THE RELATIONSHIP BETWEEN INFORMALITY AND THE FORMAL MANAGEMENT ACCOUNTING AND CONTROL PROCESS: A CASE STUDY FROM EGYPT

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ABSTRACT

This work sets out to integrate informal institutions' role into the formal management accounting and control (MAC) process by bringing qualitative evidence from a developing African setting. Using institutional analysis, we sought to identify how informal institutions relate to and affect corporate accounting and controls. A case study approach is used, focusing on the field of oil production in Egypt. Data are collected through a triangulation of interviews, observations, and documents. Despite the present conflicting goals between formal and informal institutions and the limited role played by formal institutions in the process of MAC in the Egyptian context, formal and informal institutions are observed to be accommodating (rather than substituting or competing with) each other. This relationship has eventually played a supportive role in the process of MAC in this emerging market. This work contributes to the literature by highlighting the interplay between formal and informal institutions in an emerging African context and providing theoretical and empirical evidence on the interaction between formal and informal institutions in accounting and control.

Keywords: Management Accounting and Control, Formal Institutions, Informality, Oil Industry, Egypt.

INTRODUCTION

Informality in the literature mostly annotates negative consequences (Lauth, 2000; Casson et al., 2010). This is based on the idea that high informality levels imply widespread negative issues: they distort firms' decisions, allow less productive (informal) firms to compete with more productive (formal) firms, and lead to misallocation of resources and potentially significant productivity losses (Hsieh & Klenow, 2009). In this regard, some studies showed that higher informality levels are associated with lower output or welfare (Ulyssea, 2018). However, the presence of informality in economic development in least-developed countries (LDCs) remains controversial and under-researched (La Porta and Shleifer, 2014). There is a paucity of studies that extensively focus on developing markets, especially African ones. This study investigates informality in the formal management accounting and control (MAC) process in an emerging African market.

Informality or the prevalence of informal institutions is a prominent feature of most developing or emerging economies, in particular. In developing African contexts, informal institutions can vary from bureaucratic norms to reliance on social or familial networks. Here, formal rules and regulations may play a limited role in the control process. Disregarding the impact and functioning of informal institutions in emerging African markets risks the disregard of the dynamics that underlie and configure MAC's functioning in these contexts (Diab, 2019; Diab and Aboud, 2019). This study argues that, in emerging African markets, informality is as important as formal institutions. Here, informality plays a negative role, but can also, due to the social nature of the context, play a positive role in supporting the whole business process (Stiglitz, 2000). The term ‘informality’ or ‘informal institutions’ is used in this study, not only to refer to the informal business. It is used in a broader perspective to refer to “socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels” (Helmke & Levitsky, 2004). On the other hand, formal institutions include explicit rules in a society, such as regulations and contracts (Dunning & Lundan, 2008). Here, by formal institutions, we mean the official accounting and control rules.

Hence, in socio-communal LDCs, it is not possible to prevent informality. Here, informality becomes unmanageable because it is being impeded in local people’s everyday practices. In contrast to developed countries where informal institutions are expected to fade away once formal ones are established and institutionalised (Casson et al., 2010), informal institutions in LDCs can coexist with or substitute for ineffective formal institutions (Helmke & Levitsky, 2004). Nevertheless, in LDCs, informal institutions can be beneficial to formal business growth and sustainability: they may provide flexibility for firms that otherwise would be constrained by burdensome formal regulations (Peng, 2002). This makes the role of informal institutions critical in understanding the dynamics of MAC practices in LDCs.

This work draws insights from the institutional theory, especially Helmke & Levitsky (2004) work in placing informal institutions at the center of how the organisation works. This helps in clarifying the various ways in which formal and informal institutions interact. This helps us identify how informal institutions relate to and affect formal corporate MAC and contrast the effects of the sole dependence on formal rules in these emerging markets.

The study contributes to the literature by theoretically explaining the interactions between informal and formal institutions in an emerging African market. This provides a framework for understanding the role of informal institutions concerning formal management accounting and control institutions, and how these various institutions operate in practice through bringing qualitative evidence from an Egyptian company working in the field of oil production.

The paper is organised as follows. Section two reviews the literature related to informality in the MAC process. Section three presents the theoretical framework used in this study. Section four presents the research methods used in this study. Section five presents data analyses and discusses the findings of the study. Finally, section six outlines the concluding remarks of the study.

INFORMALITY AND MANAGEMENT CONTROLS

A considerable part of the literature linked the existence of informal institutions in the management process to technical factors, such as the size of the firm, arguing that smaller firms usually face more informality than larger ones (Rainnie, 1989; Wilkinson, 1999; Harney & Dundon, 2006). This is because smaller firms, these studies argue, are usually overseen by the owner or one general manager. In this case, management, accountability, and control can be practiced without much dependence on formalised management accounting and control systems (Harney & Dundon, 2006). In contrast, as firms grow and become more organisationally complex, formality (including formal management control systems), rather than informal and social institutions, is reported to emerge as a technique of management and control (Marlow et al., 2010). Here, in contrast to the case mentioned above, controls are reported to be primarily articulated through written policies or a more professionalised form of management.

The present work argues that informal institutions in (African) LDCs appear differently or have different implications for the MAC process than the case in developed stable contexts. Informal institutions in LDCs should not merely be understood in relation to technical factors such as the size of the firm or the complexity of its activities. Instead, informality here is a common phenomenon that is prevalent everywhere in this context, influencing and configuring behaviours and activities of individuals and organisations (Diab & Metwally, 2019). Here, informal institutions can substitute for or replace ineffective formal institutions (Estrin & Prevezer, 2011). In this context, Jiang et al., (2007), by bringing evidence from the Chinese context, found that those who grew up in rural areas were more supportive of informal control, while those who grew up in the developed area were more supportive of formal control rules. If so, informality in LDCs should not merely be perceived as a negative issue that will necessarily undermine organisational performance and result in unethical doings. Instead, it can have positive impacts in these contexts and support the work of formal accounting systems.

Some studies have taken some steps in this regard. For example, Marchington et al. (2003) suggest that informality should not be dismissed as ineffective. Instead, it can play a facilitative role in today's' complex organisational contexts. In this context, Hardstone et al. (2004) referred to the importance of informal discussions and judgments in achieving consensual management decisions over time. Recently, Halabi et al. (2019) found that informal institutions can determine managers' earnings management choices as strongly as formal institutions do.

However, this should mean that there are no tensions between formal controls and informality in LDCs. These tensions are present and should be recognised while investigating the MAC process. This invites us to identify how and when to manage or control issues through informal institutions, such as unwritten understandings and negotiations. This informal way of management and control can play a large part in how corporate formal controls are generated and sustained. This issue needs further investigation (Edwards, 2003). The present work tries to highlight and integrate the informal institutions' role into the management, control, and accounting process (Sachs, 2003; Estrin & Prevezer, 2011) by investigating a case from an emerging African context.

THEORY

This study draws upon Helmke & Levitsky's (2004) typology of informal institutions. The focus of Helmke-Levitsky framework is on the interaction between formal and informal institutions. They report that informal institutions can interact with formal institutions in four ways: complementary, accommodating, competing, or substitutive (Table 1).

TABLE 1
TYPOLOGY OF THE RELATION BETWEEN FORMAL AND INFORMAL INSTITUTIONS

	Ineffective formal institutions	**Effective formal institutions**
Compatible goals between agents in formal and informal institutions	Substitutive	Complementary
Conflicting goals between agents in formal and informal institutions	Competing	Accommodating

Source: Adapted from Helmke & Levitsky (2004).

This typology is based on two characteristics. The first one is the effectiveness of formal institutions: if due to inefficiency or corruption, for example, accountability and responsibility are not achieved by applying the formal institutions, those formal institutions will be ineffective. The second characteristic concerns the degree of compatibility between the actors' goals relevant to formal and informal institutions. Goals are compatible if the formal rules' aims and the agents working within informal institutions are contributing to the same ends. Incompatible goals mean that the aims of formal and informal agents are hostile or not mutually reinforcing (Estrin & Prevezer, 2011).

Firstly, informal institutions can fill-in the gaps left by formal institutions that is, they can be ‘complementary’ to formal institutions, assisting them to function more effectively and address the problems not dealt with by formal rules. Here, informal institutions act to reconcile the interests of the key actors with the formal arrangements, getting around formal rules when they are not in line with the aims of all actors. In this sense, informal institutions can create stability and enhance efficiency. This, in turn, can enhance the performance or efficacy of formal institutions (Estrin & Prevezer, 2011).

Second, ‘accommodating’ informal institutions are often created by actors who do not want the results originated through formal institutions; but are unable to violate those formal institutions openly. As such, they often help to reconcile different actors' interests with existing formal institutional arrangements (Helmke & Levitsky, 2004). Here, informal institutions can work as a basis for formal institutions by motivating organisations to apply formal rules that otherwise might exist only on paper (Helmke & Levitsky, 2004). This relationship is consistent with the perception of informal institutions as a problem-solving tool that can assist in social interaction, coordination, and improving formal institutions' efficiency or performance (Estrin & Prevezer, 2011).

Third, ‘competing’ informal institutions may exist where there are ineffective formal institutions and conflicting goals between formal and informal actors. Here, informal institutions challenge formal institutional structures. In this case, formal rules are not fully institutionalised, which enables other actors to ignore them. Thus, competing informal institutions can be found in contexts where formal institutions are imposed over institutionalised indigenous rules (Helmke & Levitsky, 2004). Here, informal institutions act as a problem-creating role that undermines formal rules or systems of control (Estrin & Prevezer, 2011).

Finally, ‘substitutive’ informal institutions occur when formal institutions are ineffective, but the actors’ goals in formal and informal institutions are compatible. This relationship originates when formal rules are not fully institutionalised in the context in which they are applied. Here, informal institutions will be used to achieve what formal institutions were intended to achieve, but they failed to do so (Helmke & Levitsky, 2004; Estrin & Prevezer, 2011).

Although informal institutions have long been of interest in the literature, they have not been rigorously conceptualised or theorised into mainstream studies of institutions that focused on the formal management accounting and control process. The present analysis intends to contribute to existing theory regarding the interface between and overlap of informal and formal managerial accounting and control practices as applied in an emerging African context (Estrin & Prevezer, 2011).

RESEARCH METHODS

Because informal institutions are unwritten rules, traditional research methods might not be enough to capture their presence and impact in society. Here, it is essential to use ethnographic methods like observation and unstructured discussion with participants (Azari & Smith, 2012). That is why this study adopts a qualitative interpretative approach, which is considered necessary to fully understand how practitioners interpret their everyday situations (Burchell et al., 1980).

The first researcher spent 30 days in the research setting for over six months in 2018 and 2019. The researcher collected data through a triangulation approach of interviews (structured and semi-structured) the primary method of data collection (non-participant) observation and documents. Data are collected from two institutions: the Egyptian General Petroleum Corporation (EGPC) and another company (henceforth ABC). In particular, 24 interviews were conducted, of which 15 interviews were recorded. For those interviews that were not being recorded, notes were taken during the interview. Interviews were conducted with various employees at the top, middle, and lower levels of the investigated case company (Table 2).

Further, the researchers viewed various documents from various departments, such as annual reports and other accounting records, managerial reports, contracts, awarded certificates, and the company bulletins. This was useful in corroborating the findings of the other two methods of data collection. The use of multiple data collection methods contributes to an in-depth understanding of the phenomenon under study and provides a strong substantiation of theoretical constructs and research issues (Locke, 2001).

Table 2
INTERVIEWEES' LIST

Interviewees positions	**Number of interviewees**
Accountants	5
Head of the financial management division	1
Head of HR division	1
Head of Internal Audit division	1
Internal auditors	7
Geological engineers	3
Technician	3
Supervisors	3
Total	24

Interviews were conducted in Arabic. Then, they are transcribed in Arabic before being translated into English. Manual coding is used as the data analysis method, where data were reviewed several times to identify the emerging themes. Then, personal reflections from the researchers, along with literature-based interpretations, are continuously used during the analysis process to develop it further.

ANALYSES AND FINDINGS

A background of the oil industry in Egypt

Foreign international companies mostly undertake the process of oil extraction in Egypt, but under the supervision and management of the national government. This is because the Egyptian government does not have the (financial and technical) resources necessary to conduct the process of oil exploration. As the head of the Internal Audit division noted:

"They [the Egyptian government] can't bear the risk of mining without finding enough oil that can indemnify the huge cost incurred in the drilling and extraction processes."

In Egypt, the oil extraction process is represented by two main parties: the Egyptian government that oversees the whole process, and an outside (foreign) party that undertakes research, drilling, and extraction processes. EGPC is the representative of the government in this process. EGPC solicits the services of international foreign companies (such as Shell and British Petroleum) that have the required experience and ability to finance the mining process.

These companies are getting paid for their spending only when they find and extract oil. This is because, by this time, EGPC would have the financial resources to cover its obligations to these companies.

In particular, EGPC makes an auction to choose the best (foreign) company that can dig and extract oil from a specific area. Then, suppose the chosen company offered the price of L.E. 200 million, for example. This means that it is committed to spending up to this amount in a specified period to extract oil with a particular budgeted quantity. Then, this company offers a letter of guarantee with the specified budgetary commitment set for the oil exploration and extraction processes. This is necessary to ensure that the foreign company is serious in this process. If this company spent L.E. 100 million, for example, and found no oil, it should pay the remaining amount (i.e., L.E. 100 million in this case) to EGPC. If the oil is found, the two parties (i.e., the foreign company and EGPC) engage in a new relationship by establishing a new company, such as ABC Company in this study, to account for and control the extraction process. They call this company in the name of the area in which oil is found. This relationship is organised by signing a contract that governs the relationship between the two parties during a specified period. This contract can be renewed after the approval of the Egyptian Parliament. In this case, the foreign partner should present another letter of guarantee with a specific amount, as a pledge that they will spend this amount on the next concession period.

ABC Company is organised as a not-for-profit organisation. Approximately half of its management are foreigners, and a half or more are Egyptians. The present domination from the side of EGPC is necessary for control purposes. This is apparent in the organisational structure of the new company (ABC). In particular, the company's CEO, the head of the financial division, and the operations and exploration vice managers are affiliated to EGPC. The general manager, the head of the operations and exploration division, and the financial division vice manager are affiliated to the foreign company.

There is an authority limitation manual that identifies the level of authority needed to approve expenses. In particular, expenses with the amount of $ 50,000 or less can be approved by any of the two parties' representatives. Expenses with the amount of $ 50,001 to $ 250,000 should be approved by the board of directors (including the CEO, the general manager, the financial manager, the operations manager, and the exploration manager). Finally, the general assembly should approve expenses with the amount of $ 250,001 or more.

To start operations, the foreign company opens an account in the name of the newly established company. When the foreign company finds oil, it can receive money from EGPC to cover the money they spend when they take the risk of looking for oil. In the process of cost recovery, EGPC distinguishes between development costs and operating costs. Development related costs are not paid to the foreign company immediately: it is paid through 20 instalments in 5 years. Nevertheless, operating costs are paid within three months from the start of the extraction process. Further, there is an agreement between the two parties that specifies which expenses will be recovered by the foreign company and which will not.

Formal Accounting and Control Institutions Related to Oil Production in Egypt

In the context of this study, formal institutions include conventional accounting rules and regulations. At the beginning of each fiscal year, ABC's management presents its budget to EGPC for approval. At the end of the year, the accounting department prepares a recovery statement that presents the details of expenses incurred during the accounting period, including development, exploration, and operating or extraction expenses. Further, they prepare a budgeted versus actual expenses statement, and in the case of variances, there should be a justification for the occurrence of these variances. The head of ABC's financial division clarified:

"If the foreign company wants to drill a well whose budgeted cost was $ 400,000, and the actual cost was $ 600,000, then there should be accountability to discover the reasons for this variance. For example, there might be an error in pricing, etc."

Besides, noting that ABC Company does not present a profit or loss (income) statement and that the sales process happens through EGPC, a statement of activities is prepared quarterly by ABC's accountants.

ABC's accountants follow the accrual basis of accounting in recording the value of expenses paid and accrued. However, they use the case basis for cost recovery purposes because they are required to submit to EGPC only paid expenses. Forty percent of the oil sales proceeds are used to cover the value of the operating costs incurred and paid by the foreign company. The remaining proceeds after covering operating costs are divided between EGPC and the foreign partner as 65% and 35%, respectively. The head of the accounting department commented:

"If the sales of oil production amounted to L.E. 100 million, for example, and if the recovery claims are L.E. 30 million, the partner receives L.E. 30 million, and the remaining L.E. 10 million goes to the agency. Then, what is above the 40% is divided as L.E. 39 million to EGPC and L.E. 21 million to the foreign partner[1]."

Importantly, before the final approval of payments to foreign companies, EGPC sends its internal auditors to revise the accounts prepared by ABC's accountants. The auditors check if the reported expenses are appropriately classified as operating or development expenses because this classification largely influences the timing of the refund to be made by EGPC. The auditors then raise a report to EGPC's management with the revised statement of activities for final approval. Internal Auditor One clarified:

"We [internal auditors] check how the submitted budget was spent ... Based on our audit, EGPC may, for example, approve only L.E. 8 million out of L.E. 10 million, if it is detected that L.E. 2 million were unnecessary, overstated, irrelevant, or undocumented expenses."

Informality in The Management and Control of The Oil Production Process in Egypt and Its Implications

Examples of Informality Situations in The Field of Oil Production

Hidden informalities are widespread in the oil production process. An observed case is related to the purchase of machines spare parts by the foreign partner that was not used in operation. Then, EGPC refused to cover the cost of this reported item because the partner did not incur it. Another case is related to the foreign company's representatives in ABC Company, who tend to overstate certain expenses to get higher recovery from EGPC:

"If the foreign partner paid for an expert more than the typical salary paid in ordinary cases, we [internal auditors] do not approve the excess amount paid to this expert. For example, if they gave them a salary of L.E. 30,000, we may approve only L.E. 15,000. Additional benefits offered to experts, such as expensive mobile phones or a flat in expensive areas, are also rejected.... It is common also that they make a year-end party and invite different people to attend it, and then record the cost of this event among expenses to be recovered. This is excluded, as they should pay for these things themselves, not through the agency. (Internal Auditor Two)"

Informality is also present in mining-related works. The head of the Internal Auditing division in EGPC noted:

"The company [ABC] has a department called contracting that issues various contracts, and EGPC should approve each contract. An example is contracting for excavators with external companies. We observe that these excavators are being owned by someone related to the company's employees. So, to enable their relatives to get more financial benefits, they tend to maximise the reported costs to get as much as they can from EGPC. That is why we have to check these undisclosed related party transactions."

Internal Auditor Two also commented on this issue:

"*Each excavator works for some hours a day, and there is a reported rate per hour by the company [ABC]. According to the contract between the agency and the foreign partner, for every 10 hours of work, there is one hour that can be approved as a 'waiting hour,' and the agency should pay for this hour. Nevertheless, the company may record 5 or 6 hours as waiting hours and ask the agency to pay for them, although they are nonworking hours."*

Another example is related to the supply of energy, electronic and food services, etc. to the extraction sites by international service companies. Although the prices of these services are known internationally, ABC Company tends to violate them, thinking that the auditor will not detect that, as auditors of EGPC note. Thus, auditors carefully check the reported cost of obtaining these services and compare them with those written in the contracts and used internationally by the suppliers of these services.

Informality as A Problem-Creating Tool in The Field of Oil Production

Informal institutions can appear as problem-creating tools due to the expected ensuing corruption, clientelism, or clan politics that will undermine formal systems' ability to function as intended (Estrin & Prevezer, 2011). In EGPC, a situation of outright corruption is not extant, as its managers argue. Commenting on this issue, the head of the HR division noted:

"This is due to the existence of a foreign partner in the process that works as a controller in Egypt's field of oil production to protect their interests."

However, as mentioned above, informality and informal institutions are widespread in the field of oil production in Egypt and have a threatening impact on the present formal accounting and control systems. They contributed to a weak accountability system. The head of the Internal Audit division in EGPC noted:

"There is no formal authority that makes the foreign partners accountable for their violations.... They keep overstating reported prices, hoping that our auditors will not detect them. Sometimes, it goes undetected because we revise only a sample, not 100% of transactions and accounts due to the voluminous data being revised."

This, in turn, results in some problems in ABC's work. For example, it is observed that the cash spent by the foreign partner and claimed to be paid by EGPC (which is known in the field as cash calls) is sometimes not delivered when needed and kept postponed. This results in irregularity in ABC's work and a delay in the payment of its employees' salaries:

"We had a difficult period when the agency was not paying its duties to the partner, and the partner, in turn, stopped investments. Because of this conflict, many problems emerge. (Accountant Three at ABC Company)."

This, in turn, led to massive debts being due to the foreign companies from EGPC that reached more than L.E. 7 billion in 2010.

Impacts of Informality on The Formal Accounting and Control System

Especially in LDCs, it is essential to understand formal (accounting) systems change within the context of the prevalence of informal institutions in society. Levitsky & Slater (2011) argue that formal change in rules can be the result of internal and external factors such as crises. The present study stresses the importance of the context in interpreting the impact of informal institutions on formal accounting rules and systems. In the case company, there is a formal management accounting and control system that is being used to calculate the amount of cost to be paid by EGPC (section 5.2). However, this system is not immune to the impact of informalities (sections 5.3.1 and 5.3.2). This is due to the existence of a goal conflict or incompatibility between the foreign partner and EGPC. This incompatibility has its impacts on financial reporting issues, including the cost structure in the case company (Helmke & Levitsky, 2004). We observed that foreign partners do their best to make the structure of the cost recovery statement composed mainly of operating costs for a quick recovery of their spending. EGPC officials, in contrast, seek to reduce the value of reported operating costs not to pay more money immediately. For example, as explained by Accountant Two in ABC:

"In one case, the foreign partner changed the base of an oil tank not to deteriorate due to the saltwater that precipitates at the bottom of the tank. Then, the partner wanted to consider the expenses incurred in this case as an operating cost. They argued that there was no expansion in the tank, and hence this should not be recorded as development expense. In contrast, EGPC argued that this change has improved the tank's features and, hence, they wanted to record this item as development cost not to pay for it now or once."

Commenting on this conflict, Accountant One in ABC added:

"Always, there are modifications of numbers from the side of the foreign partner. We usually become different as to whether to treat a specific item as development or operating expense. Then, we have to set and negotiate to resolve controversial issues like this."

Besides, ABC Company currently holds accounts related to two oil fields: a smaller one with lower oil production and a larger one with more oil production. Putting in mind that the partner's aim is to get quick and full recovery of their costs, the partner was interested in allocating all or most of the operating costs to the larger field that has higher production. This is because, in this case, there will be a surplus after selling the extracted oil by EGPC. Then, the recovery of operating expenses will be made in full. In contrast, costs allocated to the smaller field (which has limited production and hence little sales proceeds) might not be recovered in full because of the expected deficit after its oil sales.

This resulted in extensive debate and conflict between the two parties regarding cost allocation between the two oil fields. In this case, this incompatibility resulted in the delay of using a fair cost allocation technique in the company. For the partner, it is preferable to informally allocate most costs to the field with higher production than sticking to a defined formal system. That is why they were delaying the application of a formal costing system that allocates costs based on the time consumed by each field in receiving various services, which ensures a fair allocation of costs between the different cost centres, as was suggested by some accountants in the company:

"The partner was delaying the application. They objected to the new system when it was suggested, but in the end, they relented. (Accountant One in ABC)"

Eventually, ABC Company has introduced time-driven activity-based costing (TDABC) to calculate and report expenses. This helped them resolve much of the present conflict and tension between the two parties. The head of the accounting division in ABC clarified that:

"We resorted to this system [TDABC] because of the agency's concerns regarding cost allocation between the two oil fields that produce variant volumes of oil. Now, there is more fairness in cost allocation due to the introduction of this new system."

This exemplifies how informalities might influence the cost accounting system being applied. In our case, actors who support informal institutions were eventually forced to accommodate and accept formal accounting systems. However, informal institutions remained part of the whole system, along with the existence of effective formal institutions. Here, informal institutions cannot be entirely eliminated because of their embeddedness and institutionalisation in the management process (see section 5.3.4 for more details). This finding is consistent with the view that formal institutions are more liable to change over time than informal institutions (Holmes et al., 2013). However, unlike studies that support the role of outsiders in changing formal rules (Levitsky & Slater, 2011), change in our case originated due to internal conflict or contestation between the principal players in the business process.

To conclude, we should not dismiss the value of informal institutions in understanding change in formal accounting systems. In the present context, change happened when informal institutions weakened and were not sufficient enough to achieve a cost allocation that is satisfactory to all parties in the business process. This indicates that informal institutions not only hinder but can also contribute, even indirectly, to formal rules changes. This is consistent with Misztal's (2000) argument that the processes of organisation and management inevitably involve 'impersonal and procedural rules with more particularistic and local standards' (p. 4). Hence, informal institutions should not be merely perceived as distorting formal rule change; instead, they may contribute to that change and coexist with the new formal rules (Levitsky & Slater, 2011).

The Accommodation of Informal Social Controls as Part of The Control System

Prior studies report that informal institutions can undermine corporate performance (Bae & Salomon, 2010). In contrast, in LDCs contexts, informal institutions can play a problem-solving role by developing informal social controls. Informal social control is used here to convey the use of informal social institutions (such as families, communities, or neighbourhood associations) in controlling behaviour of the company's employees and directing their actions in a way that helps the company achieve its economic objectives. This social kind of control is observed to help in the process of social interaction and coordination in the investigated company, which, in turn, can improve the efficacy or performance of formal institutions (Estrin & Prevezer, 2011). Despite being unwritten rules, informal institutions are seen in many cases as actual rules that impact the management process (Helmke & Levitsky, 2004). For example, referring to the financial problem which arises between EGPC and the foreign partner in terms of the delay of paying instalments and recovery costs (section 5.3.2), the head of the accounting department in ABC Company told:

"Conflicts are eventually resolved by negotiations. EGPC pays a part of its debts, and the foreign partners do without another part. In the last quarter, we [accountants] heard that the foreign partner transferred L.E. 32 million to ABC's account. This did not happen for years. This means that they will resume their operations."

Besides, in the case company, it is common that the foreign partner's representatives in ABC Company work hard to inflate expenses as much as they can to get more money from EGPC as cost recovery, even if they use illegal means to do that (section 5.3.2):

"Sometimes they [foreign partner] present briberies or gifts to the financial manager [in ABC Company] to report expenses in a specific way or at the amount they want. (Accountant Three in ABC)."

Considering the centrality of informal social culture in the Egyptian business context (Shehata, 2009), this contestation between the two parties cannot be fully resolved through formal institutions. Instead, it is mostly resolved through informal institutions. In this regard, EGPC has a department called *Al-tasfiat* or clearance, and in the case of any emerging issues, the management of this department sets together with representatives from the foreign partner to settle the raised issues:

"After completing the audit process, we [EGPC's auditors] write a report and raise it to EGPC's management… Sometimes we face new issues that require the approval of a higher authority, because, for example, they involve the spending of large amounts of money. These emerging issues are not defined in the contract, and as a result, they lead to significant debates. This is usually resolved by negotiations between the management of the two parties [EGPC and the foreign partner]. They set together to reach a compromise regarding how to report or account for these transactions. (Head of Internal Audit division in EGPC)."

It is observed that, in this context, informal institutions become an inevitable mechanism of management and control. They can manage or contain the present state of conflict and incompatibility between the main actors in the field. Here, informal institutions can be used for control when intentions and behaviours of multiple institutional actors are hostile (Helmke & Levitsky, 2004). This supports the view that informal social controls can play a positive role in the management control process (Jiang et al., 2007).

CONCLUSION

Especially in African social settings, it is crucial to balance formal and informal institutions in the company (Lin et al., 2015). This study contributes to the literature by theoretically explaining how the interactions between informal and formal institutions in LDCs are not detrimental in all instances; rather, they can also be beneficial. It transfers Helmke-Levitsky approach–that was applied in an ad hoc way in the political science sphere (Estrin & Prevezer, 2011)– to the corporate institutional setting and applies it more systematically. This is helpful to understand the current debates about informal institutions and formal management accounting and control rules in emerging economies.

Putting in mind Helmke-Levitsky framework (Table 1), we found that there are conflicting, rather than compatible, goals between the different actors representing formal and informal institutions in the investigated context. The formal institutions (represented in the presentation of TDABC) are observed to be effective in the process of management and control. This means that formal management control rules are also present in the context, resolving the conflict between EGPC and the foreign partner, and contributing to a fair allocation of operating costs. That is why, according to Helmke-Levitsky framework, the relationship between formal and informal institutions in the Egyptian context can be described as 'Accommodating'. Hence, although incompatible goals may exist in some instances in the field, they do not subvert the nature of regulation as upheld by the formal rules (cf. Estrin & Prevezer, 2011). According to this kind of relationship, both types of institutions are central to the company's success.

This finding is consistent with Marlow's et al., (2010) suggestion that variant degrees of informality and formality can coexist within all organisations. Thus, researchers' analysis should be oriented towards understanding this interplay. This finding supports the idea that informal institutions in emerging economies are not necessarily playing a subversive role in formal accounting rules (Bae & Salomon, 2010). However, they can play a significant (positive) role. In our case, accommodating informal institutions was necessary to indemnify the absence of full institutionalisation of formal MAC systems at certain times (Halabi et al., 2019). Then, similar to Misztal (2000), the present study perceives informality and formality as part of a single span moving away from a dichotomous or contradictory understanding of organising and managing. This argues that both formalisation and informalisation can take place simultaneously. Put differently, both formal and informal control systems should be perceived as resources to be mobilised by business organisations, especially those operating in LDCs (Marlow et al., 2010).

This study provides some instructions for policymakers and corporate managers in Egypt and other African countries regarding the institutional context in which formal accounting and control systems are applied. This case is different from the situation in western developed nations where modern management control systems are perceived as enough for achieving accountability and control. These modern systems lose part of their value when we come to informal social settings. Here, informal social control should be accommodated by management to indemnify the shortage of formal systems of control.

A limitation of this study is the use of a single case company in a particular country. Putting in mind that Helmke & Levitsky's typology is not generalisable to all countries, and that the relationship between formal and informal institutions is context-specific, we suggest that future research can replicate the present study in a different context. This will help make comparisons between the results of each case and provide further insights regarding the impact of informal institutions on formal MACs.

ENDNOTE

1. In the field, EGPC is mostly referred to as 'the agency'

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