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How do enterprises respond to a managerial accounting performance measure mandated by the State?

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Abstract

We study the application of Economic Value Added (EVA®) by Chinese state-owned enterprises (SOEs) following a regulatory requirement to deploy the measure. Our theoretical framing engages conceptual elements of institutional work and public accountability research to consider why key actors vary in their responses to the mandated application of EVA®. Our data derives from thirty interviews with managers in three SOEs and their oversight body (the State-owned Assets Supervision and Administration Commission of the State Council). We identify two relevant dimensions associated with managers: 'accounting centricity' and 'institutional potential' and report that they drive the authenticity of actors' responses in the absence of enforcement of the mandated measure. When accounting centricity and institutional potential align to the dictates of the higher implementing body, accountability remains high notwithstanding the absence of enforcement. When these two factors do not align, accountability fails even when politicization is high and formal accountability claims are high. Where the two factors are partially present, the accountability response is mixed. Our study contributes to a refinement of the perspective advanced by prior investigations of institutionally sanctioned roll outs of accounting systems highlighting in particular, the role of human agency in explaining actor responses.

Keywords: Economic Value Added; Managerial Accounting Regulation; State Owned Enterprises

1. Introduction

Since the privatization initiatives advanced by the Chinese government in the late 1970's, researchers have investigated the implementation of different managerial accounting controls in Chinese organizations (Duh et al. 2008), including performance evaluation systems (Du et al. 2012), capital resource allocation techniques (Chen and Yuan 2004) and audit quality (Huang et al. 2014; Ke et al. 2014). Commentators have noted that whilst state-owned enterprises have benefitted from favoritism from local governments, light touch regulation and cheap bank financing, they have delivered 'less bang for their buck' [1]

We study the application of Economic Value Added (EVA®) by Chinese state-owned enterprises (SOEs) following a regulatory requirement to deploy the measure in response to public accountability concerns. Our theoretical framing engages conceptual elements of institutional work and public accountability research to consider why key actors vary in their responses to the mandated standard application of EVA®. We suggest, as revealed from our empirics, that one reason for differing responses by the SOEs to the mandated roll-out of the measure relates to the institutional work by SOE chief executives, as influenced by their **institutional potential** and/or **accounting centricity**. When these two factors align to the dictates of the higher implementing body, the level of adherence to the EVA® mandate remains high notwithstanding the absence of enforcement. When these two factors do not align to the dictates of the higher implementing body, accountability fails in the absence of enforcement, even when politicization is high and formal accountability

[1] http://www.economist.com/news/china/21614240-reform-state-companies-back-agenda-fixing-china-inc

claims are high. Finally, if they are partially present, the accountability response is mixed.

Specifically, our findings as based on three SOE firms we investigated (and referred to here as SOE 1, SOE 2 and SOE 3) indicated that SOE 1 exhibited attributes of positive blended responses, comprising "*acquiescence*" as well as "*compromise*" and this was primarily driven by the high accounting centricity and high institutional potential of the SOE 1 CEO. SOE 2 displayed mixed blended responses, encompassing "compromise" and "defiance", which we associate to the low accounting centricity and moderate institutional potential of the SOE 2 CEO, while SOE 3 exhibited the negative attributes of "defiance" even in the presence of a highly political setting, with high public accountability. We argue that this resistance was closely aligned to the low accounting centricity and low institutional potential of the SOE 3 CEO.

We thus find that variation exists in the way the novel accounting metric was received by SOEs, and adopt a neo-institutional perspective informed by aspects of the public administration literatures to explain this divergence (Table 1). Within neo-institutionalist thinking, we specifically use institutional work theory (Lawrence, et al, 2009) as our conceptual lens to explain how key senior individuals mobilize actions and inject their agency into a field through their purposive actions, leading to differing levels of EVA® acceptance in the SOEs. This view has not been adopted by management accounting researchers. Suddaby *(2010, p.17)*, a key institutional work theorist has noted:

"… how little effort has been expended by institutional researchers to understand how institutions operate through the influence and agency of individuals. This is, an area of high opportunity for future inquiry"

Institutional work has also been implicated as a useful innovation that aids the advance of accounting innovations within organizational practice (Hayne and Free, 2014). We draw upon features of neo-institutionalism as expressed through institutional work theorizing in accounting (Kettunen, 2016; Canning and O'Dwyer, 2016) and aspects of public accountability scholarship to make explicit our research question (Covaleski and Dirsmith 1988; Covaleski et al. 1996; Lawrence and Suddaby 2006; Lounsbury 2008; Scott 2013; Suddaby, 2010; Tolbert and Zucker 1983).

Prior studies suggest a conceptual rationale for how the political work of key actors in institutions defines the "private actions" of organizations and results in varying responses to public accountability concerns which drive regulatory action Klenk (2015). The neo-institutional work literature calls for developing a stronger understanding of dynamic interactions and agency (Perkmann and Spicer 2008; Scott 2013) and divergence in the styles of maintenance or disruption (Klenk 2015; Suddaby 2010). We address this by studying multiple SOEs, and identify variations in the way an accounting reporting requirement is adopted where strong political accountability pressures exist (Mensah et al. 2009). Our findings enable us to present a modified form of the Klenk (2015) framework. We evidence an empirical setting where enforcement and politicization do not align and explain the consequences of non-alignment. We further explain why public sector institutions might still show much resistance, even where public accountability claims are high and persist. We clarify that preferences of senior executives within SOEs play a significant role in shaping the authenticity of an accounting response (EVA® implementation) to a regulatory impost. The success of an EVA® implementation is not assured and the

actions of key actors in organizations can affect the efficacy with which it is used (Ezzamel and Burns, 2005). .

Functionally, we apply a multiple case study method comprising three firms to investigate the responses of CEOs and their effects on the actions of senior management and staff following the mandated roll out of EVA® as an inter-organizational control application in Chinese state-owned enterprises (SOEs)[2]. This roll out was effected by the Chinese government through the State-owned Assets Supervision and Administration Commission of the State Council (SASAC)[3]. The SASAC-led regulatory roll out of EVA® , like other management process regulations was implemented to achieve nationally pursued economic objectives, and affected multiple state enterprise contexts (Wu et al. 2012; Holm 1995; Greenwood and Suddaby 2006; Hassard et al. 2007; Oliver 1991; Seo and Creed 2002; Zietsma and Lawrence 2010).

Two of the three SOEs reveal purposive actions by key senior individuals (CEO) that serve to create or maintain EVA® institutionalised practices to different degrees (SOE 1 and SOE 2), while the third SOE CEO's intentional actions mobilized the institutional disruption of the metric adoption. We explain these outcomes by noting the relative degrees of accountability claims pursued by the three SOEs through the notion of "political work" relating to their individual CEOs[4]. We consider these individuals as powerful institutional actors who seek to *"…reconstruct rules,*

[2] The Chinese government defines SOEs as enterprises in which all assets are owned by the state. Central SOEs refer to the Chinese SOEs under the direct oversight of Central Government. As of November 2015, there are 110 central SOEs under the supervision of SASAC.

[3] SASAC was established by the State Council at the 10th National People's Congress of PRC held in 2003 as an institutional structure to separate fiduciary responsibility over state-owned assets from the government's social and public management functions. The legislation enacted in 2009 gave SASAC control over the legal liabilities and rights of investors holding SOE shares on behalf of the state and for guiding SOE administrative reforms.

[4] Respondents from all three SOE's identified their CEO as the most strategically influential officer in their SOE.

property rights and boundaries" (Lawrence and Suddaby 2006:122) in respect of EVA® expansion across SOEs, to maintain or disrupt the accounting requirement.

By observing how an accounting method is received in three institutions differently, our findings enable us to refine certain neo-institutionalist claims (Klenk 2015; Oliver1991; Lawrence and Suddaby 2006). The manner by which we empirically validate the variation in responses arising from different SOE CEOs and associate it to the "political work" (Lawrence et al., 2011) of these key agents, and subsequently identify two factors driving this plurality (accounting centricity and institutional potential) to provide explanatory clarity as to why these purposive actions usurp the more structural effects posed by traditional institutionalism extends beyond what the prior literature has been able to advance (Wu et al. 2012; Tu et al.. 2013; Chen et al.. 2008; Lei et al. 2013; Young et al. 2015). Our study thus not only directly extends management accounting research but also adds to scholarly accountability discourse by exploring the strategic responses of enterprises required to deploy a standard management accounting control indicator.

The rest of the paper is organised as follows: in the next section, we discuss how alignment with managerial accounting regulatory requirements can differ, drawing on the neo-institutional work literature. We subsequently explain our research method, present our findings and elaborate upon and discuss the implications of the paper in advancing existing research. We finally present concluding comments, acknowledge the study's limitations and offer suggestions for future research.

2. Theory

Theoretically, we align our perspective with "neo-institutionalist" foundations which stress intentional agency (see Lounsbury 2008; Oliver 1991; Klenk 2015) and

process (Lawrence and Suddaby 2006; Lawrence et al. 2013; Malsch and Gendron 2013) relative to the social constructivist precursor studies (Fogarty 1992; Haniffa and Cooke 2005; Covaleski and Dirsmith 1988; Meyer and Rowan 1977; DiMaggio and Powell 1983; Scott 2004a; 2004b). While these literatures are vast, we focus on key studies that inform our argument tied to local agency and its effects on the embedding of an accounting technology. Within the accounting academic literature, neo-institutional research has been regarded as offering potential for explaining regulatory outcomes (Canning and O'Dwyer, 2016), as well as understanding how accounting technology accomplishes change in organizational practice (Hayne and Free, 2014; Sharma, et al, 2014). However, few studies have reflected upon the conceptual underpinnings of this emerging perspective in the field which identifies organizationally and politically engaged agency (Greenwood and Suddaby 2006; Wu et al. 2012).

Traditional institutionalism has focused on the strong linkage between rational formal structures in shaping behaviors (Covaleski et al. 1996; Selznick 1996), whereby these structures can take the form of schemes, norms, rules and routines, and serve as authoritative guidelines (Scott 2004a). Our emphasis is on the role of actors in effecting, transforming, and maintaining institutions and fields, with a view to enhancing the understanding of how proactive human agency shapes institutionally driven practices (Holm 1995; Lawrence and Suddaby 2006; Oliver 1991; Seo and Creed 2002; Zietsma and Lawrence 2010). In this sense, institutional work offers a theoretical rationale for charting the purposive actions of key actors in shaping organizational responses to accounting implementations, as they relate to public accountability claims. It posits the possibility that strategy and power might impact institutional rationales whilst not negating the idea of actors displaying cognitive,

purposeful human agency (Beckert 1999) as opposed to a more affective, reactive agency impacting institutional processes. Consequently, Lawrence, et al (2011:52) hail institutional work as the theoretical pivot within neo-institutionalism with the potential to:

"…contribute to bringing the individual back into institutional theory, help to re-examine the relationship between agency and institutions, and provide a bridge between critical and institutional views of organization" .

The descriptor "work" in institutional work refers to a broad range of actions undertaken by individuals to purposively affect the institution within which they exist. Lawrence, et al (2011: 53) define "work" as:

"…the efforts of individuals and collective actors to cope with, keep up with, shore up, tear down, tinker with, transform, or create anew the institutional structures within which they live, work, and play, and which give them their roles, relationships, resources, and routines"

Oliver (1991) favors considering agency in this manner whereby she ideates that organizations embark on strategic behaviors to manage institutional processes. In doing so, Oliver (1991) identifies a typology of five responses, in decreasing order of passiveness, as *acquiescence*, *compromise*, *avoidance*, *defiance* and *manipulation* choices. Oliver (1991) goes on to explicitly make political human agency as part of the strategic responses put forward, acknowledging self-interest and organizational control as scope conditions under which the degree of conformity arises as part of an institutional process. Perkmann and Spicer (2008) similarly allude to this political component and its impact on key actor actions.

Within accounting research, institutional work has been studied in wide ranging accounting phenomena, including the linguistic translation of international accounting standards (Kettunen, 2016), or the way in which this more broadly affects the role of IFRS as a global trans lingual institution (Canning and O'Dwyer; 2016). Institutional work has also been implicated in explaining how social media professionals impact change in accounting domains by affecting the boundary work, rhetorical work and the manner by which an embedded actor in the accountancy profession is constructed (Suddaby, et al 2015).

The above studies are broadly generalized for a range of different institutional conditions but do not specifically explain how institutional work affects accounting innovation. Hayne and Free (2014) explain how risk management is mobilized through the work of key individuals within a key risk management publication entity, but arguably refrain from explicating how the actions of key actors might simultaneously add and detract from the progress of an accounting innovation, and unpick the underlying personal drivers for the same.

How do we theorize the mechanism through which such action manifests in our specific and unique, highly visible public sector setting? Klenk (2015) builds on Kraatz and Block (2008), Meyer and Rowan (1977) and Oliver (1991), specifically theorizing four organizational reactions (Acquiescence, Compromising strategies, Compartmentalizing and Defiance) to public accountability pressures. This perspective allows us to interpret our empirically observed SOE institutional responses. We provide brief descriptions of the possible reactions via two scales. One scale being the level of enforcement and politicization experienced by the organization and the second scale being the intensity of the formal accountability claims imposed by external stakeholders/constituents (see Table 1). Enforcement is

observed when accountability mechanisms are put into effect by agents to ensure desirable behaviors, while politicization occurs when there exists a visible public attention on the stated issue, and this leads to controversial public debate. The intensity of formal accountability claims refers to the extent to which the general public or governing body (SASAC) judges about the legitimacy of the actions of a particular entity (Bovens 2005).

Klenk (2015) sees *Acquiescence* as compliance with set rules and norms, through conscious obedience or unconscious imitation (mimetic isomorphism). This outcome is argued for when the level of enforcement/politicization is high, and the intensity of public accountability claims is high. *Compromise occurs* when public accountability claims are high, but the level of politicization/enforcement is low. This "compromise" occurs when organizations try to pacify constituents and stakeholder demands by negotiating concessions that serve to appease stakeholders to different degrees. Third, is when organizations engage in *Compartmentalizing*. Compartmentalizing occurs when the level of enforcement and politicization is low, but stakeholder/constituent accountability claims are high. Organizations therefore attempt to provide the "veneer" of engaging in desirable action and expect to avoid scrutiny owing to low enforcement/politicization. This may manifest as a sequential treatment of different accountability claims in some order, or by the creation of a separate unit to demonstrate an organizations' commitment to accountability. The key difference between this approach and "Acquiescence" is that there generally exists less authenticity here. Organizations create such structures to placate stakeholder claims/concerns (which are high), without necessarily engaging in the actual actions desired by stakeholders as the issue concerned has not been politicized, nor enforced. This approach aligns with the early notion of decoupling presented by Meyer and

Rowan (1977). Finally, organizations may more concertedly reject or refute the public accountability claim by *Defiance* – where organizations dismiss, challenge or attack the claims of external constituents or stakeholders.

We mobilize this element of institutional work to explain the purposive actions of key actors in SOEs. Formally, Lawrence and Suddaby (2006: 216) define institutional work as *"…the broad category of purposive action aimed at creating, maintaining and disrupting institutions…"* and *"as intelligent, situated institutional action".* They class institutional work as *the work of actors in shaping processes and in creating, maintaining and disrupting institutions.* Oliver (1991) also emphasizes the plausibility of organizational actors deinstitutionalizing processes, thus highlighting the active role of individuals and organizations in the maintenance of institutions. They specifically evidence how non-passive actors shape institutional processes (Suddaby 2010; Lawrence et al. 2011). We broadly draw on the insights provided by Klenk (2015), Lawrence and Suddaby (2006), and Lawrence (1999) relating to the political work of organizational actors in different strategic contexts.

In drawing upon neo-institutional work theorizing, we heed the importance of *political work*, as it relates to the purposeful actions of SOE CEOs. From an institutional work perspective, CEOs have the authority to reconstruct rules, property rights and boundaries reflecting their personal aims (Lawrence and Suddaby 2006) by driving senior management actions. Elster (1997) identifies political studies as extending across different political traditions. When related to instrumental politics, Elster (1997) sees individuals pursuing selfish interests where their "work" is not defined by a purpose that goes beyond the attainment of personal satisfaction. While we cannot argue to speak for the mind-set of the SOE CEOs, we contend that their ability to imprint their personal views on SOE managers eager to support them as

grounds upon which, authentic or not, their "political work" translates into purposeful actions within SOEs. We explore how the political work of SOE CEOs in response to SASAC's mandated EVA® implementation impacts the way in which EVA® is used. Prior research has evidenced the strong political capital wielded by these powerful individuals at the SOE level, and the difficulty faced by the broader public in observing or evaluating their behaviors:

> *"In theory, SOEs are owned by the citizenry of China, who are too dispersed and powerless to play any monitoring role. Therefore, the state and its designated government agencies might not have the appropriate incentives to monitor the operations of SOEs closely. The state-appointed manager (CEO) becomes the sole commander of the company and often seeks to maximize his own welfare."*
>
> (Lei et al. 2013, p.148)

The implementation of EVA® as a result of a national pursuit for greater SOE accountability and profitability and its antecedent drivers have not been expounded in the literature. The strong political landscape of public sector organizations lend themselves to "unintended managerial side effects" as a result of public pressures for tackling high bureaucracy, low innovation and process responsibility and myopic vision (Verbeeten 2008). Du et al. (2012) highlight the political connections between SOEs and SASAC, favoring the more powerful SOEs. Mol (1996:74) considers that accounting indicators applied in the public sector are often *"…collected without any attempt to derive some general conclusion with respect to performance from them"* leading to their limited use. In relation to EVA®, the efforts of the Chinese government and SASAC to affect the practices of SOEs are extensive. Since its creation in 2003, SASAC assumed the fiduciary responsibility for state-owned assets and acted as an investor and manager of SOEs. SOEs subsequently evidenced rapid

growth and soon became the subject of criticism for pursuing size, destroying value and crowding out opportunities for a more efficiency-focused and value-creating private sector (Chen et al. 2006; Chen et al. 2011; Firth et al. 2008). In the face of the criticisms voiced, SASAC altered its objective as formalised in its progressive five-year plans from SOEs aiming to "become bigger" (2006-2010) to their "pursuing excellence" and seeking a "value-based" strategy for growth (2011-2015). SASAC stipulated the adoption by SOEs of EVA®-based performance reporting which was to be used by all central SOEs from 2010[5]. While some SOEs adopted EVA®, others showed resistance to differing degrees.

Our method discussed in the next part of the paper explains how we consider the implementation of EVA® across Chinese SOEs as a political response to public accountability concerns which we assess within the neo-institutionalist political work frame explained above. We theorize the organizational responses from our three SOEs in this light.

3. Method

3.1 Research field and empirical context

Our field concerns itself with the extent of acceptance to the institutionalization of the new EVA® accounting reporting system for use by central SOEs as mandated by SASAC. To explore this, our empirical inquiry considers data relating to SASAC as well as three central SOE case companies and their subsidiaries. In depth case studies allow us to explore the convergence and variation of unfolding events across the three SOEs impacted institutionally (Yin 2009).

[5] Table 2 shows the evolution of the PMSs advanced by SASAC for implementation within central SOEs from 2003

Central SOEs control a wide range of smaller SOEs and play a critical role in the Chinese and the world economy. They comprise 70 percent of the profits of over 120,000 SOEs equivalent to 20 percent of government revenues. Listed subsidiaries of central SOEs account for a third of the market capitalization value of Chinese domestic stock exchanges[6]. At the end of 2015, the total assets owned by central SOEs amounted to 53.7 trillion RMB ($8.4 trillion US) with operating revenues of 28 trillion RMB ($4.4 trillion US) and annual earnings of 1.7 trillion RMB ($267 billion US).

SASAC voiced its reaction to the criticisms levelled at the scale growth strategy in the 11th Five-Year Plan (2006-2010) by articulating a new strategy for SOEs in the 12th Five-Year plan (2011-2015). The objective for SOEs under the latest plan was to "pursue excellence" and to "reinforce value creation" and "force managers to think on behalf of the shareholders", rather than a mission to "become bigger".[7] The manner by which SASAC progressed the expansion of EVA® into SOEs is identified in Table 2.

[Insert Table 2 here]

The calculation of EVA® and the method of assessment encompassed in SASAC's new goals implemented in 2010-2012 are shown in Tables 2 and 3. The performance of the central SOEs and their senior managers is assessed annually based on total scores achieved. Executive salaries, bonuses, and career development are significantly affected by the categories and the scores achieved. To examine the role of the EVA® system as part of the strategic transition advanced by SASAC, we utilise empirical data relating to SASAC as well as to three central SOEs and their subsidiaries. We

[6] Chinese Statistical Year Book, 2009, 2010 and 2011.
[7] SASAC, Annual Review of Central SOE Performance, 2006.

also assess the existence of compromise and negotiation in the manner by which SASAC conducted its EVA® calculation. SASAC demonstrated a penchant for compromising or softening its stance on the manner by which EVA® is calculated, or on the lower requisite EVA® thresholds for SOEs lacking clear revenue models, or with longer term strategic interests that do not align to an annual calculative approach. We find deviations toward adverse behavior that exist even with these generous adjustments by SASAC – therefore revealing a latent dissatisfaction by powerful SOE actors, and their consequent efforts to manage the EVA® figure contributed to SASAC.

[Insert Table 3 and 4 here]

3.2 Data Sources

We use a multi-case field study approach to explore the relationship between EVA® and strategic actions which followed at both the national and firm level. We chose three case companies which operate in three different industries, have different strategies, and are subject to different levels of government intervention. This allows for the development, extension and replication of conceptual theorization across different case contexts (Eisenhardt and Graebner 2007). Our empirical data collection was conducted in three steps: firstly, we collected background information on the application of the EVA® system in central SOEs including the preliminary effects of SASAC's new system on multiple central SOEs based on data obtained from government agencies. In the second step, based on the analysis of this preliminary data, we identified three central SOEs enabling the application of the centrally designed control system to be assessed. We conducted 16 interviews with SASAC

officers and managers at the three central SOEs and their subsidiaries. Internal and external documents on the companies and information of their EVA®-systems were also collected. After coding and analysing the data, in the third step of the data collection, fourteen interviews were undertaken to further capture the effects of political drivers on behaviors of SOE managers and their understanding and responses to the new system. In total, thirty interviews were conducted with 27 SOE executives and managers[8]. A summary of the interview respondent list and their distribution across SASAC and the three SOEs is provided in Appendix I.

[Insert Appendix I here]

Field notes were taken and compared during data analysis. The interviews were semi-structured with discussions centered on issues including concerns in relation to the change to an EVA®-system, how the EVA® was implemented in the SOEs and received within their subsidiaries, how the system was used by SASAC in evaluating the performance of SOEs and their subsidiaries, and finally the impact of the system implementation on strategies and management decisions in the SOEs and their subsidiaries.

3.3 Data Analysis

Our recorded field data was assessed using a software content analysis approach (Nvivo 8.0) whereby the data was coded to ensure that there was no selective choice of data in developing the study's findings. The analysis was carried out in two steps as described below.

[8] Three interviewees were interviewed twice as indicated in the Appendix I.

We first examined our field data (the interview transcripts and the internal and external documents) to identify emergent patterns concerning the deployment and effects of the EVA® system by SASAC. We coded the interview scripts and internal documents to assess any patterns of control effects in the three central SOEs. This analysis gave an indication of EVA® implementation issues and gave clarity over how strategic and operational decisions were influenced by the change in the system. We then performed a more detailed analysis of the text data, defining the acceptance of the change to EVA®-based system as either *strong* or *weak*. The interpretation of the text data was discussed and confirmed by the authors. Our analysis of the interviews however offers much greater depth as to the type and nature of effects beyond strong/weak categorization enabled by data content analysis.

4. Findings & Discussion

In this section, we assess the empirical information collected, and discuss our findings through the Klenk (2015) public accountability framework. We highlight the EVA® system's acceptance (or lack of) by the SOEs and its impacts on the strategic and operating choices of managers across the three central SOEs under study. We interweave our empirical observations with explanations of their theoretical significance in order to allow for a manageable explanation of the findings and their significance to the study's claimed contributions.

EVA® was viewed as an accounting metric that influenced SOE strategic behavior, in large part by shaping the corporate values of managers in relation to profit seeking in investments. Notwithstanding their criticisms of the EVA® system (see below), a manager in SOE 3 noted:

As a supervised enterprise, we recognized the effects and benefits of EVA®. We also want to make use of this tool to manage downward. If an enterprise wants to excel in the long run, it needs to be supported by a belief ... In this sense, [EVA is] a good thing. (Interviewee 18)

SASAC communicated the ethos associated with the new EVA® system by engaging all senior central SOE managers in training sessions on EVA® measures. Central SOEs also organized their own training on EVA® in their subsidiaries. In doing so, EVA® became a map for guiding management pursuits through the hierarchical structure of central SOEs. The alignment of SOE managers' mindset around a profit orientation tied to EVA® was considered important in directing this strategic refocus. To this extent, the politicization of EVA® by SASAC into SOEs is clearly noted, and the high level of formal accountability claims by the general community and SASAC regarding SOE efficiency is acknowledged. The existence of much public conversation and debate (Klenk, 2015), led to the central regulatory body (here SASAC) implementing strong accountability claims on SOEs via EVA®.

We commence with an analysis of our evidence collected regarding the activities undertaken by SASAC to enact EVA® across all SOEs, then discuss the responses of three SOEs in designing and submitting their respective EVA® values. We analyze the responses in relation to the extent to which the SOEs engaged in "Acquiescence", "Compartmentalization", "Compromise", "Defiance" or combinations of these. In mobilizing these responses, we theorize rationales driving key senior individuals' purposive behaviors across the three SOEs. "Acquiescence" relates to a high level of compliance with external rules or norms, while "Compromise" occurs when constituents are pacified and stakeholder demands are balanced through negotiations.

"Compartmentalization" occurs when organizations might create separate business units that demonstrate the organizations' commitment to the accountability demands of external stakeholder without concertedly affecting internal change while "Defiance" is an active resistance strategy where an organization dismisses, challenges or attacks the accountability demands of an external stakeholder.

Central SOEs have seen their assets and profits grow since they were established. Criticism of their strategies have however been expressed forcing a re-assessment of their scale performance focus[9].

Faced with significant external political pressure arising from scale based growth squeezing private sector access to capital, dissatisfaction with the management of the SOEs by SASAC and the Chinese Government was being voiced. SASAC consequently sought to effect changes as the guardian of state assets by introducing EVA® as a new accounting metric for evaluating central SOEs. The EVA implementation therefore involved a strong political imperative. The system was structured as noted in Table 4.

Intense training at different organizational levels and the advancement of value creation by SASAC enabled the extension of the EVA® system in central SOEs, at a time where the government was strongly emphasizing its implementation. EVA® as

[9] Concerns have been raised in relation to the rapid development of SOEs. First, SOEs have been criticized for having low profitability, lacking investment efficiency and evidencing poor corporate governance. Mok and Chua (2003) find that state ownership in listed firms by the government are negatively related to profitability, particularly in bad economic times. Chen et al. (2011) find that political connections of listed SOEs significantly reduce their investment efficiency. Similarly, Firth et al. (2012) also provide evidence to advance the idea that the government has multiple socio-economic objectives for SOEs other than pursuing value maximization when making investment decisions. Firth et al. (2006) examines the compensation of CEOs in China's listed firms and find that firms with a state ownership do not appear to use performance related pay or do so with very low intensity. Second, the fast growth of SOEs has been attributed to the favorable treatment they receive over private firms given their close ties to the government (such as financing from state-owned banks). Firth et al. (2008) find that low growth and poorly performing firms with greater ownership have fewer restrictions on their capital expenditures financed via state-owned banks, which result in an overinvestment bias in SOEs. Lu et al. (2012) provide evidence that private firms (non-SOEs) are more likely to face bank discrimination for political reasons relative to SOEs.

envisaged by SASAC was intended to become intertwined into the SOE accounting evaluation processes to alter management action. Notwithstanding the high level of politicization that accompanies the implementation of EVA® into SOEs, the extent to which EVA® adherence is enforced upon SOEs remains weak.

SASAC officers were open to being flexible with SOEs in relation to the EVA® calculation, especially regarding strategically important assets such as grain supply and SOE resources invested into the management of natural disasters. As explained by the manager of a control division in SOE 1:

Since we [SOEs] have to shoulder a lot of social responsibilities, it is unfair to entirely evaluate our performance based on value-based measures. For example, some of our subsidiaries have to make sure that the grain supply is sufficient around the country and they have to keep the grain price stable even if it fluctuates… (Interviewee 7)

A manager from SOE 3 similarly commented that SASAC's targets were always open to negotiation, even when directly relating to non-current assets in the balance sheets of an SOE:

I will give you another example: there has been a large amount of international investment, virtually worth nothing, which has been sitting on our account for a very long time... During the evaluation process, we argued with SASAC that since the investment wasn't made by us, we should not be held responsible… Eventually

SASAC agreed to adjust our original target downward in light of this loss. (Interviewee 23)

The above examples evidence the flexibility of SASAC in administering EVA®[10]. They simultaneously reveal a unique combination of high politicization and low enforcement, unlike the traditional framework proposed by Klenk (2015) which assumes enforcement to align with politicization. High politicization is driven by the strong mandate divested by the China Government onto SASAC, which arose from public pressure concerning the lack of efficiency in SOEs. This was complemented by low enforcement, owing to the need for SASAC to manage the multiple accountability claims of some SOEs with key longer term performance goals that might be independent of annual profitability.

We now explain the manner by which three different SOE's manifested different types of responses to the EVA® implementation. We proceed to examine the effects of the accounting system change to EVA® on subsidiaries' actions and decisions in three different central SOEs. In particular, we focus on the extent to which EVA® affected SOE reporting activities, integrating these findings within our theoretical framework.

4.1 Blended public accountability responses

A key contribution of our study is the identification of blended responses to public accountability by organizations, combining elements of different responses proposed by Klenk (2015). One of the reasons for this blending is the nature of the political work conducted by key senior executives, as is in evidence from the findings. We

[10] We conducted additional interviews to ascertain the uniformity in SASAC's flexibility across annual reviews, versus end of term reviews. We were advised that there was no substantive difference in the flexibility inherent in SASAC's evaluation style across these two evaluation types.

proceed to discuss the blended responses of SOE 1 (*Acquiescence* and *Compromise*) and SOE 2 (*Compromise* and *Defiance*). We characterise the public accountability response of SOE 1 as blended and positive with respect to EVA® acceptance, while SOE 2's response we class as blended and mixed, as is evidenced from the findings. Finally, we characterize the unilateral (non-blended) response of SOE 3 (*Defiance*) wholly negative.

4.1a Positive Blended Response - Acquiescence and Compromise (SOE 1)

SOE1 is a Fortune 500 conglomerate with a number of subsidiaries which operate across various sectors including real estate, hotels, agriculture and food, non-grain bio-energy, packaging, and finance.

We proceed to explain how SOE 1 exhibited a combination of the Acquiescence and Compromise strategic response modes, building on Oliver (1991) and Klenk's (2015) extension. The reason for this blending of both responses rests in the political work of the CEO of SOE 1. The legitimacy of CEO 1 (Suchman, 1995) arises from his strong Ivy League educational background as well as the broader political hierarchy viewing him favorably. As will be explained, the CEO exercises his internal influence (Kraatz and Block, 2008) within SOE 1 to ensure staff applied EVA® though there existed mis-alignment with their activities (Acquiescence). The CEO also exercised his external influence to drive SASAC to show greater flexibility with SOE 1, driving negotiation regarding EVA® targets (Compromise). Theoretically, this style of response manifested in an environment where SASAC did not apply any material form of enforcement (Moore, 2014). The Klenk (2015) framework indicates *acquiescence* and *compromise* strategic responses are mobilized when politicization and enforcement are simultaneously high (see Table 1). We find these responses

when politicization is high and enforcement is low, theoretically departing from extant public accountability literatures (Brandsma and Schillemans, 2012). We explain that SOE CEO 1's high level of *accounting centricity* and *institutional potential* drove the EVA® application by his staff, thereby advancing Lawrence, et al (2009) and Klenk (2015) by specifically theorizing rationales for the departures observed from the way public accountability responses are cognized.

Functionally, the organization structure of SOE 1 lent itself to adopting EVA® more seamlessly, as explained by the Finance Manager of one subsidiary of SOE 1:

> *…all our subsidiaries are organized as divisions so that we are all report to headquarters. The HQ has very strong control over us, which makes it easier for our boss to push the* EVA® *measure down the whole group. (Interviewee 12)*

But why might the CEO welcome the EVA® method to begin with? Theoretically, the political work of the SOE 1 CEO is strongly implicated in the SOE 1 response to public accountability demands. The CEO of SOE 1 obtained an MBA in the early 1980's from a USA Ivy League university and is a highly respected individual amongst SASAC officials and the broader Chinese governmental bureaucracy. He obtained his qualifications at a time when few Chinese graduates held overseas degrees, and even fewer from such a highly reputed institution. For this reason, he was earmarked from an early stage for progression through the "ranks", and is currently CEO of SOE 1, a larger and more influential SOE relative to the other two we investigate. He is highly respected by his subordinates in SOE 1, and has a track record for institutionalizing new innovative practices, often Western management practices in SOEs that he has advanced in the past. From this perspective, the SOE 1

CEO has a high level of *accounting centricity* – which we define as the ability to accept and work with accounting constructs. The respect with which the CEO of SOE 1 is held by SASAC, his marking for progression amongst the China political elite as well as his Harvard education and preference for Western management techniques strongly aligns to his likelihood of supporting the EVA® implementation and driving its authentic use in SOE 1. As explained by the Vice Manager of the Strategic Development Department:

> *Our CEO has a great reputation in orchestrating innovation. ... His prior experience as the CEO of another large SOE was very successful. His value-based management system at his previous SOE was a big hit in the management world. He is renowned for advocating and supporting the implementation of westernized accounting concepts. ... he is more receptive to new ideas like* EVA®.
>
> *(Interviewee 9)*

The SOE 1 CEO possessed a significant influence over other senior managers at SOE 1 in accepting the accounting innovation. His Ivy League educational background, and history of enabling accounting innovations likely affected SOE 1's re-orientation of its investment choice making, in replacing ROE with EVA® as the performance measure with the largest weight.

Two initiatives were driven by the SOE 1 CEO to maximize the likelihood of EVA® acceptance into SOE 1 subsidiaries. This included the implementation of bonus systems on managers for attaining EVA® targets, and the inculcation of training

programs to foster greater management understanding of the EVA® method and its implementation rationale:

I think the most important channel through which the intentions of senior executives translate down is through the bonus of lower level staff... I guess in the beginning stage of the implementation of EVA®, we had a lot of training sessions for our subsidiaries. It definitely helped too. (Interviewee 6)

After the transition to EVA®, the headquarters of SOE 1 assessed the performance of all its subsidiaries (first-tier) and business units (second-tier) using EVA®. Overall, a 50% weight was accorded to financial measures (EVA® and profit) and the other 50% encompassing operating measures, such as quality and delivery. The EVA® system was sufficiently influential so as to enable an authentic alteration of the weighting of SOE 1 measures, subsequently changing their strategic choices.

Functionally, EVA® was used to achieve more efficient resource allocation. A finance manager at the headquarters of SOE 1 emphasized the changing focus from government equity to private debt, caused by subsidiaries not wanting to take on government capital obligations requiring high market based returns:

In the past… in most cases, the subsidiaries just made excuses and refused to return the capital back to us. … Now with EVA®, they voluntarily return the idle capital to us. … From their point of view, it is much cheaper to seek funding from banks… (Interviewee 5)

SOE 1 managers also assessed the lower EVA® levels within their own businesses, allowing units in lower yielding industries a lower EVA® target. Discussions and debate ensued regarding the relative movement of EVA® targets, and their comparative difficulty of attainment:

We noticed this problem of EVA® some time ago and in practice we set targeted values for EVA® and use 'ΔEVA®' that is change in EVA® as a performance indicator. We then can set lower target for those low EVA® -based companies. (Interviewee 13)

SOE 1's acceptance of EVA® was also driven by the inevitability of its use as a control form imposed by SASAC:

I think there is an understanding that a unit will be left behind or be merged with others if you continue to develop on the previous basis [pre-EVA®]. (Interviewee 5)

Given the influence that the CEO of SOE 1 possessed, and the influence wielded by SOE 1 as a central unit, one might expect greater levels of resistance to the less aligned aspects of the EVA® implementation as explained above, in light of disagreements with certain aspects of the EVA® implementation. However, SOE 1's CEO had positioned himself as an innovative executive, pioneering western management practices in SOEs. His political influence and ambition drove his willingness for adherence, not resistance. This impacted his approach to making EVA® work in SOE 1. The Vice Manager of the Strategic Development Department at the headquarters of SOE1 explained that:

Hierarchy wise, our CEO is at the same rank as the vice director of SASAC. He has a very bright career ahead of him. He is well respected… I think that we would want to perform well in the evaluation ourselves in the first place. It would look bad on him and all of us for a company as large as us to fail to meet our target. That would mean that we are destroying values instead of creating ones. He has a lot at stake here. I am sure he feels pressured to do well in the performance, like all of us. (Interviewee 9)

Theoretically, we argue that from an institutional work perspective, the SOE 1 CEO stands to advance high *institutional potential* in his SOE, SASAC and the broader government structure. His acquiescence to the EVA® innovation and willingness to work with it notwithstanding its limitations does not arise from a "fear" of SASAC, but rather a posturing for future political gain. To this extent, he was ready to do whatever was necessary to "acquiesce", owing to the high politicization of the EVA® implementation.

In SOE 1, managers placed significant effort on producing accounting calculations and reports in as objective a manner as possible. Even when the pressure existed to "prop" a strategically important but less profitable business unit, managers trusted the numbers and refrained from doing this, pointing to the need for "*truth from the facts and focus on numbers that cannot be forged" (Interviewee 8*), thus adhering to the EVA® process irrespective of other SOE behaviors or responses to EVA®.

The SOE 1 CEO's strong reputation within SASAC also played a role in empowering SOE 1 to negotiate (compromise) with SASAC, especially when China suffered an economic downturn in 2012-13.

The overall performance of SOEs hasn't been good. I think the EVA® evaluation by SASAC has become more flexible and there is more room for negotiation. SASAC has relaxed their rule and allowed the target to be adjusted in the mid-year evaluation…during the mid-year evaluation, we bargained with SASAC that since the economy hasn't been rosy, the EVA® target for the whole year should be adjusted downwards. (Interviewee 6)

SASAC allowed more room for negotiation over the calculation of EVA® during the evaluation, allowing an expansion of lower cost of capital benchmarks to a wider range of industries within SOE 1's businesses operations.

Managers in SOE 1 feel some pressure to align their longer term strategic endeavors (whose benefits are difficult to express) using a short term profitability value to EVA®, and acknowledge that projects that used to be favorably considered now show negative or zero EVA® returns, causing consternation amongst managers. Notwithstanding the above functional mis-alignment, the presence of dysfunctional behaviors in SOE 1 appears less marked. Conceptually, therefore, we see strong alignment in the strategic response of SOE 1 to EVA® institutionalization with the *acquiescence* mode, and subsequently the *compromise* mode as explained in Klenk (2015). In the main, management followed the directives of SASAC consistently, virtually adopting the "textbook" application of EVA®, even implementing adverse

and inequitable reporting of the performance of some of its segments when complications arose (Hill and Hupe, 2009). There existed a high level of compliance, evidenced by a conscious effort from SOE 1 management to follow the dictates of EVA®. However, SOE 1 also negotiated with SASAC to lower EVA® thresholds, in response to deteriorating macroeconomic conditions, and with an undertaking to better train and educate staff. From this perspective, SOE 1 adopted a *Compromise* strategic response to a lesser extent. We link this hybridized strategic response mode of *acquiescence and compromisee* to the political work of the CEO of SOE 1, exercising his influence to ensure adherence in the face of mis-alignment (Acquiescence) while also enabling SASAC to show greater flexibility with SOE 1, driving compromise regarding EVA® targets. Theoretically, what is of note about this response is that it occurred without any strong enforcement from SASAC (Moore, 2014). Unlike Moore (2014), however, the absence of enforcement did not affect the authenticity of the EVA® implementation. Though the public accountability framework as proposed by Klenk (2015) argued for the *acquiescence* and *compromise* strategic responses to be mobilized when politicization and enforcement are both high (see Table 1), our findings reveal that there existed a high politicization of the EVA implementation, but low enforcement of its implementation. Instead, it was driven by the political work of the SOE 1 CEO, most closely argued by the "Politicization" variable in the Klenk (2015) model. Why did he act in consonance with SASAC's EVA® impost, though it did not align to the activities of his institution? His high level of *accounting centricity* and *institutional potential* drove his acceptance of the EVA® method, and his driving of its authentic implementation to his junior staff. These two drivers counters Moore's (2014) finding that the enforcement of an implementation is requisite for its success. Theoretically, our findings reveal the

manner by which "institutional work" literatures (Lawrence, et al 2009) explain departures from public accountability responses as frameworked in Klenk (2015) and prescribed in Moore (2014). Further, our results lend support to the influence of key actors contributing to the legitimacy of key institutions, reinforcing Meyer and Scott (1983).

Our findings in relation to SOE 1 further provide empirical support for the claims of Perkmann and Spicer (2008), who consider the political motivations driving the nature of institutional work conducted by "hypermuscular" institutional actors (such as CEOs), and those within the sphere of their influence (Suddaby 2010). They additionally advance Du et al. (2012), who claim favorable subjective evaluations for more influential SOEs. We observe how institutional work as evidenced through the political work undertaken by the SOE 1 CEO explains how SOE 1 might exhibit tenets of acquiescence in relation to EVA® even when it did not suit them (possessing strong *institutional influence*, the CEO sought to ingratiate himself to SASAC) but was afforded strong negotiation influence when requesting for compromise (SASAC wanted to appease a potentially powerful future government official). The more subtle defining of this acceptance has not been proposed in prior accounting studies (Tu et al. 2013).

4.1b Mixed blended response – Compromise and Defiance (SOE 2)

SOE 2 is a leading enterprise group in China dealing with the development and production of products and technologies tied to carbon reduction and energy-saving. While not as large as SOE 1, it has over 250 subsidiaries across the country. EVA® is part of the performance evaluation system of first-tier subsidiaries in SOE 2.

Theoretically, we explain how SOE 2 was dismissive of the EVA® metric indicator, but in a matter that reflected negotiation and a softer form of resistance (defiance) against SASAC, unlike that associated to Defiance as per Klenk (2015). In this sense, SOE 2 simultaneously exhibited the "Compromise"" and "Defiance" strategic responses. We also acknowledge its "Defiance" as not rooted in the stronger "challenge" or "attack" descriptors, but the softer "dismissive" descriptor. Klenk (2015), consistent with Oliver (1991), characterizes defiance as being an intention to dismiss, challenge or attack, but we observe an empirical setting where defiance occurs more subtly, and intermingles with an intention to compromise in contexts that are strategically impossible to reconcile with an EVA® application.

SOE 2 managers frequently expressed concern about the applicability of EVA® to their carbon reduction and energy saving investments, aligning with competing objectives advanced by the government that China should be more energy efficient and "clean" in its manufacturing processes.

When faced with more financial prudence which the EVA® metric implementation promoted, SOE 2 managers reacted strongly and adversely. While the logic for the resistance was functionally coherent, the background of the SOE 2 CEO was a factor underlying the less enthusiastic reception of EVA® in SOE 2, relative to SOE 1. The SOE 2 CEO came from a non-accounting background and was less drawn to the technical rationale of EVA®, as well as its value as an evaluation tool. To this extent, we theorize him as an individual possessing *low accounting centricity*. His relative lack of enthusiasm for EVA® affected EVA®'s receptivity by managers within SOE 2 subsidiaries, who acted in consonance with their CEO. The complexity of EVA®

coupled with the CEO's non-accounting background adversely influenced SOE 2 executive engagement with the potential of EVA®:

> *... our boss mentioned that EVA® is a concept hard to understand. And even an accountant would find the calculation very confusing. We were having trouble making sense of the concept. (Interviewee 15)*

The skepticism surrounding SOE 2 relative to SOE 1 was linked to the SOE 2 CEO's attitude to EVA®. Where SOE 1 "acquiesced" or engaged in "compromising strategies", SOE 2 adopted a marginally more negative tone, but for reasons relating to the preservation of its core objective. For this reason, we argue that SOE 2's response conceptually represented a combination of *compromise* and *defiance*. The style of defiance was not a form that involved challenging or attacking EVA®, but rather to dismiss the authentic way for calculating EVA® in place of a more diluted form that shielded poorly performing units bearing strategic importance. SOE 2 adhered to the method, but did so opportunistically.

Over time, managers accepted the approach of the EVA® system and regarded the 5.5% return threshold as an acceptable target reflective of desired profitability that would reduce managers' tendencies to over-invest. But managers remained critical of the use of the EVA® metric as a sole indicator. This was because many of their primary investments showed low returns while their non-core businesses showed high returns:

... it [EVA®] does have much effect in tempering the impulse to overinvest say in standardized core businesses... But it is not necessary for EVA® to be high on non-core businesses… (Interviewee 16)

The separation of roles between individuals submitting projects for acceptance and individuals being held responsible for those projects post-operationalization created tensions. These demarcations allowed for explanations for SOE 2 under-performance regarding EVA® when communicating with SASAC, serving as a "compromise" response.

Incentive problems between those tendering for projects and those responsible for the delivery of the project post tender ensued. This weakened EVA®'s rationale as "*… the person who undertakes the project may argue that the targets could not be met because the estimates in the report were off" (Interviewee 12).*

The existence of competing strategic objectives was of particular concern in SOE 2, where managers questioned the value of EVA® over other measures in its ability to present a narrative about their performance. Specifically citing energy conservation projects with return spans that are not measurable, and not significant in the short run, SOE 2 managers control this by "excluding" factors/investments that are not comparable to their own situation.

These discretionary accounting centric strategic actions mobilized by managers were tied to the manipulation of EVA®, weakening any intended effects on the actual practices in SOE 2. Here, we note the "defiance" of EVA® in the way it was managed internally, versus its communication externally. By excluding factors unfavorable to

them, managers within SOE 2 engaged in the practice of EVA® reporting to appease SASAC and the broader public, but opportunistically modified EVA® in a way that shields their low performing operations. Therefore, EVA® as it should be applied was dismissed. Importantly, these manipulations were adopted in order to maintain the integrity of the core objectives of SOE 2 management, who considered energy efficiency as a key focus of and impossible to reconcile with an EVA® methodology. Such manipulations persisted notwithstanding SASAC's attempts to be flexible in the evaluation of SOE 2.

Given the asset weighting in favor of costlier heavy asset projects in SOE 2, the resulting weighted average effect on SOE 2's group EVA® was negative. This functionally drove an intention to be more dismissive of the EVA® methodology:

> *The EVA® of light-asset projects is better. The EVA® of heavy-asset projects is difficult to be raised. We are doing energy saving and environment protection projects, whose yield is very low. (Interviewee 16)*

SOE 2 executives responded to this by reminding employees to weigh in the broader strategic goals over immediate financial goals, notwithstanding EVA®'s focus on annual value creation. The strategic financial objective pursued by SASAC resulted in difficulties for managers making strategic choices around asset allocations and investments. Strategic assets that have short term losses or low returns but are essential in the long run for the SOEs to progress appeared as negative EVA® items. This caused the chief executive of SOE 2 to remind employees of the need to go beyond the EVA® indicator and think more holistically about SOE 2's strategic choices:

Our CEO once said that "we should pay attention to the indicator but we must not neglect other things which matter". (Interviewee 17)

In order to facilitate a more concerted implementation of EVA® within its subsidiary ranks, SOE 2 managers rolled out training activities and integrated the accounting technology into its junior managerial incentive system:

I think training definitely helps. We have organized many training sessions company-wide to make sure that both accounting and non-accounting managers could understand the concept of EVA®…. Moreover, EVA® is incorporated in our evaluation system. (Interviewee 14)

SOE 2 additionally adopted an information dissemination strategy within its subsidiaries, engaging in an awards based program that highlighted and communicated the best practices of its high performing EVA® subsidiaries:

Another mechanism I could think of is the award system. We have selected some subsidiaries which performed very well in EVA® evaluation and promote their best practices as the model that other subsidiaries should follow. (Interviewee 14)

Emphasizing flexibility and broader thinking to incorporate other strategic pursuits at SOE 2 is undertaken with an acceptance that their EVA® targets could falter, which caused some management consternation:

We are trembling every year. For example, some companies use 8% [cost of capital] and have a high EVA® but low net operating profit, other companies use 3% [cost of capital] and have a negative EVA®, so we are unable to guarantee the achievement of Group's EVA® target. (Interviewee 16)

Notwithstanding this, SOE 2 executives retained their focus on the strategic positioning of critical energy related investments via the EVA® metric:

We must ensure that we can meet the EVA® target set for us by SASAC. In order to properly implement EVA® evaluation, we should apply different rates of cost of capital for different subsidiaries given the characteristics of their operations.

(Interviewee 16)

Similar to SOE 1, SOE 2 managers indicated that since 2013, SASAC had maintained its focus on EVA® adherence but willingly softened its stance in negotiating EVA® targets owing to the declining macroeconomic performance in China:

I think there are mainly two changes to the way in which EVA® is used by SASAC. For example, the full amount of non-operating profit could be included in the calculation of EVA® if we bargain with SASAC. (Interviewee 14)

This evidenced SASAC's willingness to engage in compromise with SOE 2, to facilitate its generation of relevant activities that may not necessarily align to the annualized return expectations characterized by an EVA® metric. Whilst

macroeconomic conditions worsened, SOE 2 had not cut staff or lowered staff salaries, though senior management had absorbed reductions in their salaries as mandated by Chinese government policy:

> *Well, there are some deductions in the salaries of our executives' as part of the anti-graft campaign of the central government but there hasn't been any change to the compensation of our employees other than our executives. There are no influences on our* EVA® *evaluation … we have no pressure for staff reduction. (Interviewee 14)*

Overall, SOE 2 accepted the EVA® process and used it in its control assessments. However, SOE 2 executives discretionarily engaged in key strategic actions to ignore the low returns and risked negative EVA® returns in favor of the acquisition and maintenance of key long term strategic assets invested in critical areas such as energy investments. In this manner, SOE 2 was dismissive of the EVA® metric indicator, but did so to seek balance in the expectations of its different operating arms, whilst negotiating and appeasing SASAC at the end of period evaluation process. In this sense, SOE 2 appeared to display attributed of both the "Compromising Strategy" and "Defiance" strategic responses. We also acknowledge its "defiance" as not rooted in the stronger "challenge" or "attack" descriptors per Klenk (2015), but the softer "dismissive" descriptor. The lack of genuine enforcement by SASAC contributed to the presence of a compromising strategy as well as a minor exhibition of "defiance", notwithstanding the highly political and strategically important factors driving the EVA® implementation. It is also noteworthy that the training initiatives and information systems deployment at the junior managerial ranks within SOE 2 to

improve EVA® acceptance did not lead to an "acquiescence" response. This further reinforces the importance of the purposive actions of senior executives (CEO's) in shaping the nature of EVA adherence within SOE 2, over more structural factors driving outcomes (such as the high politicization setting and EVA® importance to SASAC, the oversight body).

The manner by which SOE 2 adjusted the numbers and negotiated their position with SASAC thus reflected a blended *Compromise/Defiance* response but their overall focus remained aligned to EVA® as evidenced by their willingness to view EVA® positively, unlike the *Defiance* response. The lack of accounting knowledge (*low accounting centricity*) by SOE 2 made EVA® a more difficult concept for the CEO of SOE 2 to accept, but his deployment of operating indicators other than EVA® was conducted with a broader intent to protect the strategic assets of certain arms of his SOE. Of particular interest is the departure from the conceptual model we use. We note that "compromise" and "defiance", even when conducted for the benefit of SOE 2, was done in a manner that attempted the boost the capability of SOE 2 – this included the provision of training and education by SASAC representatives to SOE 2 staff. Much of these approaches aligned to the preferences of the SOE 2 CEO, who was an "old-fashioned" manager uncomfortable with newer accounting techniques, but familiar with the operating tenets necessary to manage a task, and thus reflected his expertise through this medium (Andon, et al, 2014). In this sense, the SOE 2 CEO's *institutional potential* was considered as moderate. Though not "high" as noted for the SOE 1 CEO, the SOE 2 CEO was still respected and regarded as having a measure of experience, consistent with his maturity and age. SOE 2 EVA® adjustments were conducted with an intention to engage in adjustments that effect "balance" in managing the interests of different constituents and to "pacify" key

stakeholders, negotiating concessions that otherwise would not have been implemented within SOE 2.

We also affirm that the compromise/defiance blended response was charted in Klenk (2015) as associated to a low intensity of formal accountability (see Table 1). We observed the same two responses being deployed by SOE 2 in a *high* formal accountability climate, where the public are increasingly pressuring governments to raise SOE efficiency. Again, this departure from Klenk (2015), as also noted for the SOE 1 setting, can be attributed to the purposive actions of CEO's as motivated by the institutional work theoretical perspective. Our findings depart from Du, et al (2012) in emphasizing how accounting methods deploy in high formal accountability contexts, characterized by low enforcement but high politicization. The purposive actions of the SOE 2 CEO and his associated team reveal how their purposive actions clearly drive a more mixed response to EVA® relative to the SOE 1 CEO.

Similar to SOE 1, SOE 2 acknowledged the softening stance of SASAC since 2013 owing to the more adverse state of the economy, undertook training and development practices within its subsidiaries to promote an understanding of EVA®, implementing EVA® as part of its employee incentive plan in order to extend the operationalization of EVA® into its subsidiaries. Unlike SOE 1 management, SOE 2 was prepared to adjust the consideration of factors for evaluating investments in a manner that favored the reporting of these numbers outside their negotiating process with SASAC. To this extent, the quality of reporting and behaviors surrounding the implementation of the value strategy and consequent EVA® control was biased in order to facilitate the maintenance of strategic investments with low short run EVA® yields. The positive and mixed blended strategic responses of SOE 1 and SOE 2 respectively are contrasted by the adverse *defiant* response of SOE 3 discussed below.

4.2 Negative response - Defiance (SOE 3)

While the previous two responses as characterized within Section 4.1 for SOE 1 and SOE 2 represented "blended" responses, we find the SOE 3 response is substantively different in that it represents a single category (*Defiance)*. Notwithstanding the absence of a blended response, SOE 3 presents an important theoretical advancement of Klenk (2015) in that we clarify that the absence of enforcement impacts greater than the presence of politicization, when CEO political interests are less aligned to the implementation of concern (EVA®). In this sense, the arguments of Moore (2014) in relation to enforcement appear to take precedence over the notions of politicization espoused in Perkmann and Spicer (2008). We proceed to elaborate this via our empirics below.

SOE 3 is a conglomerate with subsidiaries operating across various sectors including telecommunication, information technology, broadcasting and alternative energy industries. SOE 3 is also the smallest of the three SOEs we investigate. In SOE 3, EVA® was not favored as a means of performance evaluation within the subsidiaries. There was little evidence of a strong commitment by managers in subsidiaries toward value based growth via the EVA® metric, and active evidence of their intention to "game" the system. The attitude of the CEO of SOE 3 was also strongly adverse to the implementation of a new approach with senior managers being dismissive of EVA® metrics usage, though they acknowledged that there was broad generic logic to the EVA® ideal. Much of the resistance arose from the openly hostile view of SOE 3's CEO towards EVA®. The Vice Manager of the Finance Department at SOE 3 noted:

Our boss doesn't like it – it is one of the reasons why we are not using it. ...he thinks it is too complicated to understand. (Interviewee 21)

SOE 3 managers commented that such militant resistance stemmed from SOE 3's CEO not having prior experience as a chief executive, or in working in a larger SOE, as well as his narrow base of accounting knowledge or management qualification which to him rendered the accounting technology particularly complex in and of itself rather than in terms of appropriateness for the enterprise as was the case with the CEO of SOE 2. SOE 3's Chief Executive saw shortcomings in the EVA® system and exhibited skepticism:

Subsidiaries believe that they do quite well without EVA®, so why are they forced to use this indicator which is quite confusing? (Interviewee 24)

The Vice Manager of the Finance Department in the headquarters of SOE 3 linked the CEOs background to his dislike of EVA® and their non-use of it:

He has no prior experience as a CEO of a large organization. So he probably finds it difficult to understand the calculation and meaning of EVA®. He has said it many times that EVA® is very confusing concept and it is very difficult to link EVA® *to the type of activities that we need to incentivize. In other words, it is hard to use* EVA® *as a performance measure. (Interviewee 21)*

The SOE 3 CEO's closeness to retirement was also a significant issue. He did not wish to cause difficulties within his different divisional arms at a time critical in his career, evidencing little future value to the broader political hierarchy, and equally, with no loss that could result from manifesting resistance. As explained by Interviewee 21:

> *...our CEO is very close to retirement. He wouldn't want to risk the resistance (internally) and undertake some serious reform [EVA®]. Stability is what he needs most before he can retire smoothly. He wouldn't want some big change so close at the end of his tenure. (Interviewee 21)*

The CEO's inability to understand EVA® alongside the juncture he was in personally in his career trajectory led to a high degree of flexibility granted by the CEO to SOE3 managers, in the reporting of EVA® numbers. We identify his weak accounting knowledge as evidence of his *low accounting centricity*. Politically, his being close to retirement led to a lack of interest and enthusiasm for his role, leading to weaker governance of his operations. Consequently, the CEO possessed *low institutional influence*. The combination of both drivers of institutional work being low led to frequent instances of financial number gaming, such as the willful non-disclosure of information to SASAC by SOE 3 executives. This aligned to a strong form of "Defiance" where SOE 3 not only dismissed EVA® (per SOE 2), but also actively challenged and critiqued the EVA® practice, ridiculing it. Notwithstanding its political importance, the lack of enforcement appeared to provide SOE 3 management no rationale to adhere to the demands of SASAC. This was compounded by the absence of any political alignment by the SOE 3 CEO to SASAC

or the broader China government structure. Being close to retirement, the CEO resented fundamental change, had no political inclinations to advance and was arguably not considered for promotion owing to his age and that he was close to retirement. This combination of factors, in the absence of any strong enforcement from SASAC, emboldened the CEO and his managers to defy SASAC in a quite hostile manner.

Of note is that managers openly admitted manipulation of numbers in the low enforcement environment characterized by information asymmetry. A manager explained how specific expenditures such as R&D might be adjusted in order to maintain operating margins, even adopting a taunting tone to the ability of SASAC to openly prove the existence of manipulation.

If you are an outsider, how are you able to prove the number of expenditure on R&D is off? So, there is a lot of room for manipulation here. (Interviewee 24)

Interestingly, SOE 3 managers did not perceive SASAC as having softened their stance on EVA® in their negotiations and evaluations with SOE 3, owing to the worsening macroeconomic conditions in China – this directly countered managerial comments witnessed in SOE 1 and SOE 2. This lack of compromise from SASAC was seen as a signal by SOE 3 managers to bunker down, cementing their hostility to the method in order to preserve the stability of their own operations. SOE 3 managers reflected that it was reasonable for SASAC to keep to its uncompromising stance to maintain its authority:

I don't think there has been much change in the use of EVA® by SASAC. Although the economy is slowing down, I don't see any changes in SASAC's regulation. The emphasis on EVA® is even stronger. There might be some flexibility given the economic downturn. But I would say from the point of fairness, SASAC might relax its regulations only in some extreme cases. Otherwise, how could it keep its authority? (Interviewee 22)

Again, this was counter to SOE 1 and SOE 2 managerial comments, which had instead emphasised the importance of SASAC being flexible and to assist SOE's to meet their EVA® targets in order maintain its own place as an over-arching, governing body of SOE's. The "Acquiescence" and "Compromise" evidenced by SOE 1 and SOE 2 appeared to be reciprocated by SASAC, but no such posturing was evidenced from SASAC to SOE 3.

In adopting neo-institutional arguments regarding strategic responses we note that the *defiance* strategic response drives a more lucid, somewhat harsher and increasingly negative version of *defiance* relative to SOE 2, that leads to overtly disruptive institutional actions (in its effect on EVA®) within SOE 3. What was theoretically surprising was that the level of politicization surrounding EVA® was high, while enforcement was low (Horizontal Axis, Table 1). Neo-institutionalists assume both to align, and indeed construct both within the same axis. Theoretically, we advance that the absence of enforcement appears to play a stronger role than the presence of politicization, when CEO political interests are not aligned as observed through the militancy of SOE 3 as driven down by the SOE 3 CEO resistance to EVA.

When an accounting innovation is politically of high importance, the absence of a proper enforcement regime renders this politicization impotent, but only if the

political work of a CEO is aligned against the organization (Wu et al. 2012). No enforcement presents a motivation to contest, challenge and attack the system (as was the case with SOE 3). However, when politicization is high and enforcement low on an SOE where the political work of the CEO strongly aligns to the source of the political pressure (as observed for SOE 1), the strategic response of the organization is one strongly in favor of politicization (supporting Lei et al. 2013; and Tu et al. 2013; Perkmann and Spicer, 2008), notwithstanding low enforcement. The SOE 1 CEO openly cooperated and acquiesced or adopted a strategic compromise stance in order to be seen as a future leader within the broader Chinese political system.

Whilst neo-institutionalists (Greenwood and Suddaby 2006; Klenk 2015; Lawrence and Suddaby 2006; Oliver 1991; Seo and Creed 2002; Suddaby 2010; Zietsma and Lawrence 2010) propose a valuable entrée reflective of responses which engender organizational conformity as well as resistance to institutional processes, we have argued here that the typology's separate dimensions of strategic responses requires coupling, hybridization and interface to more effectively cohere to the observed practices in our empirical context. We not only reinforce the claims surrounding the maintenance of institutions (the EVA® implementation process) through the actions conducted by SASAC officers, but also illustrate the purposive efforts to maintain and disrupt the same from a multiplicity of SOEs. From this perspective, we have noted variation in the strategic responses and their links to the nature of neo-institutional work in accounting (maintaining versus disrupting institutions) from an aligned but complementary view encompassing a wider base of stakeholders.

Differences in the impacts of EVA® in subsidiaries of the three SOEs are summarized in Table 5. As previously explained, the highly aligned political work towards EVA® by SOE 1's CEO can be explained by his Ivy League education driving an appreciation of modern accounting analyses (accounting centricity), and rapid rise up the regulatory ranks in China (institutional potential). The SOE 2 CEO exhibits moderate institutional potential and is appreciative of accounting methodologies, but with less enthusiasm than the SOE 1 CEO, thus driving his moderate acceptance of EVA® in a mixed manner. The SOE 3 CEO exhibited low accounting centricity and institutional potential, which led to the CEO's forceful rejection of EVA®. Our findings speak to the importance of these two individual level factors (institutional potential and accounting centricity) in impacting the institutional responses of SOEs to an accounting innovation.

[Insert Table 5 here]

The Klenk (2015) accountability framework as depicted in Table 1 is plausibly modified as a consequence of our empirics. We reveal the impact of institutional work as evidenced through the actions of hypermuscular (Perkmann and Spicer, 2008) actors (CEO's) in affecting how we predict responses to accountability claims, in Table 6. This variation in the institutional work of CEO's appears contingent on the extent to which SOE CEO's possess a knowledge and willingness to deploy accounting concepts such as EVA® (*accounting centricity*), as well as the importance with which each is regarded by the broader political structure in the government apparatus (*institutional potential*). As revealed in Table 6 below, higher levels of one

or both generally led to more authentic responses to accountability claims by the respective SOE.

[Insert Table 6 here]

Our study of how the embedding of a centrally mandated managerial accounting technology exhibits differentiated local strategic responses, enables us to add to what is known about the centrality of organizational actors' agency in the structuring of an institutional process (Holm 1995; Greenwood and Suddaby 2006; Oliver 1991; Seo and Creed 2002; Zietsma and Lawrence 2010). In doing so, we add to the literature in our investigation of organizational responses to external public accountability claims, when politicization and enforcement (or lack of) are implicated. However, we go further, advancing hybridized responses subsumed from neo-institutional arguments in relation to the alignment between politicization and enforcement (advancing Klenk (2015)), identifying inverse combinations of politicization and enforcement, and explaining how the hybridized (blended) responses as driven by institutional work explanations raise our understanding of the subtle relationships underlying different responses to accountability. These serve to directly address calls for more research in this space (Suddaby, 2010; Lawrence, et al , 2011)

6. Conclusions

We investigate the responses of Chinese state-owned enterprises (SOEs) following a governmental ordinance to use Economic Value Added (EVA®). We add to the literature in that, first, we identify *blended responses* to institutional pressures, building on and advancing the ideas of prior neo-institutionalists interested in accounting regulation institutionalisation. We explain how blended responses (for

SOE 1 and SOE 2) are directly attributable to the institutional/political work of key actors, bridging Klenk (2015) and Lawrence and Suddaby (2006), and mobilise the *accounting centricity* and *institutional potential* of hypermuscular actors as driving factors influencing the authenticity of institutional responses to public accountability claims, even in the absence of enforcement.

Second, we reveal that even in a high public accountability context characterised by politicization, "politicization" and "enforcement" need not align. When politicization is high and enforcement is low, as characterised in our institutional setting, the political work of CEO's greatly influence the style of strategic response adopted by SOE's. When a CEO's political work aligns with the external hierarchy characterising the politicization (SOE 1), the absence of enforcement does not substantively influence the emphasis placed by the SOE to ingratiate the demands of external authorities. However, when the CEO political work contests the external hierarchy (SOE 3), we find that the absence of enforcement dominates, and the level of external ingratiation is low. High politicisation has little effect on this low level of ingratiation. Our findings lend support to the notion that powerful individuals within organizations manifest personal preferences and/or personality states that fundamentally impact the design and use of management accounting systems. While this idea has been rudimentarily investigated in relation to its negative ramifications (Young, et al, 2016) – the simultaneous consideration of both positive and negative with a theoretical argument for their departure has not been put forward in studies to date. In this sense, our findings also clarify and advance Lei et al. (2013) in more clearly explaining how the political work of key individuals in SOE's shape their responses to public accountability calls, and that their influence does not always manifest in deleterious consequences from an accountability perspective.

Finally, tied to our appeal to neo-institutional theory, we offer a stronger explication of how *accounting* is implicated in maintaining and disrupting institutional processes (Perkmann and Spicer 2008; Lawrence and Suddaby 2006), while clarifying divergence in the styles of this maintenance and disruption (Suddaby 2010). Our findings also further existing knowledge regarding how institutional work advances accounting innovations (furthering Hayne and Free, 2014).

Studies in differing contexts which seek to clarify how different hybridized versions of strategic responses to those we investigated will help shed further light on the manner by which firms might more subtly tackle institutional accounting requirements. Our findings mainly focus on the maintenance and disruption of institutional practices linked to SASAC's roll out of EVA®. Future studies on other accounting technologies will add to our understanding of the durability of these theorizations, and their applicability across a range of regulated accounting practices.

Our study focused on SOE CEOs as the key strategic individuals driving leadership in the SOEs. We contend that the respondents of all three SOEs identified the CEO as the most important operating executive in their respective SOEs. Nevertheless, to the extent that other senior officers such as the Chairman and CFO also occupy significant positions of power and influence in SOEs, our findings might be regarded as not fully capturing the perspective of key actors. Scope exists for future research to use a broader base of actors in addressing the issues explored.

We reported a behavioral alignment between the actions and intentions of SOE CEO's and SOE managers, whereby other SOE CEOs might find it harder to motivate their senior management group, especially if their behaviors do not align to SASAC aspirations. Future studies that unpick these attributes and incorporate such deviations into the China EVA® setting might identify relationships currently not observed in

this emerging literature, and further clarify or advance the divergences observed in our findings

We acknowledge that other reasons beyond the political work of key actors might play a role in driving the manner of strategic responses to EVA® process implementations, though our data revealed these as less important. We take heed that the flexibility of SASAC, the strategic importance of SOEs in performing a public service, and the broader pressures affecting SOEs in China from a public perception standpoint are factors driving the strategic responses in our findings, though our three SOEs studied did not experience a loss of jobs or salary cuts to their non-executive staff owing to deteriorating economic conditions in China. Finally, we note that the assumption of human agency within an institutional theory setting has been argued as problematic in a minority of old-institutional aligned studies. We adhere to the more pragmatic concerns of core neo-institutional work theorists who seek to over-archingly understand the manner by which key actors affect responses to accounting regulation through their action.

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Table 1: Klenk (2015) Accountability claims and organizational responses

		Enforcement and Politicization	
		Low	High
Intensity of formal accountability claims	High	Compartmentalizing, (Decoupling)	Acquiescence
	Low	Defiance	Pacification, Balancing, Compromising

Table 2: Development of EVA® in SOE's

	Main Performance Measures	Consideration of EVA®	Mission/Strategy set out in the National Five-year Plans	Financial Effect	Reaction
2004-2010	Financial: • Annual Profit • Return on Net Assets (Equity) Non-financial: • Industry specific measures	*2004:* SASAC pilot EVA® implementation – ten SOE's *2007- onwards:* SASAC implemented roll-out of EVA® in all SOEs, but used for evaluation only in some SOE's. *Late 2009:* Nearly a hundred central SOEs participated in pilot evaluation of EVA®.	Becoming bigger and stronger [11] - scale oriented growth	The scale-oriented strategy was effectively pursued. Over the period 2003-2010, the total assets of central SOEs more than tripled [12] .The number of central SOEs listed in the Fortune 500 increased from 6 in 2003 to more than 30 in 2010. SOE comprise 70 percent of the profits of over 120,000 SOEs equivalent to 20 percent of government revenues. Listed subsidiaries of central SOEs account for a third of the market capitalization value of Chinese domestic stock exchanges in 2010.	SASAC's growth objectives and the means by which Chinese SOEs achieved success met with criticism (Chen et al. 2011; Firth et al. 2013). SOEs were regarded as producing a relatively small share of output and value added relative to the private sector but consuming a large proportion of capital, raw materials and intermediate inputs. SOEs considered to have benefitted from preferential access to bank finance and business opportunities, and of being protected against competition placing private competitors at a disadvantage (the World Bank 2012; Fan et al. 2013)

[11] SASAC's growth objectives and the means by which Chinese SOEs achieved success met with criticism (Chen et al. 2011; Firth et al. 2013). SOEs were regarded as producing a relatively small share of output and value added relative to the private sector but consuming a large proportion of capital, raw materials and intermediate inputs. SOEs had also been considered to have benefitted from preferential access to bank finance and business opportunities, and of being protected against competition placing private competitors at a disadvantage (the World Bank 2012; Fan et al. 2013) SASAC voiced its reaction to the criticisms levelled at the scale growth strategy in the 11th Five-Year Plan (2006-2010) by articulating a new strategy for SOEs in the 12th Five-Year Plan (2011-2015). The objective for SOEs under the latest plan was to "pursue excellence" and to "reinforce value creation" and "force managers to think on behalf of the shareholders", rather than a mission to "become bigger". (SASAC, Annual Review of Central SOE Performance, 2010).

[12] In 2003, the total assets owned by central SOE's totaled 8 trillion (RMB) ($1.3 trillion USD). By the end of 2010, the total assets owned by central SOEs amounted to 24.4 trillion RMB.

2010-Present	Financial: • Annual Profit • EVA® Non-financial: • Industry specific measures	Complete EVA® rollout, including performance evaluation, in SOE's. "An essential step in the great leap forward".[13]	Pursing excellence and intensification of economic impact. Value oriented growth	At the end of 2015, the total assets owned by central SOEs amounted to 53.7 trillion RMB ($8.4 trillion US) with operating revenues of 28 trillion RMB ($4.4 trillion US) and annual earnings of 1.7 trillion RMB ($267 billion US). The number of central SOEs listed in the Fortune 500 is increased to 47 in 2015.	SASAC voiced its reaction to the criticisms levelled at the scale growth strategy in the 11th Five-Year Plan (2006-2010) by articulating a new strategy for SOEs in the 12th Five-Year Plan (2011-2015). The objective for SOEs under the latest plan was to "pursue excellence" and to "reinforce value creation" and "force managers to think on behalf of the shareholders", rather than a mission to "become bigger". (SASAC, Annual Review of Central SOE Performance, 2010).

[13] SASAC website: http://www.sasac.gov.cn/n1180/n14200459/n14417163/index.html.

Table 3 EVA® Measures used by SASAC (2010-2012)

EVA® = net operating profit (after tax) - adjusted capital X cost of capital	
Net operating profit (after tax)	net profit + (interest payment + R&D expense - non-recurrent income X 50%) (1-25%)
Adjusted capital	owners' equity + total liability - interest-free current liability - construction in progress (in defined core businesses)
Cost of capital	5.5% in principle 4.1% for those with heavy state/social responsibility and high-level assets specificity 6.0% for those with liability/assets ratio above 75%

Table 4 Performance measurement system used by SASAC (2010-2012)

Total scores = (EVA® scores + Profit scores + industry specific measures scores) x operating difficulty ratio +/- other awarded or deducted scores	
EVA®: basic scores 40, achieved scores vary between 40+/-8	•The benchmark for target setting: the lower of the previous year's achieved EVA® and the average of last three year's achieved EVA® •Two scenarios for scoring based on the variance between actual and target EVA® according to whether the annual EVA® target is above or below the benchmark: S1, if the EVA® target is above the bench mark •starting from score of 40 •for every 2% of positive variance, award one extra score, maximum 8 extra scores •for every 3% negative variance, minus one score, maximum minus 8 scores S2, the EVA® target is below the bench mark •starting from score of 40 •for every 3% of positive variance, award one extra score, maximum 8 extra scores •for every 3% negative variance, minus one score, maximum minus 8 scores
Profit: Basic score 30; achieved scores vary between 30+/- 8; similar method as above	
Industry specific measures: two measures, basic scores 30; achieved scores vary between 30 +/- 6	
Operating difficulty ratio: based on the weighted average of total assets, sales, total profit, return on net assets, employees, and EVA®	
Other awarded or deducted scores: Outstanding contribution to state-required projects, add 0.5-2 scores Any frauds, deduct 0.5-2 scores depending on the degree of severe Not well established MCS in the firm, deduct 0.1-1 score If the gap between achieved profit and profit target exceeds 50%, deduct 0.5-2 score	

Table 5 Different effects on firm-level strategic decisions

	SOE1 (Acquiescence)	SOE2 (Compromising Strategies/Defiance)	SOE3 (Defiance)
Political Work determinants	CEO – Ivy League educated, incentive to adopt Western management practices (O'Connor et al. 2004). CEO – Political posturing: acquiescence to enhance future slated career in government. Managers – China power distance: Obedience & respect for CEO.	CEO – Previously CEO of a smaller SOE. CEO - No accounting background. Managers: China power-distance - Obedience to apathetic CEO translates to flexibility in EVA® design practices.	CEO – Never previously CEO. CEO close to retirement age, sees little value in supporting or detracting from control implementations for personal appraisal reasons. CEO lack of accounting background. Managers – China power distance: Impact of SASAC.
EVA® evaluation of the group by SASAC: cost of capital and grades awarded[14]	SOE1 is evaluated based on a 5.5% cost of capital and awarded "A" in the evaluation.	SOE2 is evaluated based on a 5.5% cost of capital and awarded "B" in the evaluation.	SOE3 is evaluated based on a 5.5% cost of capital and awarded "B" in the evaluation.
EVA® evaluation of subsidiaries by the headquarters	EVA® is used in all subsidiaries and business units. EVA® is calculated based on a 9% of cost of equity and actual interest rate on debt.	EVA® is used in the first-tier subsidiaries and calculated by the headquarters based on a cost of capital of 5.5%.	EVA® is not used in subsidiaries. It is considered a noisy factor.
Effects of the change in MCS on *investment decisions* of subsidiaries of central SOEs	Strong acceptance: EVA® is an important measure in project appraisal. Ongoing projects are monitored to compare the actual EVA® with targeted EVA®. EVA® has encouraged investments in R&D.	Weak acceptance: EVA® is used in investment appraisals but once the projects are approved, whether the proposed target EVA® is achieved is not monitored. EVA® has no substantial influence in R&D investments as SOE2 which operates in	Weak acceptance: There is a hurdle rate of return of 5.5% in investment appraisal but the outcomes are not monitored. The use of EVA® in investment appraisal is mainly symbolic.

[14] The performance of the Central SOEs and their top managers is assessed annually based on total achieved scores according the performance assessment system. The SOEs are accordingly classified into five categories, A, B, C, D and E respectively. Executive salaries, bonuses, and career development are significantly affected by the categories and the scores achieved.

		technology industry has always a high R&D spending.	
Effects of the change in MCS on *financing decisions* of subsidiaries of central SOEs	Strong acceptance: EVA® is an important measure in evaluating the performance of subsidiaries. EVA® has encouraged subsidiaries to use debt financing rather than equity financing[15].	Weak acceptance: The headquarters does not charge a different rate of return for capital invested in subsidiaries compared with capital obtained from debt financing. Hence EVA® has no influence on subsidiaries' financing decisions.	Weak acceptance: EVA® is not implemented in subsidiaries. Hence it has no significant influence on financing decisions of subsidiaries.

[15] The headquarters of the central SOE group is the shareholder of its subsidiaries. Equity financing implies that subsidiaries obtain capital from the central SOE headquarters.

Table 6: Advancing Klenk (2015) - Institutional work impacts on accountability responses

High intensity formal accountability claims, High Politicization & Low Enforcement - adapted from Klenk (2015)		*CEO Accounting centricity*	
		Low	High
CEO Institutional Potential	High		**SOE 1** *Acquiescence Compromise*
	Moderate	**SOE 2** *Compromise Defiance*	
	Low	**SOE 3** *Defiance*	

Appendix I List of interviewees and empirical data collected

Target of investigation	Background	Source of Empirical data
State-owned Assets Supervision and Administration Commission of the State Council (SASAC)	SASAC was established by the State Council in 2003, mainly as an effort to create an institutional framework that separates the fiduciary responsibility for the state-owned assets from the government's social and public management functions. SASAC at the national level handles the state's ownership interests as well as regulation and supervision of central SOEs.	• Interviews: Three interviews were conducted with the central SASAC officials in the evaluation bureau who are in charge of the performance evaluation of central SOEs. 1. Interviewee 1, 174 minutes 2. Interviewee 2, 55 minutes 3. Interviewee 3, 15 minutes • Documents: SASAC's regulations on and guidance to the use of EVA®-based MCS are collected and analyzed.
Central SOE1	Fortune 500 with an asset of over 260 billion RMB ($41 billion US) and a net profit of 8 billion RMB ($1.2 billion US) in 2011.	• Interviews: Interviews were conducted with four senior managers in the headquarters and subsidiaries of 1. CFO of SOE1 (interviewee 4), 60 minutes. 2. Manager of Finance Department who is in charge of performance measurement system in the headquarters (Interviewee 5), 75 minutes. 3. Vice Manager of Finance Department in the headquarters (Interviewee 6), 30 minutes, and 15 minutes (follow-up interview). 4. Manager of Control Division in Finance Department in the headquarters (Interviewee 7), 22 minutes. 5. Manager of Investment Department in the headquarters (Interviewee 8), 70 minutes. 6. Vice Manager of the Strategic Development Department in the headquarters (Interviewee 9), 25 minutes. 7. VP of Subsidiary 1 (listed in Hong Kong stock exchange) (Interviewee 10), 65 minutes. 8. Senior Manager of Subsidiary 1 (Interviewee 11), 68 minutes. 9. Manager of the Finance Department of Subsidiary 1 (Interviewee 12), 20 minutes. 10. Senior Manager of Subsidiary 2 (listed in Shenzhen stock exchange) (Interviewee 13), 100 minutes. • Documents: 1. Internal documents which dictate adoption the EVA®-based performance measurement system. 2. Internal document on the performance evaluation system of subsidiaries 3. External information collected from media reports and internet
Central SOE2	Central SOE with an asset of over 60 billion RMB ($9.5 billion US) and a net profit of 1.2 billion RMB ($0.25 billion US) in 2011.	• Interviews: Interviews were conducted with four senior managers in the headquarters and one subsidiary of SOE2: 1. Manager of Finance Department in the headquarters (Interviewee 14), 90 minutes, and 25 minutes (follow-up interview). 2. Vice Manager of the Finance Department in the headquarters (Interviewee 15), 20 minutes 3. Manager of Accounting Information Department in the headquarters (Interviewee 16), 75 minutes.

		4. Manager of HR Department in the headquarters (Interviewee 17), 60 minutes. 5. CFO of the subsidiary (Interviewee 18), 65 minutes. 6. Manager of Finance Department of the subsidiary (Interviewee 19), 15 minutes. • Documents: 1. Internal documents which dictate the use of EVA®-based performance measurement system. 2. External information collected from media reports and internet
Central SOE3	Central SOE with an asset of over 25 billion RMB ($3.95 billion US) and a net profit of 0.5 billion RMB ($79 million US) in 2011.	• Interviews: Interviews were conducted with four senior managers in the headquarters and one subsidiary of SOE3: 1. Manager of Finance Department in the headquarters (Interviewee 20), 85 minutes. 2. Vice Manager of the Finance Department in the headquarters (Interviewee 21), 30 minutes. 3. Manager of Strategy Department in the headquarters (Interviewee 22), 30 minutes, and 25 minutes (follow-up interview). 4. Vice Manager of Strategy Department in the headquarters (Interviewee 23), 30 minutes. 5. Manager of Investment Department in the headquarters (Interviewee 24), 90 minutes. 6. Manager of HR Department in the headquarters (Interviewee 25), 90 minutes. 7. VP of a subsidiary (Interviewee 26), 60 minutes. 8. Vice Manager of the Finance Department at a subsidiary (Interviewee 27), 10 minutes • Documents: 1. Internal documents which dictate the use of EVA®-based performance measurement system. 2. External information collected from media reports and the Internet.