productivity that appears in the budget by overestimating the work progress stated. This decision to manipulate the figures is motivated by strategic considerations about relationships with the customer.

If the project had been a traditional one, maybe these considerations would have been less important. But the commercial contract with this customer was negotiated in a global context of multiple sites in accordance with the new partnership strategy. So, the relationship with the customer is at the core of the success of the project and it enters into the new responsibilities of the site engineer to be aware of it. In this case, the budget is not only a tool of analysis or of control, but also a tool of communication: it has to make sense for different parties in different

contexts. This can involve substantial modifications in the form of the document which reflect all the potential discourses, justifications and negotiations that the budget sustains. In this respect, the company's strategic orientations shape the debates during the budgeting committees.

Conversational sequence 3: Creation of an artificial new line

The following conversational sequence occurs during a control meeting dealing with and ending the project that is already running important shortfalls. The new revision presented by the site engineer reveals other problems. The addition of all the shortfalls potentially due to this new problem produces a global evaluation of the monthly shortfall: \$50,000. We are at the end of the meeting and the MC and the SE will have to choose how to communicate – or not- this bad news.

MC: Last month, we said we would lose \$200,000. It was supposed to be the maximum we could afford. Today, it appears, that it might be \$250,000. So it's \$50,000 per month over cost.

SE: ... (silence).

MC: If we recapitulate, we have \$30,000 lost on work time plus materials, and \$20,000 on diverse hiring.

SE: Uh-huh.

MC: I propose that we create a new line to group these shortfalls. Something like "Site engineer II." Like that, you'll see it.

SE: A new line with an amount of \$50,000! Isn't that too rough? If headquarters see it, it'll be obvious that it's an artificial one.

MC: Yes I know, but let's do this and see next month. Take it as a challenge: the \$50,000 has to disappear.

The choice is to create a new line "Site engineer II" that groups the diverse shortfalls stated during the meeting. This choice enables the participants to render less visible the monthly shortfalls. On this new line, no shortfall appears: a second site engineer was supposed to be forecast and is supposed to be stated as present on the site. So there is no gap between the forecast figure and the stated one. The global budget is increased but the monthly shortfall is masked. Instead of appearing on the first page of the document at the rubric "monthly shortfalls," the diverse shortfalls are hidden in an isolated line somewhere in one of the budget's subcomponents. Of course, a close comparison between the budgets of the two months would reveal the trick. But the risk that the new line would be discovered by headquarters – and then possibly sanctioned – is assumed by the MC. Indeed, the difficulties of the site are well known by his superior: "the financial director."

The shaping of the debates by strategic orientations is here more subtle than in the other exchanges. It is not the SE who acts as a "strategist" but rather the MC. If the financial director is so well informed, why does the MC make the choice of creating a new line? He knows that the line is perceived as a clandestine arrangement that should not be known by the hierarchy ("if headquarters see it"). But, this new line is created under the condition it will soon disappear: its status is dilatory ("let's see next month"). He is also playing on the SE's ability to be autonomous. In talking about challenge, the MC is also reminding the SE that the company has a policy of encouraging local initiative, in the interests of remaining competitive ("take it as a challenge"). Although this manipulation of figures does not exactly conform to what we might expect from a management controller – guarantor of the figures' reliability-

we can interpret this choice as a mark of his authority over the SE. In the localness of this situation, his authority prevails over the hierarchic authority. This is an indirect consequence of the company's strategic orientations: the autonomy led the SE to engage in an interactive control system (Simmons, 1995) which means indeed an empowered role for the controllers who are no longer "bean counters" but who become "strategic advisers."

A paradoxical link between smoothing and slacking

One of the features that emerges from this detailed analysis of budgeting conversations is that the main issue facing those involved was not the truthfulness of the accounts that were calculated and discussed, but rather their usefulness, their plausibility and their acceptability. In fact, most of the conversational sequences analyzed demonstrated that the actors, mainly the site engineers, did not so much focus on what was true or what was false when they were using numbers but were more concerned with defining the acceptable numbers by taking into account the whole strategic process in which they were involved. In fact, they used the interpretive flexibility of numbers in order to practically enact the new strategy.

As we said in the methodology section, we examined a large set of conversational sequences by asking four basic questions: *who* was allowed to say which numbers were the acceptable ones? to *which audience?* in which *strategic context?* and *how do they proceed* to calculate them? Table 1 provides an overview of the main answers obtained through the analysis of the three illustrative sequences of conversations examined in the paper.

In the first conversational sequence, the SE, by deciding to subdivide the budget by task, contributes to the definition of the usefulness of numbers in order to enact the contractual network of relationships in which the site engineer's work is embedded. Moreover, this conversational sequence shows that the SE has a practical knowledge of the interconnected slacks needed to accurately activate the network of actors and temporalities in which he is involved and for which he is responsible.

In the second conversational sequence, the SE is clearly making sense of the new strategy by taking into account the customer's point of view. By overestimating the stated work progress of the foundation, he is constructing the communicability of numbers that will be presented to the customer. At this time of the contract, revealing to the customer and to the stakeholders the real picture of the project's financial outcomes is not opportune. He believes that he still has time to reorient the project in order to achieve the provisional forecasts.

In the third conversational sequence, the management controller creates a new line in the budget, one that must not be communicated to headquarters, in order to objectify an informal and temporally limited contract/engagement with the site engineers. Here, the MC is authorizing the acceptable numbers through the performance of the new middle management role associated with the partnership strategy. In fact, the role of the SE does not consist

Table 1: Micro practices of strategizing in the context of budget fabric

Frame analysis	Budgeting conversations			Micro-practices of strategizing
	Line subdivision	Shortfalls projection	Line creation	
Initiator	Site engineer	Site engineer	Management controller	Activating local projects
Audience	Subcontractors Providers Crew chief	Customer	Headquarters	Reporting to internal and external partners
Strategic context	Network of contractual relationships	Company's new category of offer	Redesign of accountant and management roles	Conciliating local contingencies and global coherence
Micro practices of budgeting	Invoking the usefulness of numbers	Constructing the plausibility of numbers	Authorizing acceptable numbers	The cumulative consequence of the interpretive flexibility of budget is the smoothing of accounts.

in blindly following the budget standards and the performance targets but in adapting his actions and decisions when he is framing his operating budgets according to the new responsibilities expected of him. Before the implementation of the new partnership strategy, the SE did not have to assume the making of the budget, neither be in close contact with their customers. In order to take on this new role, the SE needs to be more autonomous concerning the management of the site he is responsible for. This autonomy takes shape through his daily involvement in the budget fabric.

The day-to-day making of the budget is related to the company's strategic formulation by a chain of mediations through which the general meaning context of the strategy is little by little translated into the local circumstances of its realization. Micro practices of budgeting are strategically shaped – and reciprocally, strategizing is daily shaped through budgeting - because they make sense for the actors within organizational contexts of meaning. Another outcome of our study deserves to be presented here, because it shows how this sensemaking process (this interpretive flexibility of numbers between strategizing and budgeting) might paradoxically produce an appearance of unanimity while still accommodating a diversity of distinct rationalities and logics.

In the conversations we analyzed, we noted that the control exerted by the MC was often a formal control, consisting in comparing two numbers located in different documents (budgets and accounts, orders and bills, forecasts and statements). Indeed, as Weber and Goody earlier noted, equality is the basic calculation of the accounting realm: between active and passive, debit and credit, bank report and bills... The “truthfulness of the figures”- their veracity- is performed by relating them one to one through an equality formula. These numerous equalization operations have a cumulative consequence: the accounts present a “smooth” image, rather than the more circumstantial, and difficult to interpret, image created by a close adherence to the raw figures that correspond to the messy randomness of ordinary activities. It is this phenomenon, and how it enables the introduction of a blandness in the relationships between strategizing and budgeting, that we wish now to open to discussion.

Those most closely involved in budgeting at the level of where the work is done, both site engineers and management controllers, are well aware of the compromises that go into the construction of an account that must be codified in the discursive medium of numbers. Here are some typical observations, drawn from interviews with those involved.

You have to smooth results so that there will be no appearance of big variations. Otherwise, everybody gets upset.

Oh sure, in making a report, you don't use the same figures as you do in the budget. They're smoothed. If you have +10/-10 in the monthly budget, you put +5/-5 in the quarterly report.

The first of these statements comes from a SE, the second from a MC.

Seemingly, everybody has learned the rules of the game, and has adapted to them. Indeed, the phenomenon of smoothing is well known in accounting theory (Trueman & Titman, 1988). Moses, for example, defines smoothing as “an effort to reduce fluctuations in reported earnings” (Moses, 1987: 360). Koch (1981) describes the phenomenon as resulting from the “*intentional manipulations of artificial (accounting) or transactional (real) variables in order to diminish the variability of a stream of reported income numbers relative to some perceived target stream*” (Koch, 1981: 574). According to the strict doctrine of accounting, “smoothing” is a transgression of official norms of transparency, and a breach of trust. Our observations led us to the finding that smoothing is going on at every level of the accounting process, from the bottom up, without being officially sanctioned. Our position is then that smoothing might be viewed as functional in the whole process of the strategy making through the budget.

For one thing, smoothing can be seen as a standard practice in statistical analysis, whatever the context. The activities associated with a complicated building project are characterized by multiple, and often unpredictable, uncertainties: delayed deliveries, bad weather, labour unrest, and so on. As in any field, the variable nature of these factors suggests a *normal* distribution. Two thirds of the time, events will cluster within a single standard deviation from the mean. There will, of course, always be the comparatively unpredictable outliers: unusual, but not impossible. The prudent manager relies on probabilities as a guide, although from time to time he may get an unpleasant surprise. So, in reporting to the financial controllers, the tendency is naturally to “smooth” the projections, i.e., in case of uncertainty, estimate a figure close to the average. In the second episode reported above, for example, the SE was making a guess about the work time he would need to complete the foundations, whatever the shortfall formula might indicate. Since absolute certainty about the true figures is beyond reach, the solution is to rely on their plausibility. In each *single* case, this strategic use of

numbers is justifiable. The *cumulative* effect, however, is to have constructed a screen that unintentionally interposes a boundary of what March and Simon (1958) called “uncertainty absorption.”

“Uncertainty absorption takes place when inferences are drawn from a body of evidence and the inferences, instead of the evidence itself, are then communicated. ... Through the process of uncertainty absorption, the recipient of a communication is severely limited in his ability to judge its correctness. ... The person who summarizes and assesses his own direct perceptions and transmits them to the rest of the organization becomes an important source of informational premises for organizational action. The “facts” he communicates can be disbelieved, but they can only rarely be checked. Hence, by the very nature and limits of the communication system, a great deal of discretion and influence is exercised by those persons who are in direct contact with some part of the ‘reality’ that is of concern to the organization.” (March et Simon, 1958, 165),

Concerning the role of accounting numbers in the social construction of reality, Morgan (1988), for example, wrote about “the myth of objectivity” which he described as an “impossible ideal”, since “accountants are able to do no more than grasp limited aspects of the reality to which their accounting schemes relate” (482). More recently, Vollmer (2007), building on Goffman’s works, observed that accounting may be interpreted as a “*regulatory drama (...)* where both performers and audiences direct their attention” to a display of numbers, “or a configuration of various numerical displays populated by inscriptions travelling back and forth between the settings of activity.” (Vollmer, 2007, 590). Such drama, however, implies both a “front stage” and a “backstage.” Backstage, “workers co-operate in feeding front displays with strategically engineered data.” The process in its entirety begins to take on the appearance of a game. Why, then, even if everyone knows it is a game, is it perpetuated? Because, Vollmer answers, “the regulatory framing (of accounting) is often kept up *despite* common knowledge of the likelihood of backstage collusion and *despite* substantial distrust between the parties, because the participants of regulatory drama — regulators and regulated alike — have a *common interest in keeping up appearances*” (Vollmer, 2007, 591).

Smoothing is a strategy that consists in keeping up the appearances of a responsible manager by reducing little by little the inequalities between the network of interconnected slacks represented by the budget (uncertainty absorption). Between a manager who presents smoothed accounts and one who does not, the first is perceived as more responsible. He is performing his role as a self-disciplined professional. In the company we studied, this performance relies on practicing the calculations we emphasize in our selected sequences: grouping lines, in order to compensate further an overestimated cost by an underestimated one (compensation enabled by the interpretive flexibility of the formula “linear costs projection”). Smoothing and slacking thus appear as the two sides of performing a “strategy” through budgeting. They both allow a pragmatic resolution, at the level of daily practice, of contradictory pressures to exercise, on the one hand, independence in managing the contingencies of local practice while, on the other, preserving a sufficient level of global coherence. In large companies, with a multilevel system of organizational entities and logics, the perspiration of strategy during budgeting (Wittington, 1966) takes the form of a day-to-day negotiation of a smoothed account that can be flexibly interpreted by different actors and communities of interest, to produce an appearance of unanimity while still accommodating a diversity of distinct points of view.

The global effect is to see the organization's accounts, not as a single definitive statement of fact, but as a loosely woven fabric composed of situation-specific variations on a central theme: strategically enacting the calculations. The strategy is thus conceived as a configuration of many practices the integrity of which as a single unit is conditional on the validity of the reporting process. Assuming that the "smoothing" that our informants practiced is widespread (since everyone wants to influence their audience to buttress their own case), it follows that the dependency of accounting on context must be seen as crucial for the continued integrity of the strategizing — its veritable "glue." Given the ever-increasing salience of formal accounting as a strategic practice, it seems that we can safely predict an increased role for smoothing.

Conclusion

This paper aims for a better understanding of the interplay between strategizing and accounting through an in-depth investigation of budgeting in practice in a large construction company. After a presentation of how the company's strategic orientations - as defined in the official texts produced by the top management – are translated into financial forecasts and budgetary priorities, we concentrate on a microanalysis of conversations during the course of which we observed the raw figures of the budget being questioned, debated, and modified before they were finally entered in the accounts. We showed how the day-to-day making of the budget is related to the company's strategic formulation by a chain of mediations through which the general context of meaning of the strategy is little by little translated into the local circumstances of its realization. Micro practices of budgeting are strategically shaped – and reciprocally, strategizing is daily performed through budgeting- because they make sense for the actors within organizational contexts of meaning.

The paradoxical outcome of our study is that it reveals the existence of an internal activity of smoothing of the accounts: the variation of the budget forecast at periodic steps of the construction of the sites presents a linearity that seems artificial compared to the complexity of the material world that the figures aim to represent. We interpreted this phenomenon as a pragmatic resolution of opposing pressures: managing the contingencies of local practices while preserving a sufficient level of global coherence in translating these practices into the language of numbers – in other words, resolving the dual necessities of strategizing and budgeting. Nevertheless, one of the main limitations of our study is that it does not provide any evidence about how the smoothing is achieved in practice at other levels of the organization and how it is related to strategic purposes.

We suggest that further research should discuss the implications of this at the highest levels of organizations. If top managers smooth the financial outcomes they present to the stockholders, it may be because they received information already smoothed. And we can also presume that if they are in this position, it may be because smoothing is an efficient means for keeping up the appearance of accountability. Although the initial work of Fama and Jensen on the relationship between top management and stockholders in companies – that constitutes the framework analysis of smoothing at a financial level - led to a growing interest in applying ideas from agency theory to the internal workings in organizations (Fama & Jensen, 1983, Eisenhardt, 1989), no one to our knowledge, has reversed the argument to show how the cumulative consequences of micro practices of accounting in internal workings could explain the construction of a company's strategic accounts.

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