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ROLE OF ACCOUNTING IN A CORPORATISED PUBLIC ORGANISATION INTERTWINED ISSUES OF ACCOUNTABILITY AND TRUST

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This paper presents an in-depth case study of a Malaysian public utility undergoing reform to transform itself into a self-financing, and profitable organisation during corporatisation. As profitability became increasingly important, attempts to enhance profitability were made through imposing new budgeting rules and recruiting new accounting graduates. An explanatory case study method, using mainly semi-structured interviews was adopted. The theoretical framework for understanding the process of implementing accounting change, the context in which change unfolded and the emerging consequences of change is based on the insights of new institutional sociology (Meyer and Rowan, 1977). The findings reveal that accounting changes were enacted, but over time became separated from, or loosely coupled with, other intra-organisational concerns. The top-down manner in which the budget targets was imposed by the accountants created tensions and constraints, changes in power relations and a climate of lack of trust. The explanations on the emergence of loosely coupled budget enrich our understanding of why budgeting changes are enacted but the budget is used as rituals for requesting funds rather than for planning and guiding operational decisions.

Keywords: *Corporatisation, case study, new institutional sociology, loosely coupled, budget.*

Introduction

This study empirically investigates the role of accounting during corporatisation in a Malaysian public utility undergoing organisational changes including management accounting change. It aims to understand the link between

corporatisation and accounting change by focusing on the use of a new budgeting system to improve financial accountability amongst the operation managers. It is an attempt to explain and understand the role of accounting in practice.

Empirical studies, in developing and developed countries alike, have shown conflicting results about the role of accounting in terms of its effectiveness in financially reforming the public sector (e.g. Dent, 1991; Ogden, 1995; Alam, 1997; Lapsley and Pallot, 2000; Davie, 2004; Hopper and Hoque, 2004; Nyland and Pettersen, 2004). These studies imply that the role of accounting cannot be generalised, but rather has to be empirically investigated in a specific contextual setting.

The case company, disguised as PSP for confidentiality reasons, is an established organisation that has provided public services for more than a hundred years. PSP experienced commercialisation in 1985 followed by corporatisation in 1992. Both these events were intended to prepare PSP for its eventual privatisation. This paper questions how the budgets are socially interpreted by the different groups in the specific social and organisational context of PSP. Further, this paper contributes to a broadened understanding and explanation of how and why PSP responded to external pressures for accounting change due to corporatisation; how such change was implemented; and what were the consequences arising from the actual implementation of change.

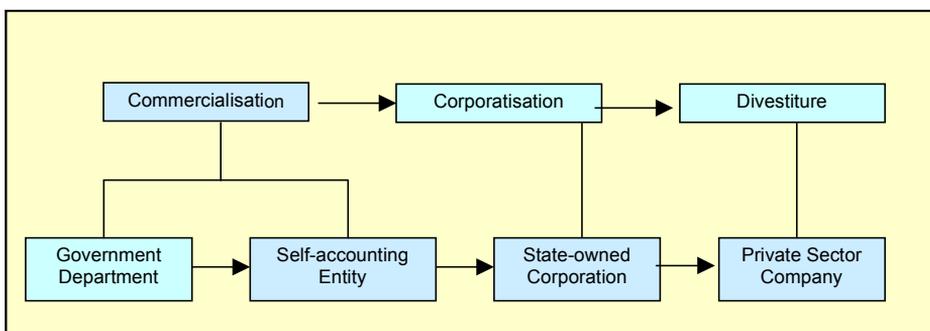
The theoretical framework for understanding the process of implementing accounting change, the context in which change unfolded and the emerging consequences of change within PSP is based on the insights of new institutional sociology (Meyer and Rowan, 1977; DiMaggio and Powell, 1991). An important feature of new institutional sociology (NIS) is the importance of conformance to environmental pressure for enhancing legitimacy. Meyer and Rowan (1977) would probably argue that changing societal expectations, political ideologies and philosophies in the institutional environment might have an impact on accounting change, but only for reasons of external legitimacy.

The notion of loose coupling under NIS is a macro-concept which explains loose coupling as an outcome of organisational response to external institutional pressures (Meyer and Rowan, 1977; Scott, 2001). This paper contributes to further understand the notion of loose coupling by viewing it as an internal dynamic process of change within PSP, and is analysed as a contextual, social and subjectively interpreted phenomenon. The loosely coupled accounting process within PSP thus, adds a micro-level explanation to the concept of loose coupling of NIS and helps to address the question regarding why the intended role of accounting and accountants during corporatisation was not achieved.

The paper is organised into the following sections: corporatisation and accounting change, new institutional sociology, research method, evidence, explanation and finally, conclusion.

Corporatisation and Accounting Change: Financial Accountability

The corporatisation stage in Malaysia, as shown in Figure 1 below, is in-between the commercialisation and divestiture stages. Corporatisation converts public sector organisations into public enterprises that have to generate their own revenues from trading activities for financial survival. As business enterprises, albeit owned by the government, corporatised entities are expected to undergo commercial changes, and to manage their operations in a businesslike manner. The government also expects economic efficiency to be improved, and its administrative and financial burden to be reduced.



Source: Privatisation Master Plan (1991:43), Government of Malaysia

Figure 1: Pre-privatisation Process of Public Departments in Malaysia

Corporatisation legitimises and prescribes commercial changes to enable corporatised entities to pay greater attention to profits by operating efficiently. Incentives to reduce costs and to operate effectively and efficiently within these organisations are initiated externally from the institutional environment. By being profitable, corporatised entities are more attractive to private owners and are able to contribute to government's revenue. However, corporatised entities are commercial entities constrained by social obligations and therefore, operate in a unique context that is neither exclusively public nor private. The process of Malaysian corporatisation, in particular through the introduction of financially-oriented reform, has caused the pursuit of social and economic goals at the intra-organisational level to be intertwined.

Accounting change induced by corporatisation is expected to make the public managers more responsible and accountable for providing better services in a financially-efficient manner. Accounting is assumed to be sufficiently powerful that its adoption can make public sector managers responsible and accountable for financial results (Broadbent and Guthrie, 1992; Humphrey et al., 1993; Olson et al., 1998). Accounting information is assumed to be useful for allocating resources, motivating the performance of certain activities, and exercising influence and control; and through such use, enhancing financial accountability and the efficient allocation of resources.

Accounting change in the context of corporatisation is an attempt at constructing rational organisation (Brunsson and Sahlin-Anderson, 2000). As rational organisations, the purpose of accounting is to control results by making the public sector managers responsible and holding them accountable for financial results. Financial accountability challenges public sector managers to be more attentive to cost-effectiveness by using scarce resources more effectively (Greiner, 1990; Brunsson and Olsen, 1993). Public sector managers are now required to become accountable managers who are actively engaged in the financial management of organisational resources (Guthrie et al., 1990; Humphrey et al., 1993). New accounting control techniques such as the annual reporting mechanisms, accrual accounting, and budgetary accounting are imitated from the private sector in order to monitor and measure results in terms of financial efficiency and cost-savings (Broadbent and Guthrie, 1992; Brunsson and Olsen, 1993). Accounting function becomes strengthened to provide the financial information needed for control and accountability.

New Institutional Sociology (NIS): Legitimacy and Loose Coupling

Institutional theory conceptualises accounting as a phenomenon that is socially constructed through institutionalised meanings. Institutional beliefs, rules and roles from the institutional environment and within organisation can potentially shape the meanings that people attach to their accounting practices. Hence, the role of accounting is not known prior to the fieldwork, but explored from the findings which emerged from the case based on the social interpretations of the organisational members.

According to DiMaggio and Powell (1991: 66), isomorphism is 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions'. In seeking legitimacy through institutional isomorphism, the organisation is constrained to passively conform to social norms from the environment. The insights from NIS were useful to theoretically explain why PSP decided to conform to the external institutional pressure of corporatisation and in turn, how the pressure affected PSP's accounting change.

NIS theorists would explain PSP's adoption of the institutionalised beliefs, norms, and rules originating in the environment as a conformance strategy for enhancing legitimacy (Meyer and Rowan, 1977). In NIS, accounting change may have a superficial impact on everyday organisational activities because its role can be purposefully symbolic. In short, accounting change is interpreted as efforts to seek external legitimacy rather than to influence the instrumental behaviour of organisational members.

Although the environment dictates the way accounting is changed in the public sector, organisational actors may not passively conform to change (Oliver, 1991; Beckert, 1999; Scott, 2001). Organisations are composed of multiple groups with different goals and political powers to implement and manage how change develops (Pfeffer, 1992; Hardy, 1996). Organisational actors can subvert the process of accounting change to support the interest of powerful groups (Covaleski and Dirsmith, 1991). The public sector managers

can resist accounting change during the process of financial reform in the public sector (Broadbent et al., 2001; Davie, 2004).

Meyer and Rowan (1977) hypothesise that organisations adopt formal structures, such as the new accounting system, to gain legitimacy from external stakeholders rather than to enhance economic efficiency. Thus, they predict that the new accounting system emphasising external legitimacy will often be loosely coupled to the internal daily actions and decisions. Accounting rules and routines are separate from other organisational activities and therefore, have limited influence within the organisation.

Meyer and Rowan (1977: 343) describe the notion of loose coupling as follows:

formal organisations are often loosely coupled ... structural elements are only loosely linked to each other and to activities, rules are often violated, decisions are often unimplemented, or if implemented have uncertain consequences, technologies are of problematic efficiency, and evaluation and inspection systems are subverted or rendered so vague, as to provide little coordination.

As a macro-level theory, NIS is unable to address the process of loose coupling. This study extends the macro-level analysis of loose coupling in NIS by explaining the emergence of loosely coupled budgeting systems as an internal dynamic process of change in a specific setting of PSP. Intertwined issues of power (Hardy, 1996) and trust (Misztal, 1996; Tomkins, 2001; Johansson and Baldvinsdottir, 2003) which emerged during the data analysis were important for making sense why the budget was not widely drawn upon or accepted by the operations managers.

NIS assumes that institutional isomorphism, due to the loosely coupled way of enacting accounting change, and the emphasis placed on securing legitimacy, only has a superficial impact on financial performance. In situations of loose coupling, accounting is less used for 'accountability, performance evaluation, managerial planning, decision-making and control' (Hoque and Hopper, 1997: 128). The claimed power of accounting as an influential means to financially transform the public sector is undermined because accounting change is used more for securing external legitimacy.

Research Method and Assumptions

This paper assumes that accounting change is not simply a technical matter, but is a social and dynamic process involving issues such as conflict and organisational behaviour (Carruthers, 1995). It also assumes that the actual role of accounting in a specific setting cannot be determined without exploring the internal dynamics of accounting change at the intra-organisational level.

An explanatory case study method, using mainly semi-structured interviews was adopted. This method enables the study to explore, understand and explain the dynamics of change related to adoption, implementation and consequences of budgeting change. The use of

the interview method was essential to gain insights into the participants' perceptions of the budgeting system and its day-to-day practices. In total, sixty-one interviews with forty-two different people were undertaken over a two-year period.

The interviewees worked at different levels of organisations, held different positions; from the Chief Executive Officer (hereafter, CEO) to the clerk, and were from a variety of backgrounds. The actual selection of the interviewees was done on an ongoing basis during the progress of the data collection at the research site (Taylor and Bogdan, 1984); and is thus, a purposeful sample (Ferreira and Merchant, 1992; Miles and Huberman, 1994). The wide range of interviewees' backgrounds illustrates that the case organisation comprises heterogeneous groups with possibly different realities of budgeting practice. Views of different groups can be a basis of triangulation in that different realities were not discounted but compared and analysed for their underlying reasons and explanations.

It was interesting to note that most of the accountants interviewed (except the Chief Financial Officer (hereafter, CFO) and the Chief Internal Auditor) were recruited during the post-corporatisation period. As a group recruited from the outside for their accounting knowledge, the accountants can be labelled as the social group (Oliver, 1992) that adds to the heterogeneity of PSP's members, and more importantly, as a group that could potentially induce financially-oriented changes in daily work norms and values.

Data was also supplemented through informal conversations, observations, examination of relevant documents, and newspaper reports. Data gathered from multiple sources enhanced the researchers' understanding and explanation of the process of accounting change.

During data analysis, the researcher examined the data for repeated and common issues, to explain the reasons underpinning certain viewpoints and to understand them in the context in which these views were raised. The key themes that the researcher pursued were the role of accounting in action, through understanding the use of budgeting in the daily operational activities of the operations managers, and the interaction processes between the functional groups that led to the emergence of loose coupling.

The analysis pictured two different meanings of the accounting reality being created by the intra-functional groups. It was an interesting puzzle, which became the focus of the research; that budgeting developed as a detached, i.e. loosely coupled system in spite of the increasingly importance of profitability. Issues of power relations and interpersonal trust were employed to analyse the tensions in the relations between the operations managers and the accountants.

Evidence

Overview of Case Organisation

The case organisation is an established, large, geographically dispersed and labour-intensive public utility provider which was affected by accounting changes introduced

by corporatisation policy. Accounting is changed in order to reform PSP into a commercial and profit-seeking entity.

Figure 2 (on the next page) depicts the simplified organisational structure of PSP. Essentially, PSP is structured at three different levels; headquarters (HQ), state offices¹, and branches. The HQ decides on the policy, procedures and instructions for all the state managers to adhere to and execute. The state managers head the state offices and are responsible for ensuring that branches under their jurisdiction comply with the rules and procedures set by HQ. The divisions at the HQ are responsible for strategic policy, planning and support activities, while the 13 state managers heading the State offices are responsible to report to the Chief Executive Officer (CEO) for the implementation of HQ policy and rules. The branches handle daily business activities directly for customers.

During corporatisation, PSP responds to environmental pressures of corporatisation by demonstrating that it is profitable and businesslike. The need for PSP to be financially independent from the government explains the importance of ‘making money’ and hence, the inclusion of profits as a major new priority. However, PSP has to observe social responsibilities such as providing services to rural areas. The Chief Financial Officer (CFO) explains the accommodation of both public service and profitability goals as follows:

Under corporatisation, the profit motive comes in ... we are looking at how well we can improve the efficiency of operations, and at the same time provide the [social] services ... can we make money out of this business or not? (CFO).

Incorporating these two goals within PSP leads to the difficulty of fulfilling both public service and profitability goals:

Actually, the conflict comes in the areas where we are losing ... so what we have to do is to strike a balance between profit motives and continuing our social obligation towards the people. ... On the whole, we find that a heavy burden is placed on us to balance the act between providing social obligations while at the same time making profits (CFO).

PSP is required to pursue profits, but not independently of its social responsibilities. In responding to competing demands from the environment, profitability and public service concerns co-exist to be developed and improved simultaneously. When profitability and social service became PSP’s intertwined and legitimated goals, PSP turned into a quasi-commercial entity.

The role and significance of both the budgets and the accountants within PSP are explored in the context of ‘harmonising’ its conflicting goals of social service and profitability. As profitability became increasingly important, attempts to enhance profitability were made through imposing new budgeting rules and recruiting new accounting graduates. In such a quasi-commercial setting, the implementation of the new budgeting system cannot simply be understood in terms of profit motive alone. The next section deals with the new budgeting system and the new positions of state accountants.

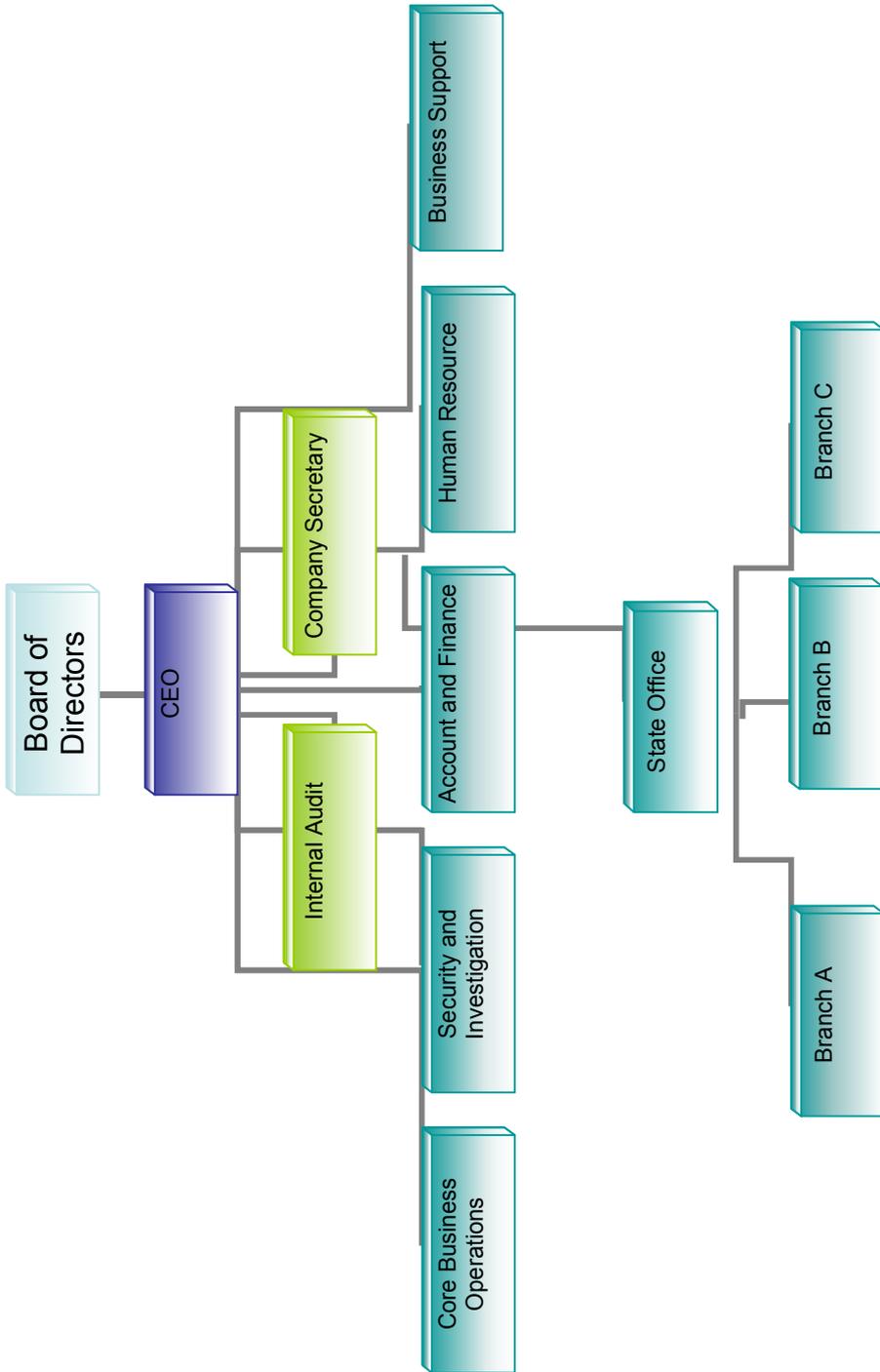


Figure 2: Simplified Organisational Structure

The New Budgeting System: A Source of Conflict

This section examines the process and consequences of using the new budgeting system to control the behaviour of the operations managers. Corporatisation policy demands improved services from PSP, both technically and cost-effectively. In line with these demands, the two objectives of the Modernisation Project introduced over the years from 1994 till 1996 are to: (1) achieve service performance that is reliable and consistent; and (2) reduce and control operational costs, (Annual Report, 1995).

The Modernisation Project introduced in 1994 within PSP can be regarded as a milestone of the post-corporatisation period. This project implemented new budgeting procedures, introduced the position of state accountant at the State offices and re-engineered the operations processes at the State offices. Due to the demand for accountability in spending introduced by the Modernisation Project, the new budgeting system is supposed to strengthen the role of accounting and state accountant in the operations. The relationship between the state accountant and the operations managers in their use of the new budgeting system becomes a focus for understanding the process of accounting change.

The implication of the Modernisation Project for accounting and accountants is considerable; the accounting function gains importance as more accountants are recruited to the State offices. According to the CFO, the decision to locate state accountants in the state offices as imperative to promote the level of compliance with the financial instructions from HQ:

State accountants are needed to improve the financial awareness and promote the financial discipline of the operations managers at the State offices. When we gave them instructions to comply, they did not take them seriously. They did not view that, 'This instruction is very important to the operations, therefore we must implement.' Instead, they argue 'Ah...we have been operating for ages without this kind of report – why should we produce it now?' They don't have that financial discipline ... (CFO).

The budgets during commercialisation and during the early stage of corporatisation were prepared internally, in a bottom-up manner to authorise spending limits. During the Modernisation Project, changes were introduced to the budgeting system, including the introduction of the new accountants' positions – the state accountant, and centralisation of budget preparation. The new budgeting system was supposed to infuse a financial orientation in the operations at the state offices of PSP in order to reduce the costs of operations and establish PSP as a profit-oriented entity. The intention of the change was to enforce hierarchical and financial accountability using budgets and variance analysis.

The change to a top-down, centralised budget brought about by the Modernisation Project gave and continues to give the accountants at the HQ the power to decide on how much and to which cost centres the resources are allocated. An ex-state Manager expresses his dissatisfaction with the way the budgets were prepared and the amounts were allocated:

At the State offices, the budgeted amounts were always insufficient. We overspent because our decisions were based on operational needs. You

[accountants at HQ] could not rigidly enforce the budget because the allocation was done in a top-down manner. You might not give me what I requested because the budget was prepared top-down. When I was at the state office, I had no second thoughts. I didn't care about overspending because we had the money from the daily collections (Ex-State Manager).

The accountants were perceived as lacking sufficient understanding of operational procedures to enable them to incorporate the local financial needs of the operations managers in their budget allocation:

Costs are identified by the operations people but the approval for spending those costs is done by the accountants. I know in this organisation that if the accountants are more knowledgeable in operations, they can perform better. Now, we have to understand the accountants because the money is in their possession. ... Before the accountants were in PSP, we received the budget in aggregate, which we spent according to priorities. Then, the operations people handled the financial matters, but now we allow the accountants to financially manage because they are more expert in financial matters (Production Planner, State office).

The accountants were perceived as incompetent and cost-cutters, and thereby a threat in terms of financial restraints:

In my view, we do not need accountants [in operations] because they do not find the money. There is a conflict in terms of interest because almost all the accountants do not have operations experience. They do not know the work in the operations. When we asked for an allocation, they slashed. When we requested a replacement, they replied, 'We gave it to you last time' (Operations Manager, State office).

Operations managers are strictly held accountable for the results of the clear floor targets. These targets are quantifiable daily delivery targets which require the completion of the daily processing at the state offices by the last working shift of each day. Improving service through the attainment of clear floor targets appears to become the 'must-see-daily' operational targets for the Operations Managers:

During the early morning meeting, the first question that we will be asked or we are requested to be responsible for is, 'Did we achieve clear floor?' This means that the clear floor targets is a must or very important. How did we achieve the clear floor? Either through the use of overtime or increased number of staff is not emphasised at that time (Production Manager, State office).

The importance of achieving clear floor is reinforced below:

It is generally true that physical data on Clear Floor Policy is very important and is the top daily concern of the management. It is unavoidable as the performance of the company, its image for providing quality service, its commitment to fulfilling its promises according to the established standards etc. are at stake (Deputy General Manager, HQ).

Whereas the operations managers' priorities are meeting the daily operational targets, and making fast operational decisions, the state accountant believes that compliance with financial procedures from HQ and budget limits is crucial. These different work priorities affect the workplace relationship between the state accountant and the operations managers:

The state accountant's role is more towards the financial administration, budgeting and auditing. The operational function often has a different view and priority compared to the accounting function. The operations function has to make fast decisions, while the accounting function insists on procedural compliance, budget limits etc. which sometimes are very difficult to follow without adverse effects. The accountant tends to be less willing to learn about the operational function in order to work better with the operations managers (Deputy General Manager, HQ).

It was, therefore, difficult for the accountants to strictly control costs and this, in turn, is manifested in their flexible approach to approving additional requests:

Actually the purpose of the budgets is to ensure that they (operations managers) are able to spend within the limits set. Our practice is that we do not strictly say that, if there is no budget, you are not allowed to incur expenditure, but you provide justification. So, we are flexible in that sense (CFO).

A consequence of this flexibility is that the operations managers use the budget as a means to request funds, but not to evaluate the financial consequences of their decisions:

The budget did not function for controlling operations costs but for authorising spending limits. In terms of overall operations, the state managers did not evaluate why they spend or how to improve. Instead, they continue thinking that next year, they can request for more funds from the headquarters. When they request, we entertain. ... So they just continue with the attitude, 'Never mind, we can request additional funds from HQ'. That is why I dislike the budget – in the end the budget shows as if I did not perform (Senior Accountant, HQ).

From the operations managers' perspective, the budgeting system was an accountants' tool because of the imposed nature of the allocations of budgeted amounts and their lack of relevance for the daily operational activities. More importantly, the new accounting changes constrained the operations managers' existing autonomy and flexibility, introduced a dependency on the accountants for financial resources, and stressed compliance with HQ financial procedures for upwards flow of information on spending.

Consequently, there was little commitment from the operations managers towards accepting the spending targets set by the accountants. The budget became a source of conflict, and hence was not widely accepted by the operations managers as a mechanism of financial accountability. Its implementation and use, therefore, created tensions between the functional groups such that the operations managers tended to see the budgets as rituals

for requesting funds rather than for planning and guiding operational decisions. Hence, the potential of the budget to enhance financial accountability and efficiency, as claimed by Ogden, 1995, was not realised in PSP. The loosely coupled budgets, in terms of its lack of integration in operations, enabled the operations managers to ignore financial considerations and to focus exclusively on the operational aspects of their decision-making.

Explanations

The shift of budgeting change towards demanding financial accountability suggested that economic rationalism induced by corporatisation has had some influences on PSP. This development of accounting fitted with the requirement of corporatisation that PSP improved efficiency in both its operations and its financial dimensions. In spite of the objective of the new budgeting system to promote cost-savings, the evidence showed that the new budgeting system remained detached from operations. The top-down manner in which the budget targets was imposed by the accountants created tensions and constraints, changes in power relations and a climate of lack of trust.

Accounting can inhibit rather than promote the desired new commercial agenda if it unnecessarily constrains the exercise of local autonomy of the public sector managers in their use of resources and is used mechanistically to report errors, deviations and failures upwards in the hierarchy (Munro and Hatherly, 1993). Formal accountability through accounting is important but it can reduce the self-regulating power of the operations managers and at the same time increases the power of the accountants. The new budgeting system enables the accountants to have more power over the others in deciding how the resources are allocated. The accountants' power over financial resources was not sufficient for change because the operations managers were powerful enough to subvert accounting so that it became only loosely coupled with their day-to-day operational activities (see Hardy, 1996).

While the accountants may believe that more accounting measurements and reports are necessary to foster financial accountability and discipline in the operations, the operations managers can misinterpret these changes and view them as indicating a lack of confidence in their professional judgement and discretion. This feeling of not being trusted was not conducive for building trust relations with the accountants.

Das and Teng (1998) direct attention to the formal control system, such as budgeting, that has a greater tendency than social control to damage trust relations. Relatively, the use of formal control reduces autonomy and increases suspicions in the actors being controlled. In PSP, it is important to note that interpersonal trust is a concept that is useful for analysing the lack of social interaction between the accountants and the operations managers. In particular, there is a lack of trust in the accountants and in the use of budgets to improve cost-savings as well as efficiency in operations.

Trusting the accountants was difficult for the operations managers because they perceived the (state) accountants as ‘outsiders’, who lacked competence in operations matters and who constrained the availability of the resources needed for securing clear floor targets. There was an unacceptable risk for the operations managers to engage in trusting relations with the accountants, for example, through commitment to the ‘imposed’ budget limits. Less rather than greater cooperation (and trust) in the accountants and budgets was desirable because of the possible harm in terms of jeopardising the current and future service quality.

Due to the lack of trust, the budgets were not drawn upon to improve communication, integration, and understanding. The new budgeting system was used more for authorising spending limits than for controlling costs and improving financial performance. Consequently, the state accountant was used as a book-keeper to record past activities in an accurately and timely manner, instead of the intended role of financially advising the operations managers.

Understanding the process of loose coupling was useful in addressing the questions of why the roles of the budgeting system and the state accountant, which were expected by the Modernisation Project, were not achieved. The loosely coupled budgets, in terms of its lack of integration in operations, enabled the operations managers to ignore financial considerations and to focus exclusively on the operational aspects of their decision-making. Without integration, the new budgeting system turned into a set of ritualistic routines for justifying spending and the role of the state accountant was more that of book-keeper than the intended role of financial advisor.

This section has explained why accounting constrained rather than enabled change in operations. Enabling change in the operations was difficult because the accountants’ rules were imposed on the operations managers; the potential threat due to the enhanced financial visibility at the HQ; and the financial restraint through the use of the accountants’ power to allocate funds and cut spending. As these intrusions threatened the dominant position of the operations managers and the attainment of clear floor target, it is not surprising that a climate of lack of trust was created and the operations managers reduced their motivation to become financially accountable managers.

Conclusion

This study empirically investigates the role of accounting during corporatisation in a specific contextual setting. The detachment of budgeting from operational decision-making contradicted the assumed effectiveness of accounting change for financial accountability. The rule-imposition and orientation of budgeting for the purpose of accountability and hierarchical reporting created tensions. The accountants should consider using a less threatening and a more socially interactive approach to enhance their organisational role. An important change agenda of the accountants is to promote enhanced cooperation, communication and trust with the operations managers.

As budgeting in PSP was loosely coupled, its implementation lacked impact on the ingrained public service values. The explanations enrich our understanding of why the role of accounting took its present form and why accounting change was enacted, but continued to (re)embed the existing public service values and norms. How loose coupling unfolded as an organisational process extends our understanding of the ineffectiveness of accounting change in the specific setting of PSP.

Based on the continuity of the public service ways of thinking in PSP, the policy-makers in Malaysia should be cautious about standard prescriptions borrowed from the private sector and/or Western accounting models. This paper has shown that the effectiveness of the prescribed accounting change cannot be assumed without understanding how it is implemented in a specific context.

The research findings were derived from an investigation conducted in a single organisation and as such, the findings and contributions of the research should be read in the context of the specific organisation, sector and country. Since this study views accounting as a social practice, understanding the process of loose coupling within PSP is dependent on the interpretations of both the participants and the researcher. Concepts of trust and power were useful for explaining the social relations within PSP, but the relations between these concepts were not sufficiently explained and understood. How power interacts with trust is a potential area for understanding how accounting is used and its influence on the ways of thinking. Within Malaysia, comparing how accounting is implemented and its effectiveness between the different corporatised sectors could offer further insights into understanding the processes of loose coupling.

This paper contributes by describing and interpreting the adoption, implementation and consequences of loosely coupled budget during corporatisation. This study extends the macro-level analysis of loose coupling in NIS by explaining the emergence of loosely coupled budgeting systems as an internal dynamic process of change. The loosely coupled budget within PSP is argued to be less intentional, but more of an emergent and unintended consequence (see Orton and Weick, 1990). Intertwined issues of conflict, trust and power during social interactions between functional groups limited the influence of accounting change for enhancing financial accountability.

Note

- ¹ There are a total of 13 state offices located throughout the country. The fieldwork focuses on the biggest state office.

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