

EMANCIPATION PROCESS: AN EXPLORATORY STUDY ON ACCOUNTING CHANGE PROCESS INFORMED BY MIDDLE RANGE THEORY

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Abstract

Previous authors have argued that methodological flaws in accounting research have led to a deficiency in theoretical development, and consequently a deficiency in management accounting practice. The adoption of a hard science approach and dependency on mathematical modeling has restricted accounting's potential to solve societal and organizational problems. In considering a more critical approach to management accounting, Laughlin (1995) promoted the application of Middle Range Thinking. This approach offers an intermediate theoretical, methodological, and change approach in investigation, as compared to extreme subjectivist and positivist views. To demonstrate the use of such a position, this paper presents a case study informed by Middle Range Theory. It finds that Middle Range Theory is useful to capture the complexity of a particular social phenomenon under study, by considering theoretical, historical, and processual aspects intensively. The main contribution of this approach, as this case shows, is increased insight into the emancipatory process, whereby organizational actors discover and implement the intended and necessary change in their management accounting practice.

Keywords: middle range theory, emancipation process, accounting change

Introduction

The organizational change process is a complex phenomenon (Greenwood, Suddaby and Hinings, 2002; Greenwood and Hinings, 1996) and becoming a more critical (Johnson, Smith and Codling, 2000; Dawson, 1994) and risky (Zucker, 1987)

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managerial issue. In today's volatile environment the ability to predict, manage, and adapt to new ways of doing things is associated with the survival and competitive edge of an organization (Dillard, Rigsby and Goodman, 2004). The new ways may refer to technology, competitive advantage, philosophical aspects of management, or the mindset of managers and subordinates. Hence many organizational physical arrangements and structural aspects have been transformed and realigned in either a reactive or proactive way (Carr, Hard and Trahan, 1996) to respond to change, harness change, and create change (Kanter, Stien and Jick, 1992, p. 14). However the failure of these efforts has been reported in various rhetorical and cynical tones. The failure could be because of institutional pressure (DiMaggio and Powell, 1983) conflicting with existing organizational values (Tsamenyi, Cullen and González, 2006) which prevail and resistant to change (Macintosh and Scapens, 1991). As a result some change efforts produce a reverse move, away from the direction of the intended changes (Miller and Friesen, 1980) or a state of inertia, rebuttal, or are merely cosmetic change occurs (Abdul Rahman, 1993; Greenwood and Higgins, 1988). In managing organizational change process accounting is important (Gurd, 2007; Mail, 2007; Ezzamel, Willmott and Worthington 2006; Saccia and Steccolini, 2006), on various strategic reasons such as control design (Hopwood, 1983), accountability structure (Conrad, 2003), and information management (Coombes, 1987).

Accounting practice, as part of an organizational social system (Tsamenyi et al., 2006; Nahapiet, 1988), can affect and be affected by the organizational change process (Ogden and Anderson, 1999; Hopwood, 1990; Bhimani, 1994; Jones, 1992). It can play mediating roles in an organizational change process (Ezzamel et al., 2006), and be more than just a neutral 'language of business' (Morgan and Roberts, 1997). Hopwood (1990) specifically mentioned three general roles of accounting in the organizational change process: to enhance organization visibility, to facilitate calculative practice, and to create a domain for economic action.

The present research acknowledges the importance and complexity of the role played by the accounting change process in an organizational change context (Lowe, 2000), especially to support organizational strategy, objectives (Saccia and Steccolini, 2006) and survival (Ogden and Anderson, 1999). The importance of the budgetary process for organizational politics (Covaleski and Dirsmith, 1988b), economics (Ogden and Anderson, 1999), control (Otley, 2001), and social (Zainuddin, 1998) systems is well documented. Through a longitudinal case study (1998-2005) in a corporatized public utility entity (hereafter CPE) we investigated the phenomena of accounting change processes by focusing on the budgetary process.

The aim of this research is twofold. The first aim is to provide a better understanding of the budgetary change process and its relationship with the organizational change

process specifically, and accounting theory and practice enrichment in general. Such information, especially on the budgetary process, is still relatively scarce. Many research efforts have focused on the technical aspects as compared to the dynamics of the accounting change process (Ezzamel et al., 2006). This has led to a failure to unleash accounting's potential in a wider organizational context, especially for criticizing and changing the status quo of the existing institutional structure (Chua, 1988). The second aim is to demonstrate the usefulness of middle range thinking, by facilitating organizational change through an emancipator process.

Others (Inanga and Schneider, 2005; Gallhofer and Haslam, 1997; Laughlin, 1987) relate this problem to the emulation of a hard science approach in social investigation. This methodological flaw may lead to theoretical and practical deficiencies (Otley, 2001; Humphrey and Scapens, 1996; Laughlin, 1995; Hopwood, 1983), especially as to considerations of the wider aspects of accounting practice (McNicholas and Barrett, 2005; Broadbent and Guthrie, 1992). Thus, this research adopts middle range thinking (hereafter MRT) (Laughlin, 1995; Broadbent and Laughlin, 1997) as a theoretical and methodological approach. As argued by Lodh and Gaffikin (1997, p. 435) such an approach acknowledges “...*accounting as an interested social and institutional (organisational) practice and the links between accounting and theory and practice*”, and its potential to articulate accounting as a mechanisms of social change (Tinker, 1991).

The next section presents discussion on MRT, followed by an outline of the methodological approach, the findings of the research, discussion of these, and finally some concluding remarks.

Literature Review

MRT is a critical approach to accounting study, developed by Laughlin (1987, 1995) and rooted in the tradition of German critical theory. MRT aims at the discovery of social truth, that exists and is achievable (Ali Fauzi, 2003), by taking into account hidden rationality and implicit motives in understanding the nature, role and emergence of a particular societal institution or organization (Broadbent, Laughlin and Read, 1991). MRT believes that forces to change and maintain social systems are purposive and manipulative. Individuals and groups create social systems through their centrality and totality. This is what Jurgen Habermas¹ (1987) termed as the colonization process (Broadbent, Laughlin and Read, 1991; Power and Laughlin, 1996) in which individuals exercise their motives and groups execute their ideology (Ali Fauzi, 2003). Through system centrality and totality modern society creates dependency and purposive rationality systems, where, according to MRT, social actors create problems just because they have solutions.

Accounting in the above context, according to Broadbent and Laughlin (1997), has a tendency to reflect the values of a capitalism that ignores and undermines the values and uniqueness of local culture and its differences from predominant colonial culture. As such, according to McNicholas and Barrett (2005) many accounting research themes have been detached from relevant social issues, such as the interests of local community and minority groups, cultural breakdown, racism, and human rights violations. A more interpretive and critical reflection into accounting's role in such issues demands changes in both accounting's theoretical and practical research agendas.

The accounting change process, in the context of the above colonization process, is viewed as part of the social system. It has been manipulated by capitalists, as a steering mechanism, it has evolved over time to become a taken for granted rationality system in a modern and complex society (Broadbent, Laughlin and Read, 1991), through the dominance of scientific advancement in knowledge and societal development (Ali Fauzi, 2003) that engender social dislocation and environmental degradation (Spence, 2007). Accounting research, according to Sikka, Willmott and Puxty (1995), within such a dominant scientific approach has the propensity to disregard the social conditions, context, and consequences of accounting. Worst still it could lead to immoral accounting manipulation in a social context such as experienced by Australian Aboriginal people (Gibson, 2000) and Maori in New Zealand (McNicholas and Barrett, 2005). However, Laughlin (1996) claimed that MRT in accounting research does not threaten the dominance of the scientific and positivistic approach. Instead, it offers a moderate approach (Laughlin, 1996) that can improve the areas where both the positivist and subjectivist approach (Burrell and Morgan, 1979) have limitations.

One of the advantages of MRT over the purely subjectivist and positivist approaches is the freedom it offers to organization members to be involved actively in the process of discovering organization reality and alternatives for change, through discursive practice (Broadbent and Laughlin (1997); Richardson, Cullen and Richardson, 1996). This is what they called an emancipatory strategy, where the research process mediates the production and reproduction of the lifeworld through the working of institutional steering media. In their study, Broadbent and Laughlin (1997) showed that discursive practice is useful in three stages of empirical investigation; formation of critical theorems at the beginning of the investigation, an enlightenment process to further refine critical theorems with the involvement of the participants, and the selection of strategies with regards to the intended changes, whereby the participants themselves play significant roles in leading the process. According to Gurd (2007), the MRT framework is only useful to provide a skeleton for researchers to 'put flesh on the bones' in understanding accounting roles in organization under change. The emancipatory

process, as outlined above, could provide more than just what Gurd (2007) expected of the MRT framework.

The emancipatory approach in this research is reflected in a process whereby the findings were presented to a focus group. This was to facilitate the group discovering the organizational reality of CPE from the point of view of accounting processes, and specifically the budgetary process. The reality they discovered was then used as a basis to form strategy to manage the organizational change process, particularly in areas where the roles of the accounting process could be enhanced. According to Gallhofer and Haslam (2006) this approach mobilizes accounting's potentiality to reflect "the world" and its "significance" (p. 923) for organizations to re-direct accounting towards challenging power and privilege in existing practices. Hence, according to Gallhofer and Haslam (2006, p. 915) "*...one can also aim to elaborate the implications for accounting of visions of better states of affairs and of strategies aiming to move us towards the reali[z]ation of such vision*".

Case Background

CPE has been corporatized since 1998 and taken over by a bigger national privatized entity. Both entities deal with the same public utility business. The parent company focuses on the market in West Malaysia, while CPE focuses on one of the states in East Malaysia. Prior to its corporatization CPE suffered a series of financial losses due to a number of operational problems. The Government decision to corporatize CPE in 1998 was in line with a national aspiration to improve public service delivery amidst hegemony of privatization policy and financial pressure to cut costs. This intention was demonstrated earlier with the licensing of a number of independent or private suppliers of certain components of CPE's services in 1995. It was hoped the move could expose CPE to a more competitive operational landscape whereby the way private parties run CPE's traditional 'business' could be learned and used as a benchmark.² However things did not seem to have improved, as reflected in the reports of operational and financial performance of CPE. The government decided to corporatize CPE in 1998.

The parent company (hereafter PC), immediately after the incorporation of CPE in 1998, introduced a number of changes such as new operational systems, a computerized accounting process, balanced scorecard, new financial reporting systems and budgetary process, new key performance indicators, and financial and technical experts. However the operational and financial problems that CPE were facing did not seem to be resolved. The findings of this research suggested that these problems could be traceable to a number of interrelated factors, such

as dominant technical values, embedded public sector templates, accounting traditional functions, and accountants' traditional roles. These are comparable to other findings proposed by a number of researchers, such as Abdul Rahman, (1993), Mohamed (1996), Hoque and Moll (2001), that identify a mismatch between organizational change efforts and CPE's purposes of corporatization (see Vámosi, (2000) for comparisons).

Improvement in the financial and operational performance was only observable subsequent to the appointment of an accountant Managing Director in June 2003³. After years of financial losses CPE recorded breakeven financial performance in 2004 due to an intensive revenue generation and collection strategy as well as cost saving programs. As a result, cost per unit of production and average collection period improved and targeted operational key performance indexes was achieved. The research findings revealed that the improvement was achieved mainly through the mobilization of the accounting process and information, with no major changes in the operational systems and capital structure. Instead, the new Managing Director mobilized accounting's calculative and constitutive elements (power) to strengthen organizational control systems, improve organizational visibility, and provide clearer ends and means for achieving organizational objectives.

These findings were based on the responses of the participants in this research, who were from both technical and financial backgrounds. They were presented to the participants towards the end of the research in an emancipatory process which is discussed in the findings and discussions section below. During this process, the participants challenged and criticized existing accounting practice and consequently formed a set of strategies on how to enhance the organizational roles of accounting to further strengthen efforts to change CPE.

The following section explains the methodological approach of this research. It should be viewed in two stages; (i) the stage of reaching research findings, and (ii) another stage whereby the researcher presented the findings to a group of participants: a process identified as emancipatory.

Research Methodology

Data collection strategy – The contextual setting (Laughlin, 1991; Pettigrew, 1990) of the research was changes in accounting processes in an organization under change due to the corporatization decision, with special attention to the budgetary change process. The data collection **process** was carried out in three stages, a strategy inspired by the empirical investigation approach proposed by Broadbent and Laughlin (1997). These were the familiarization stage (January-June 2004), enrichment stage (July 2004-June 2005), and enlightenment stage (July-December 2005).

Data collection **methods** were triangulated through observation, interview, documentary analysis, and content analysis. Documentary analysis was particularly important to acquire historical data (1998-2003) since the investigation only began in 2004. To investigate the budgetary change phenomena observations were made during budget-related events such as meetings, briefings, and performance reviews. A number of documents relating to budgets were analyzed, such as memos, minutes of meetings, circulars, and compiled budget documents. Interviews were conducted involving top and middle managers (62 respondents), as well as staff from the budget department (6 respondents).

An enlightenment stage was introduced to facilitate the emancipatory process. Towards the end of the research, the findings were presented to the members in the budget department of CPE (manager, accountant, and 4 staff). The department was given two (2) weeks to discuss the findings and recommendations of the research before the manager presented their feedback, comments, opinions, and proposed alternatives to improve the budgetary process.⁴ Apart from enabling the actors to produce and reproduce the reality of the intended budgetary change, this process was also useful to validate the findings of the research.

Analytical framework – a pattern modeling technique (Johnson, 1996; Rutherford, 1995; Scapens, 1990; Dugger, 1979) was employed as an analytical tool. Through a pattern model a web of explanation (Kaplan, 1964) was developed to explain the phenomena of budgetary changes, the role of actors, resistances to change, and the connectedness of context, content, and process involved within the period under study (1998-2005).

The following section presents the findings and discussion part of the research. Since this paper is highlighting the emancipatory process of budgetary change in CPE, the focus is to discuss the process of producing and reproducing organizational reality among actors in the budget department of CPE. It refers to the third stage of the above data collection strategy (the enlightenment stage) whereby research findings were presented to the actors in the budget department.

Findings and Discussions

In December 2005, the findings of the research were presented to a meeting of the budget department of CPE. This was attended by the budget manager, accountant, and four budget staff. The session took about an hour and the participants were free to ask questions during the presentation. The presentation was mainly about the phenomena of budgetary changes within the period under study (1998-2005). It was based on the abovementioned pattern model and the following sub-topics:

- i. The disturbances experienced by CPE stimulated organizational and budgetary changes to occur. The disturbances were the privatization of certain CPE activities (since 1995), the corporatization of CPE (in September 1998), and the introduction of accounting based management by a new leadership (since June 2003).
- ii. The roles that the parent company has played to enhance the organizational and budgetary process of CPE, and to mitigate resistance to change among the members.
- iii. Resistance to change among the members that was traceable to the issues of dominant technical values, embedded public sector templates, accounting traditional functions, and accountant's traditional roles, notwithstanding the disturbances experienced by CPE as mentioned in (i) above (i.e. the privatization of certain CPE activities since 1995, and the corporatization of CPE in September 1998).
- iv. The introduction of strategic use of budgeting by the new leadership in 2003, mainly in the area of managerial and internal control as the third disturbance mentioned in (i) above (the introduction of accounting based management by a new leadership since June 2003).
- v. The promotion of new organizational visibility through the mobilization of accounting's calculative and constitutive power. This was implemented through the incorporation of more accounting-based performance measurement criteria, accounting-based key performance indices, and hence, the reward and punishment structure at both individual and departmental levels.
- vi. The financial consequences of the budgetary changes in CPE, inferred by comparing the financial performance before and after each disturbance experienced by CPE.

Following presentation of the findings, the budget department of CPE held two workshop sessions attended by the staff. The sessions were observed by the researcher and video taped for analysis.

The focus of the sessions was to strategize the functioning of the budgetary department and budgetary process towards the achievement of organizational objectives. Intentions towards accounting-based empowerment during the sessions were obvious. These can be articulated in three possible explanations:

- i. Since newly promoted (see v above) organizational visibility was basically accounting based, participants foresaw the opportunity to claim more accounting-based authority and legitimacy.
- ii. The accounting people in CPE, and staff in the budget department especially, might be motivated to manipulate a situation in which the new leadership emphasized accounting-based controls and performance measurements.

- iii. The intention to improve the accounting process, the budgetary process specifically, by planning and introducing budgetary changes and strategies, could be justified by the members on the basis of the opportunities they presented. In brief, their actions could be more aimed at manipulating the situation rather than seeking budgetary, accounting, or organizational improvements.

To strategize the functioning of budget department and budgetary changes, these were the resolutions made by the members, as represented during the final session.

- i. To increase the visibility of the budgetary process among organizational members.
- ii. To enhance organizational control mechanisms. Two strategies were identified; (i) to use budgetary information to integrate as many organizational performance indicators as possible, (ii) to integrate technical and non-technical measurements, so as to align both measurements towards the organizational objectives.
- iii. To accelerate accounting education among members, especially among technical people and top and middle managers.
- iv. To accelerate the usage of budgetary information in expert group assignments, involving strategic issues and critical areas. Previously these assignments, in handling strategic problems, considered technical issues more important than financial or accounting issues.
- v. To integrate cash flow, operational expenditure, and development expenditure for budgetary control.

The above resolutions were the outcomes of a process whereby the participants challenged and questioned the status quo of the existing accounting practice, specifically the budgeting process, of their organization. The process was based on an historical, contextual, and processual analysis (Pettigrew, 1997) by the participants of what happened to CPE and its members in the form of presented research findings. The locality of the strategy and commitment of the participants, as agents of the proposed change strategy, therefore, could be enhanced since the participants themselves were actively involved in the process. This complements the assertion by Smith (1982) and McNicholas and Barrett (2005) about the importance of the locality for theoretical and practical aspects in accounting research. Gallhoffer and Haslam (2006b, p. 225) in promoting such an approach in accounting research mentioned:

“Historical analysis can locate accounting in [organizational] social and political dynamics and help us to understand and elaborate the overall problematic character of accounting’s social and political functioning. Historical studies can delineate accounting’s own mutability as well as suggest ideas for how to engage with accounting today, including in developing new accountings and strategies for change”.

The above emancipatory process was beneficial to the organization where this research was grounded (CPE). As commented by one of the General Managers (finance) during an exit meeting at the end of the research process:

“They presented the resolutions to me. It is good that they have strategy on how to convince people from other departments to appreciate accounting report and information. I think they are the first one who should appreciate the information. Failing which it will be very difficult for people from other department (non accounting staff) to cooperate in the process like budget submission, expenditure control, report submission, and target (budgeted) achievement. I think once we get those people’s commitment we can direct them towards the target that we set”.

One of the immediate actions taken by the management of CPE following the resolution formation was the imparting of technical values among accountants and financial values among engineers. This was done through accounting courses for non-accountants and technical courses for accountants. The purpose was to enable technical people to appreciate both accounting information and the roles of accounting staff, and the usefulness of accounting information in the decision making process. On the other side, by attending technical courses, accountants were expected to serve technical people better by understanding the technical context of CPE operations.

Conclusion and Recommendation

This case demonstrates the usefulness of the MRT approach in understanding and explaining the phenomena of accounting change in the context of the organizational change process. This framework is especially useful in facilitating the process of producing and reproducing organizational reality among the members. As this case shows, the emancipation process was useful to enhance organizational visibility among the members, at least to conceptualize how their department (the budget department) and the budgetary process could play better roles in meeting organizational objectives. Since the process of recovering reality is initiated by the members, facilitated by the findings of the research, they could come up with better conceptualizations, understandings, and alternative solutions because they are the ones who know best their position and environments, and there is no overtly passive and aggressive researcher influence during the process.

As argued by Laughlin (1987, 1995), Broadbent and Laughlin (1997) MRT is useful since it offers not only an opportunity to understand the phenomena passively (as the pure positivism approach claims), nor to be at the extreme side of any methodological choice and prior theorization (see Burrell and Morgan, 1979), but to consider as well the level of emphasis given to critiques of the status quo and the need for change. Furthermore, this approach is beneficial to both researcher

and research participants. To the researcher it offers a critical way to understand phenomena under study and to respondents it offers a powerful opportunity to change "...by encouraging self-reflection and a deeper understanding of their particular situations (Lather, 1991, p. 56). As such, further attempts should be made to employ the MRT framework in accounting research, especially to enhance changes in accounting practice with regards to the needs of organizational change processes. Furthermore, the MRT framework is in line with the calls for more critical accounting research, and the development of theoretical foundations in the discipline.

Notes

- ¹ A German philosopher who promotes the idea of middle range thinking.
- ² Based on a press statement issued in a local news paper during about the decision to license private providers.
- ³ Prior to this appointment PC assigned three consecutive engineers to lead CPE (September 1998 – May 2003). They were electrical, mechanical, and civil engineer respectively. The appointment of the fourth managing director. (who is an accountant) was clearly with the intention to improvise the deteriorated financial position of CPE that was considered by the group (subsidiaries under PC) as a bleeding entity. This claim is based on the interview conducted during the research process.
- ⁴ A special session where the researcher and 6 members attended.

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