AN INSTITUTIONAL PERSPECTIVE ON MANAGEMENT ACCOUNTING CHANGE IN THE PUBLIC SECTOR: A CASE STUDY FROM CANADA

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Doctor of Philosophy

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This thesis reports on a four-year field study conducted at the Saskatchewan regional office of the Department of Indian Affairs and Northern Development, a large department of the Government of Canada. Over the course of the study, a sweeping government-wide accounting reform took place entitled the Financial Information Strategy. An ethnographic study was conducted that documented the management accounting processes in place at the regional office prior to the Financial Information Strategy reform, the organization's adoption of the new accounting system associated with this initiative, and the state of the organization's management accounting system once the implementation was complete. This research, therefore, captures in detail a management accounting change process in a public sector organization.

This study employs an interpretive perspective and draws on institution theory as a theoretical framework. The concept of loose coupling and insights from the literature on professions were also employed in the explanation-building process for the case.

This research contributes to institution theory and the study of management accounting change by recognizing conflicting institutional forces at the organizational level. An existing Old Institutional Economics-based conceptual framework for management accounting change is advanced and improved upon through the development of a new conceptual framework that incorporates the influence of wider institutional forces, the concepts of open and closed organizational systems and loose coupling, and the recognition of varying rates of change and institutionalization of organizational activity sets. Our understanding of loose coupling is enhanced by the interpretation of institutional influences developed in this study as is the role of professionalization as a normative influence in public sector organizations. Finally, this study documents the evolving role of accounting professionals in a public sector organization as a result of New Public Management reforms.

Keywords: Institution theory; Management Accounting; New Public Management; Loose Coupling; Professionalization.

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CHAPTER ONE

INTRODUCTION

Overview

Presented here is a study on management accounting change in a public sector organization. The study was field-based. It was conducted at a regional office of a large department of the federal Government of Canada over a four-year period. During the course of the field study, a large government-wide accounting reform was undertaken. This initiative, entitled the Financial Information Strategy (FIS), involved a change in accounting policies, an upgrade to the accounting information systems, and most relevant to this study, promoted improved provision and use of management accounting information to enhance decision-making. The organization being studied was a sub-unit of a traditional Canadian federal government department, the Department of Indian Affairs and Northern Development. This organization consisted of ten semi-autonomous regional offices dispersed geographically throughout the country. The unit of analysis for this study was the Saskatchewan regional office of this department.

Institution Theory

Increasingly, institution theory has been applied to studies of organizational behaviour (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Powell and DiMaggio, 1991; Scott, 1995) and to studies of accounting (Collier, 2001; Soin et al., 2002; Covaleski et al., 1993). Institutions have been described as settled habits of thought (Veblen,

1961) and comprise social norms, habits, and culture (Vandenberg, 2002). As such, they act as constraints that influence decision-making and organizational behaviour.

Accounting practices have been described as routines that through repetition can become institutionalized over time (Scapens, 1994; Burns and Scapens, 2000). As such, they become the taken-for-granted way of doing things and can continue to be performed regardless of the validity of the rules that established the practices in the first place (Burns, 2000). Institution theory from this perspective explains the stability and persistence of organizational practices.

Institution theory has also been applied to develop our understanding of an organization's response to pressure exerted upon it from outside sources (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). In this stream of literature institutions represent the norms, values and beliefs specific to a group of organizations that are interconnected. This group is called the organizational field. These norms, values and beliefs are normative patterns that define the activities and structures that are seen as legitimate or proper (Parsons, 1940). Organizations, therefore, may be compelled to adopt certain practices and structures in order to be seen to be conducting their affairs in a way that is legitimate and accepted.

On the one hand, institutionalized practices at the organizational level become embedded and accepted and are carried out without question by organizational actors. On the other hand, institutions that dominate an organization's field can compel change in order for organizations to conform to the accepted way of conducting business. Thus, institution theory has been used to explain both stability and change.

An interesting area of study that has been underdeveloped in the current literature is an examination of the tension between these two levels of institutions: the institutionalized practices at the organizational level and the institutional influence exerted upon organizations to adopt similar practices and structures. A promising arena of study for furthering our understanding of this tension is the public sector.

The underlying institutions that support accounting practices must be considered in order to better our understanding of how current practices came to be, why they continue to persist, and most importantly for this research, what effect they have on the management accounting change process. Understanding the institutional influences on organizational activities will facilitate attempts at organizational change. This is particularly important for the study of public sector organizations where many attempts at reforms have taken place in an effort to improve their performance.

The Financial Information Strategy in Canada is one such reform. Set out in the document "Results for Canadians", this broad reform sought to improve the management of government organizations through the devolution of authority, focusing on results rather than rules, and promoting a more entrepreneurial approach (i.e. letting managers manage) (Treasury Board of Canada, 2000a). Similar to reforms undertaken by other national governments, most notably New Zealand, Australia and the UK, this new approach to public sector management taken by the Canadian government is consistent with the global government reform phenomenon referred to in the literature as New Public Management (Hood, 1991).

While there are numerous aspects to New Public Management reforms, the adoption and use of performance measures and management accounting information rank among the more significant and visible changes. In the management accounting literature, there has been a call for more empirical research into the actual practices being carried out in organizations (Scapens, 1994; Kaplan, 1994). This is particularly important for the study of New Public Management reform where change may be illusory (Hood, 1991) and have unintended consequences (Hood and Peters, 2004). Years of study have shown that big plans for change in administrative practices in government organizations are rarely realized (Rasmussen, 2002) and public sector managers are said to have developed a well-honed capacity to give the *appearance* of instituting change even in instances when nothing is actually changing (Savoie, 1998). Institution theory can provide important insights into organizational behaviour that would further our understanding as to why public sector reform has met with less than impressive results.

The implementation of the Financial Information Strategy in Canada was declared a success. There is a need, however, to dig deep into an organization that has undergone this reform to determine the degree to which change has actually taken place and to further our understanding of how management accounting change in public sector organizations occurs. A detailed account of a New Public Management reform implementation will distinguish between real and normative claims of change (see Burns and Vaivio, 2001) and provide insights into the role and use of management accounting information in the public sector. This can lead to the development of more effective public sector reforms in the future.

Research Question and Motivation

The research question developed for this study was:

"How does management accounting change occur in a public sector organization?"

New Public Management reforms have been taking place in many countries around the world over the last two decades. These reforms emphasize, among other things, the use of management accounting information for performance evaluation and enhanced decision-making. This new approach to managing public sector organizations has become increasingly accepted as legitimate and as such, the norms, values and beliefs that encode New Public Management principles have come to be accepted in the organizational field. Organizations within this field can be subjected to institutional pressures to adopt these reforms.

Public sector reform, in general, may be illusory and the adoption of new practices may be ceremonial. An underdeveloped area of study is the determination of why this occurs. Institution theory can provide insights into the change process by focusing attention on the underlying institutions that encode accounting practices at both the organizational field and organization level. Examining the tension between institutionalized beliefs and values that may occur between these two levels of institutions will further our understanding of management accounting in public sector organizations and inform further public sector reform initiatives.

In order to advance and develop the field of public sector management accounting, the role of management accounting in public sector organizations and how management change occurs at the organizational level must be better understood.

Methodology and Theoretical Framework

This research is field-based, employing an ethnographic methodology. Evidence was collected from multiple sources through observation, interview, documentation, archives and artifacts and an explanation-building process using data triangulation and pattern matching was carried out.

This methodology was chosen in order to develop a rich, detailed description of the organization and its management accounting practices. In order to understand accounting practices, the research method employed must capture a wide range of organizational phenomena (Otley, 2001) and provide more than a technical description of the accounting system (Roberts and Scapens, 1985). The role of accounting cannot be understood in isolation (Otley and Berry, 1994). An empirical field study can provide a richly detailed analysis of organizational processes and is conducive to the study of institutional pressures (Hopper et al., 2001). It is particularly important to delve deep into organizations that have been described as adept at giving the appearance of change where no change has actually occurred.

In order to achieve a detailed understanding of how management accounting change occurs in a public sector organization and to distinguish between real and normative claims of change, a field-based case study is an appropriate choice of methodology, particularly for studies, such as this, that seek to understand the role of institutional pressures on organizational activity.

Thesis Organization

This thesis is organized in the following manner. Chapter Two provides an overview of the theoretical perspectives considered for this study and a description of Old Institutional Economics and New Institutional Sociology, the theoretical perspectives ultimately used, is given. This study draws upon the Burns and Scapens (2000) framework for management accounting change and the concept of loose coupling and is informed by the literature on professions. An overview of each of these subjects is also given. A brief discussion of management accounting and New Public Management is included. Throughout this chapter relevant literature is discussed and a review of eleven case studies on public sector reform is provided.

In Chapter Three the methodology employed for this study is discussed. Details of the methodology, study design, data collection, analytical techniques used, and the limitations of the study are provided.

This is followed by the data, which are presented in Chapter Four. The data are organized into two main sections: context and field study. The context section provides background information regarding the Government of Canada, the Financial Information Strategy, and the organization that was the subject of this research. The field study section describes the data collected during a four-year period. This section is divided into three parts: the pre-FIS era, the FIS implementation, and the post-FIS implementation phase.

In Chapter Five the data are analyzed. Informed by the theory discussed in Chapter Two, an explanation is built for the results of this study's findings. In this chapter, the contributions of this research are presented, including a new conceptual framework for management accounting change.

Chapter Six concludes this study by providing a brief review of the research and the contribution it makes to theory and the literature.

CHAPTER TWO

THEORY AND LITERATURE REVIEW

This chapter provides the theoretical framework informing this research and a review of the relevant literature. It is comprised of five main sections followed by a summary. It begins with a discussion of the interpretive framework of the research followed by a brief review of theoretical perspectives that were considered. The second section describes institution theory. The review of institution theory is divided into two main components, economics-based institution theory and sociology-based institutional theory. Within each of these categories, two streams of the theory are discussed with an emphasis placed on those drawn upon for this study, Old Institutional Economics and New Institutional Sociology. In addition to a review of New Institutional Sociology, a description of loose coupling, a phenomenon associated with the legitimating activities undertaken by organizations as identified in management accounting research employing the New Institutional Sociology perspective, is provided. This is followed by a brief review of professions, another area of study particularly relevant to New Institutional Sociology and its associated phenomenon of professionalization.

A brief summary of institution theory is then offered and this summary encapsulates the framework for using institution theory for this study.

The next section provides a working definition of management accounting for this research in order to establish the scope of data collection and to provide a common understanding of what constitutes management accounting information. A brief review of the development of management accounting is given and the positioning of this research within the management accounting research realm is provided.

This section is followed by a review of New Public Management, a global phenomenon that has significantly influenced the views in many countries of how public sector organizations ought to be managed.

Finally, a review of the literature relevant to this research is given. Eleven case studies involving the implementation of accounting-system changes associated with New Public Management initiatives in public sector organizations are reviewed.

A summary is then provided where a shortcoming of the use of institution theory is identified.

Research Perspective

This research adopts an interpretive perspective to accounting research (see Covaleski et al., 1996). Rather than viewing accounting as a strictly technical rational tool, it is viewed in the broader social context within which it resides, both reflecting and influencing that context. As such, this research will contribute to the growing literature characterized as "alternative management accounting research" (Baxter and Chua, 2003). The underlying epistemological position is that of a socially constructed reality.

Berger and Luckmann argue that reality is a human construction of a shared social reality (Berger and Luckmann, 1966). Reality in their view is a collection of subjective meanings that come to be understood as objective facts.

Although sometimes viewed as objective facts, accounting information, indeed information in general that is used for decision-making, is inherently subjective (Demski et al., 2002; Chua, 1986). Accounting meanings are socially generated (Hopper and Powell, 1985). In addition to accepting that accounting information generates subjective meanings, this research also takes the position that accounting is not a "neutral" technical activity (Humphrey and Scapens, 1996). Budgeting as a process, for example, can be "cloaked" to give the appearance of objectivity and neutrality, when it is actually rooted in maintaining the power and control of established hierarchies within the organization's environment (Covaleski and Dirsmith, 1988:585). Although accounting's intent may be to reflect organizational reality, its use also shapes that organizational reality (Roberts and Scapens, 1985). As Hopwood notes, accounting is one way in which the social world changes organizations (Hopwood, 1983).

The interpretive perspective has seen a growing amount of empirical support (Covaleski et al., 1996). It seems particularly well suited for studies relating to the public sector given the complexity of tasks, ambiguous objectives, and varied stakeholders. As one author notes, "models of instrumental rationality" are inadequate when addressing public (i.e. public policy guiding the public sector) decisions (Anderson, 1979: 722).

Early in the data collection stage theoretical frameworks including agency theory, stakeholder theory, resource dependency and institution theory were considered. Agency theory initially appeared to be a useful framework considering that New Public Management, the wave of public sector reform that has influenced the context of this study, is predicated on the agency-theory principle (Newberry and Pallot, 2004) and it has been used in other public sector studies (Loeb and Surysekar, 1998). Difficulty applying agency theory occurred once the unit of analysis, a semi-autonomous regional office of a large federal government department, was selected. When local bureaucrats in a regional office of a national department are viewed as agents, several possible principals emerge: the national departmental office, the central agency, parliamentarians, and local stakeholders who wield influence over the aforementioned three. By focusing on only a part of a larger organization the identification of a principal is not as clear as is the case for studying a whole department acting as an agent for the elected government's ministers as found in other studies (Newberry and Pallot, 2004). The theory itself is also not without its limitations. The underlying assumptions of agency theory, as one study notes, are too simplistic to assess the political-bureaucratic relationship (Worsham et al., 1997). More problematic is the underlying economic principle of rational-man. While individual actions carried out by organizational actors can be viewed as rational, this rationality is not necessarily constructed in the traditional way comprised of self-interest and utility-maximization. Instead, a complex array of motivators may be present. Accounting information can hold different meanings for different organizational actors and stakeholders, undermining the notion of an objective reality that underlies neo-classical economic theory. That accounting information in government can be used for story telling in order to garner political support for policies rather than for providing an objective representation of organizational activity is not a unique view (see, for example, Neu et al., 2001). Economics based approaches to organizational theory rule out the notion of a socially constructed reality and cannot easily capture social and cultural factors influencing organizational activities (Walker, 1998). Finally, since this study involved change rather than a position of equilibrium, this theory appeared inappropriate as an explanatory theory and, as one author notes, has not been successful in providing rationales for changing accounting systems (Richardson, 1987).

Given the sensitivity to and "heightened scrutiny" from external stakeholders compared to private sector organizations (Kernaghan and Siegel, 1989:8), stakeholder theory was considered as a theoretical framework. There are four tenets that must be present in order to utilize stakeholder theory: descriptive accuracy, instrumental power, normative validity, and managerial implications (Donaldson and Preston, 1995). Given the breadth and conflicting objectives of the multiple stakeholders for the organization being studied, stakeholder theory failed to provide a sufficient description of the relationship between the organization and its stakeholders. As will be shown the organization that was the focus of this research reported different results to different groups, but the influence of stakeholders over day-to-day management was often arms-length and the description of the organization as a constellation of cooperative and competing interests was not an accurate reflection based on the observations that were made. Descriptive accuracy, therefore, could not be established.

Instrumentality links stakeholder management to traditional performance goals, such as profitability, stability, and growth (Donaldson and Preston, 1995:67). A framework, therefore, must be established to link stakeholder management to the goals of the organization. This is difficult in public sector organizations where goals are often ambiguous and difficult to measure.

Normative and managerial aspects of stakeholder theory, the final two tenets, refer to the moral or philosophical guidelines of the organization and that the theory has implications for managerial decision-making rather than being purely descriptive (see for example Jones and Wicks, 1999). Both might be applicable to the public sector setting. Public sector organizations can identify stakeholders based on the stakeholders' interest in the organization's activities. With respect to the managerial implications of the use of stakeholder theory, however, the underlying purpose of stakeholder theory is normative and prescriptive. This attribute is not consistent with the goals of this study, which are to describe and explain management accounting change (or lack thereof) rather than prescribe a specific management accounting change.

Stakeholder theory emphasizes business ethics, corporate governance and corporate social performance (Friedman and Miles, 2002) and is intended to guide and explain the structure and operation of a corporation (Donaldson and Preston, 1995). The organization that is central to this research is not structured or governed as a corporation nor is profit maximization a goal (nor do some public sector organization stakeholders, such as taxpayers, have a realistic capacity to exit the process of organizational discourse – see Calton and Kurland, 1995: 171). Based upon the nature of the organization being studied and the goals and managerial focus of the research, this theory was not considered appropriate.

Resource dependency focuses upon the interaction and influence that exists among organizations as each pursue and try to sustain required resources (Pfeffer and Salancik, 1978). Organizations are viewed as coalitions emerging from social exchanges (Ulrich and Barney, 1984). The view that organizations are comprised of coalitions is the first of three underlying assumptions upon which resource dependence theory is built. The second assumption is that the environment contains resources that are essential for organizational survival, but these resources are scarce and uncertainty regarding the acquisition of these resources is present. The third assumption is that organizations work towards two related objectives: to minimize their dependence on other organizations and to maximize the dependence of other organizations on them through the control of resources (Ulrich and Barney, 1984: 472). It is a theory of rational organizational adaptation to environmental changes and states that organizations will alter their structures to stabilize external dependency relationships and to efficiently manage resource exchanges (Tillquist et al., 2002). A case might be made for the establishment of a direct resource dependency relationship between a regional office of a government department and the national office and indirect resource dependency relationships with a central agency and ultimately to Parliament. For public sector organizations and specifically for a regional office of a large public sector organization, two obstacles are encountered when applying resource dependence theory. The first is that the organization does not have the ability to choose among competing organizations in order to establish key relationships. The key relationship is with the national office of the department through the organizational structure. Secondly, the term "efficiency" in the traditional sense can conflict with organizational objectives found in the public sector such as accountability and transparency and formalized processes (Dahl, 1960). A final note regarding the application of this theoretical perspective relates to organizational responses to changes in the environment, identified above as a component of resource dependence theory. As a sub-unit of a larger organization, a regional office of a government department is subject to the constraints imposed upon it by the national office, based on the authority structure of the whole organization. Since funding is often received primarily through the head office of the department, which houses the most senior departmental staff, the regional office has little, if any, latitude for optimizing its organizational structure in order to maximize the efficiency of resource transfers occurring between the two units of the organizations (assuming that efficiency was an objective in the first place). This theory was abandoned for these reasons.

The structure of the organization that was the focus of this study was a traditional bureaucracy (see Chapter Four). The bureaucratic organizational form emphasizes rational-legal authority and functions based on a body of generalized rules and authorities that are not intended to extend beyond the reaches of the position or office held by the individual (Weber, 1947). This bureaucratic model of organizational design has been criticized as being inflexible due to the routinization and ultimate institutionalization of tasks and procedures (Robbins, 1987). The introduction of an externally-driven initiative such as a new accounting system into a bureaucratic organization offers two potential areas of interest for study: the ability of the organization to adopt new processes given the rigidity of the organizational structure and the reaction to an externally-driven (rather than internally-driven) accounting change initiative by organizational actors. A theoretical framework gaining support in accounting research that adopts an interpretive paradigm is institution theory. Institution theory, as will be demonstrated in the following section, has been used to explain organizational rigidity through institutionalization and the influence of external constituents on organizational practices and structures.

Institution theory

Institutional Economics

There are two streams of institution theory in the field of economics, New Institutional Economics (NIE) and Old Institutional Economics (OIE). While there are differences between the two streams, both recognize that "institutions" matter and that neglecting their effect results in an oversimplification of the decision-making processes underlying economic behaviour. The new institutionalism branch of economics views institutions as systems of informal constraints and formal rules and recognizes that the enforcement characteristics of both affect decision-making (Furubotn and Richter, 1991:3). Unlike OIE and sociology-based institution theory, it seeks to expand upon neoclassical economic theory. The underlying assumptions that people will behave in a rational manner in order to maximize their own benefit and that organizations will grow to the extent and behave in a manner such that efficiency will be maximized resulting in the attainment of an equilibrium position in terms of size and structure based upon market prices and market costs (Coase, 1937) are still present, although somewhat de-simplified by the inclusion of institutional considerations. New institutionalists modify the rational choice model somewhat by including considerations of ideology, altruism and self-imposed standards of conduct (Hira and Hira, 2000). This stream of research, however, remains linked to economic theories such as property rights (Alessi, 1991) and transaction costs (North, 1991; Vosselman, 2002), which draw upon neo-classical assumptions. As a theoretical perspective it was, therefore, not appropriate for this study which, as previously mentioned, considers a complex array of motivators rather than self-interest and utility maximization.

The origins of Old Institutional Economics (OIE) have been attributed to Veblen (Hutchison, 1991). Veblen's view was that institutions are the "settled habits of thought common to the generality of men" (Veblen, 1961:239), imposing upon individuals "conventional standards, ideals, and canons of conduct that make up the community's scheme of life" (pg 243). Institutions are normative patterns defining what is considered legitimate, proper and expected conduct (Parsons, 1940). Critical of the underlying principles relied upon in the dominant economic theory prevailing at the time, Veblen called upon economists to study customs, usages and habits of thought (institutions) in order to explain economic decisions and actions (Hutchinson, 1991), laying the foundation of the American Institutional School in Economics (Letiche, 1969). People may behave in self-interested ways, it was argued, but the content of that self-interest varies. Social institutions organize that content and influence the direction self-interested behaviour will take (Parsons, 1940:197). This questions the underlying assumptions of utility maximizing and rational behaviour of neoclassical economics. The OIE perspective adopts the position that individual behaviour cannot be sufficiently understood based upon neoclassical economic assumptions. Rather, institutions play a role in affecting individual and thus, organizational behaviour. Old Institutional Economics considers the influences of social norms, habits, and culture (Vandenberg, 2002), focusing on the organization as the unit of analysis (Scapens, 1994; Wisman and Rozansky, 1991: 715). Unlike New Institutional Economics, it abandons the rational economic actor model (Rutherford, 1995).

Institutions, therefore, act as constraints that shape human interaction or, put another way, comprise the "rules of the game in a society" (North, 1990: 3) and can be formal or informal. Informal constraints are the routines, customs and traditions that have emerged from modifications and qualifications of formal rules and, together with those formal rules, "shape our daily lives" (North, 1991: 258). Furthermore, institutions provide the social knowledge necessary for individual interaction (Boland, 1979: 963).

Old Institutional Economics emphasizes routines, rules and habits in organizational behaviour from the perspective that these institutions, rather than being viewed only as static constraints resulting in states of equilibrium, are dynamic instruments that can facilitate or prevent change (Boland, 1979, 958).

Identifying accounting practices as routines that provide the "appearance of rational behaviour", Scapens offers an argument for the use of Old Institutional Economics to study management accounting (Scapens, 1994). In an effort to explain the gap between theory and practice, Scapens argues that observed practices that have evolved from formal rules through institutionalization provide insight into organization behaviour, particularly behaviour deemed to be deviant. Rules and routines can be modified in order to adapt to environmental changes or technical requirements, resulting in evolutionary institutional change. Alternatively, new institutions may be created, resulting from revolutionary change. These influences on the production and reproduction of accounting practices provide insight into the effect of accounting on organizational behaviour and, indeed, the role of organizational institutions on accounting practices.

This process of institutions, or taken-for-granted beliefs and principles, embedded in rules, followed by rule-modification which, in turn influences taken-for-granted beliefs and principles, has been conceptualized in a framework developed to interpret management accounting change (Burns and Scapens, 2000). This framework is reproduced here as Figure 1.

action" of some permanence (Burns and Scapens, 2000:5). Rules are the formally recognized way that "things should be done" and routines are defined as the way in which "things are actually done" (Burns and Scapens, 2000:6).

The second process (arrow b) is the enactment of rules and routines carried out by organizational actors. Actors might not, however, follow established rules and routines exactly as specified. Through repeated behaviour, rules and routines may change or be modified (arrow c). Burns and Scapens identify two processes of change that may occur. First, conscious change may occur where actors have sufficient motivation and resources to challenge the existing rules and routines. The second process of change is more subliminal, a process referred to as unconscious change where change may occur simply from an actor misunderstanding what is required (and there is insufficient monitoring of activities to identify rule deviation and take corrective action). In either case an enactment of rules and routines that is less than exact influences both the formal and informal processes.

The final process is the institutionalization of the rules and routines that have been reproduced by the actors (arrow d).

One of the interesting components of this framework is the notion that existing rules and routines will shape decisions with respect to change. The authors observe, for example, that the process of selection and the implementation of a new accounting system will be shaped by the existing processes (Burns and Scapens, 2000:12).

Burns and Scapens apply their conceptual framework for management accounting change to two previous studies, Ferac Plastics (see Roberts and Scapens, 1990) and Omega plc (see Scapens and Roberts, 1993). In the Omega case, a new accounting system was implemented in order to introduce a new form of accountability into a division of the organization. In the original analysis of the case, it was supposed that the decentralized nature of the organization (among other factors) led to overt resistance by profit centre managers, which ultimately resulted in the failure of the initiative (Scapens and Roberts, 1993: 29). Using an institutional perspective, however, it was argued that the new accounting-based system contradicted the existing rules and norms that were centered on production. Individual managers resisted the new accounting-based system either by choice or because adapting to it was difficult due to the strength of the existing production-based routines and norms of behaviour (Burns and Scapens, 2000:16). In the Ferac case, however, accounting rules were already significantly institutionalized in the organization; that is, existing routines and rules already accepted the role of accounting as the language of the organization. Nevertheless, accounting routines evolved through the process of enactment and reproduction illustrated by their conceptual framework until mutually acceptable ways of working had been established. Change in management accounting practices occurred in Ferac through evolution because accounting routines were already institutionalized. This allowed the process of alteration through emerging informal processes. Intended change, as attempted by Omega, met with significant resistance because this change was in conflict with the existing routines and norms. Drawing upon Old Institutional Economics, these cases illustrate both stability (resistance to change) by established rules and routines, both formal and informal, and evolutionary change through the enactment and re-enactment of rules and routines.

This framework suggests that once routines have been fully accepted and embedded within the organization, they are institutionalized and performed without question and are resistant to change. Change, however, still occurs. An evolutionary change process occurs over time and is the result of both random elements and systematic mechanisms. This is consistent with North's view that institutions can change as a result of changes in preferences and this change is incremental (North, 1991). While discrete changes do occur (as illustrated by the second box initiated by the second arrow "a") these changes are nevertheless influenced by existing institutionalized rules and routines. Institutions, according to the authors, always exist prior to any change initiative and therefore influence that initiative (Burns and Scapens, 2000:11).

Soin et al. used institution theory and the Burns and Scapens framework to interpret the role of management accounting in organizational change in a multi-national UK bank (Soin et al., 2002). A two-year longitudinal study was conducted during which time the researcher was immersed within the change unit of the organization. While the implementation of activity-based costing (ABC) and acceptance among managers of the value of the cost information it generated were successful, the change in management thinking required under activity-based management (ABM) did not occur. While no new developments with respect to institution theory resulted from the study, it did provide evidence of the benefit of the institution theory perspective, and the Burns and Scapens framework in particular, for interpreting management accounting change.

Burns employed an OIE perspective and the Burns and Scapens conceptual framework in a case study of a change process at a small chemical manufacturer (Burns, 2000). In doing so he noted that the OIE perspective views accounting as a set of rules and routines that become institutionalized over time. As a result, they are performed and accepted as taken-for-granted practices regardless of the validity of the original rules that established these practices in the first place.. Accounting itself, for example, becomes an unquestioned means through which management exercises control.

The framework also informed the study of the implementation of a new value-based management system in a gas processing company (Siti-Nabiha and Scapens, 2005). The framework was employed as it was found to be especially suitable for the analysis of institutions within an organization. This study does note, however, that organizational change cannot be studied without consideration of the broader external institutions and their impact on organizational behaviour. The concepts of loose coupling and legitimating activities found in the New Institutional Sociology (NIS) literature were incorporated in order to provide a fuller understanding of the stability and change that was found within the organization.

The Burns and Scapens framework is an extrapolation of a model developed by Barley and Tolbert to depict the interaction of everyday acts and institutions (Barley and Tolbert, 1997). At the heart of the original model is the notion that institutionalization is a continuous process and institutions shape and are shaped by actions. The intent of both frameworks is to guide the study of change episodes in institutions, both evolutionary and revolutionary. Barley and Tolbert identify four tasks they believe are necessary for the study of institutionalization: defining an institution at risk of change, charting flows of actions, examining scripts (defined as behavioural regularities by Barley and Tolbert; also see Gioia and Poole, 1984) for evidence of change, and linking findings from observational data to other sources of data on changes in the institution under investigation (Barley and Tolbert, 1997: 101). Interestingly, Barley and Tolbert draw on New Institutional Sociology rather than Old Institutional Economics to support their institutional view of organizational behaviour. By taking an OIE approach, Burns and Scapens seek to better understand the emergence of institutions (the institutionalization of rules and processes through routinization within an organizational setting) and their evolution over time through the actions of organizational actors. At this stage in the review of institution theory, however, a blurring of the line demarcating OIE and NIS and the recognition of the limitations of OIE with respect to its neglect of external influences becomes apparent.

It should be recognized that the study of institutional change (and the notion of organizational change itself) has been called into question. Management accounting change may be a continuous process rather than a process with a discernible starting and ending point. Quattrone and Hopper argue that it is difficult to "see" institutions, let alone observe institutional change, and organizational change itself might be better described as drifting rather than as a conscious progression toward better practices (Quattrone and Hopper, 2001). The idea of observing institutional change becomes further challenged by the argument that practices and behavioural patterns are not equally institutionalized (Tolbert and Zucker, 1996). Thus, some taken-for-grant assumptions about organizational action may be more susceptible to change than others. If one cannot readily observe and document institutions per se, how can one comment on the relative stability, permanence and normative influence of existing institutions, let alone comment on institutional change?

In order to provide guidance on this issue with respect to studying institutions in action, Barley and Tolbert employ the notion of scripts. The term "scripts" is used to describe the behavioural regularities of organizational actors which are observable as recurrent activities and patterns of interaction characteristic of a particular setting (Barley and Tolbert, 1997:97). The documentation of these behavioural regularities and changes in them can lead to "observable" changes in institutions. However, since these patterns are described as specific to a particular setting, it seems plausible that overlapping settings may lead to conflict where underlying values embedded in institutions are derived from different fields (i.e. between professional groups).

While the Barley and Tolbert model is intended to accommodate analyses at a variety of levels (Barley and Tolbert, 1997: 97), the Burns and Scapens framework does not consider the wider influence of organizational fields[1] or societal factors (Burns and Scapens, 2000: 4-5).

Thus, a shortcoming of the Burns and Scapens framework and the OIE approach for studying accounting change is that they do not consider the wider social, political and economic influences affecting organizational behaviour (Dillard et al., 2004).

[1] An organizational field, as will be discussed later in this chapter is the aggregation of organizations that constitute a recognized area of institutional life, such as competing firms, key suppliers and, indeed, all actors relevant to an organization (DiMaggio and Powell, 1983).

Scott described multiple levels of institutional analysis ranging from the broadest, worldwide perspective to the level of a sub-unit of an organization (Scott, 1995). Dillard et al. recognize these multiple levels, including the wider institutional influences on the institutionalization process, by incorporating notions of history, social and political factors and organizational fields into a conceptual model (Dillard et al., 2004: 512). The authors suggest that values adopted by organizations are those of the wider organizational field and that change within an organization occurs in order to emulate perceived best practices of other organizations residing in that field. Change may be real or illusory.

Dillard et al. account for these wider influences on organizational behaviour by recognizing three levels of institutions: the broad societal level consisting of norms and values established and disseminated by the dominant members of society; the organizational field comprised of professional groups, industry groups, etc and inhabited by individual organizations; the final level is the organization itself. The process of institutionalization is considered recursive throughout all levels. While the Burns and Scapens Framework focuses on "micro-institutions", those institutions within an organization (Burns, 2000:560), Dillard et al. consider additional levels of institutions for explaining organizational behaviour. These broader institutions figure prominently in the New Institutional Sociology literature to which we now turn.

Institutional Sociology

Zucker describes two theoretical approaches to the study of institutions: environment as institution and organization as institution (Zucker, 1987). While Old Institutional Economics focuses on the organization as institution, New Institutional Sociology

(NIS), sometimes referred to as New Institutionalism or Neo-Institutional Sociology, theorizes that organizational structure and activity is reflective of wider environmental influences. NIS has its roots in Old Institutional Sociology, which is traced to the work of Philip Selznick. Selznick recognized formal rules and processes as being institutionalized within an organization and identified informal processes, which in turn could become institutionalized through persistent use (Selznick, 1948). He also recognized the influence on organizations of institutions in the wider society, which he referred to as institutions of industry, politics, and education (Selznick, 1957:1). The establishment of policy by professionals or "elites" (Selznick, 1957:120) was seen as a determinant of routines set within an organization.

Like Old Institutional Economics, the New Institutional Sociology perspective is skeptical of rational actor models (Scapens, 1994:305; Powell and DiMaggio, 1991:8; Hutchison, 1991:35; North, 1990:17). The level of analysis in NIS is broadened to encompass the organizational field; that is, the larger organizational framework that influences the structure and strategy of organizations that operate within them (Powell, 1988). Broad, taken for granted assumptions and rules guide individual and organizational behaviour (Berger and Luckman, 1966) and the maintenance of institutional patterns depends upon the moral support of the majority of the members of society (Parsons, 1940:192). The institutions of rules and routines established and reinforced within the organization identified in OIE do not operate in isolation. Under NIS, the institutionalized norms and expectations of the broader environment are taken into account. This institutional perspective recognizes the influence these broader institutions have on the practices as well as the structure of an organization (Greening and Gray, 1994).

Scott offers this view of institutions:

Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are multi-faceted and are comprised of both systems and processes. Various carriers transport these institutions – cultures, structures and routines – and they operate at multiple levels of jurisdiction (Scott, 1995:33).

Scott identifies three "pillars" as vital components of institutions: regulative, normative and cognitive systems (Scott, 1995). Thus there are three elements or pillars to consider when studying each of the three carriers (cultures, structures and routines). Institutional analyses emphasizing the regulative pillar focus on the explicit rule setting, monitoring and sanctioning processes. The normative pillar emphasizes values and norms that constrain individuals by dictating what should be accomplished (goals) and how it should be accomplished. The cognitive pillar represents the view that "wider belief systems and cultural systems...are imposed upon or adopted by individual actors and organizations" (Scott, 1995: 44). This latter view is consistent with the sociology-based field of New Institutional Sociology and the broader view of this research, that reality is socially constructed. NIS emphasizes the organizational field (inter-organizational interests) and its influence on the organization (Powell and DiMaggio, 1991: 12). This draws the importance of legitimacy into the study of organizational analysis.

Legitimacy, as referred to in this context, is the consistency of conduct and organizational goals with normative patterns set by the wider society's expectations (Parsons, 1940:190). Where organizational goals are congruent with societal goals, the organization is said to have a legitimate claim on society's resources (Scott, 1991:169). The degree of societal or cultural support for an organization defines its organizational legitimacy (Meyer and Scott, 1983) and organizational legitimacy is necessary for survival.

In a historical study of civil service reform Tolbert and Zucker analyzed organizational structure change in U.S. cities from the period of 1880 to 1935 (Tolbert and Zucker, 1983). They noted that for the most part, state law did not dictate civil service reform, yet cities did adopt civil service procedures. An underlying question driving their research was why? According to their study, a major force behind adopting new procedures was the simple recognition that the existing ones were insufficient (Tolbert and Zucker, 1983:25). Thus is would appear that much of the reform activity (but not all) that took place during the period of study was of the type that Pettersen describes as evolution (Pettersen, 2004:324). Changes, it was noted, were modeled after the norms and values of the business corporation (Tolbert and Zucker, 1983: 25).

In this study Tolbert and Zucker identified two sources of organizational change: internal and institutional. Internal change arose from the need to address technical problems, such as coordination and control or as a result of power, leadership and the socialization to specific organizational roles. Institutional changes arose out of the influence of the broader institutional environment. As it specifically related to their study, some cities adopted change out of necessity (internal) while later adopters of change did so for legitimacy reasons (i.e. once adopted by a number of organizations within the organizational field, processes become institutionalized and seen as a legitimate way to conduct organizational business). The processes comprising the change are adopted by other organizations without regard to their actual effectiveness. Instead, they are adopted because they have come to be viewed as an accepted way of doing things.

An important conclusion of the Tolbert and Zucker study was that early adopters of reform generally did so out of necessity (internally driven change). As an increasing number of municipal organizations adopted a civil service reform program or policy, that program or policy became increasingly institutionalized and therefore came to be viewed as legitimate. Later adopters, it was found, adopted change as a result of the perceived legitimacy of the new procedures or policies rather than for technical, rational reasons. This study provided a good example of the role that legitimacy-seeking can play in organizational change.

DiMaggio and Powell identify an institutional force exerting influence on organizational behaviour and structure that comes from the organizational field (DiMaggio and Powell, 1983). Comprised of key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products, the organizational field is a grouping of organizations that constitutes a recognized area of "institutional life" (DiMaggio and Powell, 1983: 148). Increasing interaction among organizations in the field, emerging inter-organizational structures of domination and coalition, increasing information loads, and an expanding awareness by organizations that they are part of a common endeavour, are four processes through which a group of organizations transform into an organizational field. This transformation is facilitated by an increase in the permeability of organizational boundaries demarcating organizational fields (Oliver, 1993). Within this organizational field organizations will adopt similar structures and practices even when there is no technical reason to do so. When this occurs organizational homogeneity in the field is observed.

DiMaggio and Powell seek to explain organizational homogeneity through three isomorphic processes: coercive, mimetic and normative. Coercive isomorphism occurs as a result of formal and informal pressures exerted upon an organization by other organizations upon which there is some degree of dependence. It is also exerted upon an organization by cultural expectations of the society in which the organization operates. It can arise out of political influence, such as government regulations regarding pollution controls and hiring practices, and legitimacy, such as assuming similar organizational structures in order to be seen as subscribing to legitimate and appropriate organizational practices.

Mimetic isomorphism links homogeneity among organizations to uncertainty. Specifically, it has been noted that "when organizational technologies are poorly understood, when goals are ambiguous or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations" (DiMaggio and Powell, 1983:151). Here, modeling refers to the adoption of practices employed by other organizations within the field that are perceived to be more legitimate or successful.

Normative isomorphism reflects behaviour guided by social appropriateness in accordance with the expectations of others and "internalized standards of conduct" (Scott and Christensen, 1995:xv). Powell and DiMaggio identify professionalization as a primary source of normative pressure (Powell and DiMaggio, 1991). Similar behaviour among individuals belonging to the same professional group, regardless of the organization within which they work, exemplifies normative isomorphism. Additionally, since the hiring and retaining of professionals can enhance competitiveness, appealing to professionals from a staffing perspective will cause organizations to become more homogeneous. Two aspects of professionalization are identified: training and professional networks. University and professional training programs are specified as important components in the development of organizational norms. Continuing education and training, such as that found in the accounting profession, would serve to reinforce these norms. Secondly, professional networks and associations provide a means by which norms can be communicated, reinforced and controlled.

In order to better understand the notion of professionalization, an overview of professions and professional groups is provided.

Professional Groups

Professionalization is normally associated with what the general public acknowledges to be professional groups, traditionally found in theology, medicine and law and more recently recognized in the fields of engineering, accounting, and dentistry, among others (Bowen, 1955). Three sociological approaches can be employed in order to determine whether a particular occupational group can be considered a profession: the structural, processual and power approaches (Ritzer, 1975). The structural approach identifies characteristics of professions such as a sense of identity, shared values, control over trainees and a common language that is only partially understood by outsiders (Goode, 1957). The processual approach employs a historical approach such as that used by Wilensky, who identifies four processes that occupations must complete in order to become professions: the creation of a full-time occupation, establishing a training school, the formation of professional associations, and the formation of a code of ethics (Wilensky, 1964). Hall adds five attitudinal attributes to assist with the assessment of occupations as professions: the use of the professional organization as a major reference or "professional community affiliation" (Shafer et al., 2002) or a community consisting of a group with a common identity (Goode, 1957), belief in public service, belief in self-regulation, a sense of calling to the field, and autonomy (Hall, 1968).

Finally, power can be used as a means of assessing the professional status of an occupation. Specifically, this approach focuses on the monopolistic power of a profession over the performance of work tasks (Ritzer, 1975: 630). An example of this is the sole authority of the Canadian Institute of Chartered Accountants for setting accounting and auditing standards in Canada[2].

It has also been argued that the status of an occupational group can be determined by the perception of those who are part of that group. An individual that is a member of

[2] Through the Accounting Standards Board.

an occupational group and views the occupational group as a guide to behaviour can be defined as a professional (Frendreis and Vertz, 1988).

Before returning to the literature on New Institutional Sociology, some interesting comments on professions from the sociology of professions literature are considered.

The assertion that professionals can influence organizational structure to such an extent that organizational homogeneity occurs through normative isomorphism is consistent with some views found in the sociology of professions. Freidson argued that the expert or professional operating within an organization performs professional work for which he or she is trained and is expected to exercise expert judgment (Freidson, 1971). Because they hold specialized knowledge their work is not controlled by the organization per se. Rather, there is a social control exercised by members of the professional group. Thus rules, processes and structures associated with the activities of professionals will be similar across organizations (isomorphism).

In contrast, those occupying positions not associated with a professional group and therefore not recognized as semi-autonomous professionals are subject to direct organizational control through rules and procedures and the formal authority of the organization's hierarchical structure. There is potential, therefore, for conflict between these two groups: professionals and non-professionals or as one author terms the relationship, professionals and servants (Barley, 1996). Although it has been argued that the semi-autonomous nature of professionals operating within a formal organization is declining, it has also been pointed out that the erosion of professional privilege is not a new threat to professions historically (Freidson, 1984) and professional groups, even relatively new professional groups, such as accountants, are likely to persist (Ackroyd, 1996; Greenwood and Lachman, 1996). This suggests, however, that there are implications for management accounting change within an organization where portions of the workers are semi-autonomous professionals.

One author notes the dual character of professions, one engaged in the provision of a service and another that uses knowledge and power for economic gain and monopolistic control (Evetts, 2003). Power is described in terms of exclusive ownership of knowledge and expertise and the ability to "define problems and control the access to potential solutions" (Evetts, 2003: 407), although within organizations professionals are still subject to organizational constraints such as budgets and, increasingly, performance measures (see Akroyd, 1996; Evetts, 2003).

Abbott describes the exclusive right to provide particular services as jurisdiction (Abbott, 1988). Jurisdiction entails control over the definition of professional services, the techniques used to perform the duties of the profession, the approval of those who can perform them and the conduct of work (Abbott, 1988:62). Actively protecting the jurisdiction, and the resultant economic benefits of it, becomes necessary for two reasons. The first is that as knowledge of service provision becomes codified into rules and routines the value of the professional's expertise erodes, since the information necessary to perform the professional's job is more accessible to non-professionals. Once a professional field is fully translated into rules and programs the profession's power no longer exists. Secondly, there is also the threat of incursion from other professions and occupational groups (see Reed, 1996).

One way in which a professional group protects its jurisdiction from these threats is through the development and control of an abstract system of knowledge and to have (and be seen to have) the ability to interpret data and build a holistic understanding of information (akin to accountants' "professional judgment" versus accounting software programs).

From this brief review we find that members of a professional group define and carry out their own work and are not necessarily subject to the same formal organizational authority as workers in non-professional groups. Professions develop monopolistic power over the provision of services through the development of an abstract system of knowledge. This system of knowledge must be renewed in order to stop the erosion of power that results from the codification or translation of practices into rules and to ward off threats of incursion from other professional and occupational groups.

Returning to our discussion of institution theory, Oliver examined the sustainable competitive advantage of firms by drawing on resource-based and institutional theories (Oliver, 1997). Five sources of firm homogeneity were identified as regulatory pressures, strategic alliances, human capital transfers, social and professional relations, and competency blueprints. Human capital transfers and social and professional relations relate to DiMaggio and Powell's normative isomorphism, such as professionalization. Oliver, however, expands the influence of normative isomorphism beyond trade and professional groups to include friendship ties, business clubs and industry trade associations. The norms and values developed among these groups are diffused across industries through recruitment from competing firms (human capital transfers). This extends our understanding of the influence of normative isomorphism to include collectives of individuals not necessarily considered to be professional groups (i.e. trade associations).

Organizations are not powerless when faced with external pressures to adopt particular practices or structures. Oliver identifies a number of different strategies organizations can employ in response to external pressures (Oliver, 1991). Drawing upon both institution and resource dependency theory, a model was developed to help predict the strategic response of organizations based upon five predictive factors: cause, constituents, content, control, and context. The underlying notion is that organizations have options other than passive acceptance when faced with institutional pressure. Five types of strategic response are identified: acquiescence, compromise, avoidance, defiance, and manipulation.

Acquiescence can take three forms: habit, imitation, and compliance. Habit refers to a blind adherence to taken-for-granted rules. Imitation is presented as either conscious or unconscious imitation of actions taken by other actors in the organizational environment (mimetic isomorphism). Finally, compliance is a conscious obedience to "values, norms and institutional requirements" (Oliver, 1991:152).

When faced with conflicting institutional demands, organizations may opt for a compromise situation by negotiating with external constituents. Organizations consciously balance between conflicting institutional demands or institutional demands that conflict with organizational demands, such as efficiency.

The third response, avoidance, entails avoiding adherence to institutional demands and concealing that avoidance. Organizations may engage in ceremonial pretense resulting in the symbolic acceptance of institutional norms and values.

Alternatively, a more active form of resistance is defiance, the fourth strategic response identified by Oliver. Organizations can defy institutional demands either through dismissal (ignoring), challenge, or attack (a more aggressive offensive strategy than challenge).

Finally, manipulation as a strategic response is the most active response to institutional pressure and involves attempts to control or exert influence over the external demands.

One of the major contributions of this work is that it provides a view that organizational response to institutional pressure is not always passive. Organizations can and do take proactive measures to handle it. Modell reinforced this assertion in a study of cost allocations (Modell, 2002). An important variable (and possible shortcoming of Oliver's predictive model, as she points out herself) is the construct of the organization itself in terms of leadership skills, cohesiveness and culture.

Each of the three isomorphic pressures identified by DiMaggio and Powell can be seen to contribute to the enhancement of an organization's legitimacy and thereby increase its prospects for survival. Meyer and Rowan, however, argue that incorporating practices and procedures defined by the prevailing rationalized concepts of organizational work in order to gain legitimacy is independent of practices and procedures aimed at increasing efficiency (Meyer and Rowan, 1977; see also Covaleski and Dirsmith, 1983). They propose that the formal structures of many organizations reflect the myths of their institutionalized environments rather than the demands of their technical work activities. Organizations adopt practices which are externally legitimated rather than efficient because failure to do so would be seen as "irrational and negligent" (Meyer and Rowan, 1977:350). Given the plurality of institutional elements (i.e. conflicting requirements of multiple stakeholders, for example), there is a tendency to incorporate inconsistent organizational structures (inconsistent among themselves and inconsistent with necessary technical work activities) in order to achieve greater levels of stability and legitimacy.

Where standardized, legitimating structures and technical activities are incongruent, the concept of loose coupling comes into play. A brief review of the literature describing this organizational phenomenon follows.

Loose Coupling

Loose coupling is a means of separating legitimating and technical work activities, and can protect an organization's structures from evaluation on the basis of technical performance. Performing activities beyond the view of managers, setting ambiguous goals and ceremonial inspection and evaluation are ways in which organizations can separate technical activities from legitimating structures. From a broader perspective, loosely coupled systems allow an organization to maintain institutionally (externally) prescribed appearances without compromising its actual operations (Carruthers, 1995).

Thompson identifies two types of demands placed upon organizations: the demands of technical work activities and the demands from the wider environment (Thompson, 1967). He describes studying organizations from both a closed-system and an open-system approach. The closed system reflects a rational model of organizations where each component or activity serves a functional purpose and makes a positive contribution to the overall results of the organization. The open system of organizations recognizes the interdependence of the parts that comprise the organization and the interdependence between the organization and the larger environment. This natural-system approach holds that organizations are not self-contained autonomous units, but are dependent on other "social units", such as other organizations (Thompson, 1967:7). The administrative function oversees and manages the co-alignment of directive and adaptive action, performing a balancing act between rational, closed-system activities where certainty is high (directive), and open-system activities where flexibility is required to address higher levels of uncertainty from the broader environment (adaptive). Although proactive "managerial maneuvering" appears possible even in highly regulated institutionalized environments (Modell, 2001), the need to adhere to institutionalized rules often conflicts with efficiency criteria (Meyer and Scott, 1992). Organizations, therefore, can act at both a technical level in a closed system independent of outside variables, and an institutional level. Where these two activity types can be found, the organizational system is said to be loosely coupled (Orton and Weick, 1990:205).

Loose coupling is used to describe systems that are at once distinctive (closed) and responsive (open), autonomous and connected. Orton and Weick organize the literature on loose coupling into five categories or "voices" (Orton and Weick, 1990): causation, typology, direct effects, compensations, and organizational outcomes. In the causation stream of loose coupling research, three recurring themes can be found: causal indeterminacy, fragmentation of the external environment, and fragmentation of the internal environment.

Causal indeterminacy refers to unclear means-ends connections. Ambiguity in decision-making environments, uncertainty and bounded rationality contribute to causal indeterminacy. March identified four ambiguities in the decision environment that lead to loose coupling: unstable and unpredjctable decision-maker preferences; problems, solutions and actions that are unrelated; traditions that override self-interested reason, and; the use of information to create meaning out of previous decisions (March, 1987). When facing uncertainty and diverse markets, for example, organizations may respond through the use of loosely coupled project-based teams. Finally, given the limitations (time, information and resources) decision-makers must work with, bounded rationality in decision-making can lead to a compartmentalization of perception, meaning certain aspects of the operating environment (both internal and external) can be ignored at different times. This can result in a lack of coordination, which leads to loose coupling.

Two forms of external environment fragmentation are dispersed stimuli and incompatible expectations. The former can result from geographical dispersion and specialized market niches requiring the organization of work activity in a way that is independent of the organization's formal structure. The latter form of external environment fragmentation can result from contradicting technical and institutional pressures. In either case, technical work activities can become loosely coupled from the formal structures maintained for ceremonial conformity purposes (see Meyer and Rowan, 1977).

Internal environment fragmentation refers to the lack of connection between a unit and sub-unit within an organization.

The typology categorization of loose coupling focuses on the types of loose coupling that can exist. Eight are identified: between individuals, among sub-units, among organizations, between hierarchical levels, between organizations and environments, among ideas, between activities and between intentions and actions.

Modularity, requisite variety and discretion are the three direct effects of loose coupling. Modularity refers to the minimization of interdependence between sectors or modules. The intent is to promote loose coupling as a positive managerial strategy by reducing the complexity of inter-organizational interaction. Requisite variety results from loosely coupled or less rigid structures. Weick outlines several advantages to loose coupling including the notion that loosely coupled systems can be more sensitive to their environments since they have more independent elements than does a tightly coupled system (Weick, 1976). A benefit of requisite variety within an organization is this heightened environmental awareness. Finally, since loosely coupled systems obscure the activities of subunits from managerial monitoring, one direct effect of loose coupling is behavioural discretion.

When loose coupling is viewed as an unsatisfactory condition or undesired organizational system, three approaches to compensate for managing loosely coupled systems are offered: enhanced leadership, focused attention, and shared values (Orton and Weick, 1990: 211). Leadership can play a role in coordinating activities carried out within a loosely structured system through direct contact between management and staff. Through this contact organizational goals are reinforced. The careful selection of targets, control of resources and focusing on controllable and essential behaviours can compensate for loosely coupled systems. Finally, shared values may compensate for undesirable behaviours and activities that may otherwise prevail where tight coupling and/or monitoring are absent.

Five organizational outcomes of loose coupling are persistence, buffering, adaptability, satisfaction, and effectiveness. Persistence refers to stability and resistance to change (Orton and Weick, 1990; see also Glassman, 1973). The ability of loosely coupled systems to prevent the spread of problems is referred to as buffering. Experimentation, collective judgment and dissent are examples of adaptability. While loosely coupled systems can be an inhibitor of change by minimizing the impact of change initiatives on organizational units, adaptability implies (paradoxically) that loosely coupled systems can facilitate the accommodation of change. Experimentation can improve problem solving and is facilitated by loose coupling because subunits can engage in independent problem solving activities. In their literature review Orton and Weick state that loose coupling is advantageous in creating collective judgment. While means-ends disagreements may emerge, agreement on preferences or shared values will still exist (Orton and Weick, 1990:214). Self-determination, reduced conflict among organizational units and enhanced psychological safety due to isolation can result in improved employee satisfaction. And finally, it is argued that employee autonomy and satisfaction, experimentation (and resulting innovation) and adaptability to the environment can improve organizational effectiveness.

Presented this way, loose coupling is a characteristic of some organizations, intentional or otherwise, that can be viewed negatively or as a positive, even necessary attribute. The notion of loose coupling has implications with respect to both OIE and NIS perspectives. The rigidity associated with the OIE view of institutionalized rules and routines can lead to loose coupling between organizational units (internal environment fragmentation). From the NIS perspective, legitimacy seeking behaviour, particularly where there are multiple stakeholders with conflicting expectations (external environment fragmentation), can result in conflicting technical and institutional pressures that can lead to loose coupling. The organization's environment is further complicated where there is a frequent change in leadership (causal indeterminacy), wide geographic dispersion (typology) and the devolution of authority within an organization (modularity).

Summary

Although old and New Institutional Sociology have been assigned distinguishing characteristics (see for example Powell and DiMaggio, 1991:13) the exclusivity of the two streams is becoming less clear (Greenwood & Hinings, 1996; Martin De Holan and Phillips, 2002) or may not have existed at all (Selznick, 1996). This research does not distinguish the two streams.

One of the limitations of early NIS work was the neglect of power and interest groups (Perrow, 1985). Perrow argued that explaining the growth of rules and restrictions as myths and compliance as ceremonial may be inaccurate. The proliferation of rules and requirements from external funding sources may be a genuine effort to control the use of funds and ensure compliance with mandates. The increasing complexity of reporting requirements for hospitals, he supposed, could be an attempt to identify non-compliance rather than a hollow legitimating activity. Affirmative action and minority rights groups can play an effective and active role in organizational behaviour beyond simply adding legitimating activities. The key empirical question is whether or not the pressures for change or control actually result in meaningful change or "window dressing" (Powell, 1985).

Perrow cautions against overzealousness in categorizing activities as ritual when, in fact, these activities may be necessary in order to better serve broad societal interests (Perrow, 1985:155). Drawing issues of power into the development of institution theory has been enhanced through the work of Covaleski and Dirsmith (1988), Collier (2001), and Abernethy and Chua (1996).

A further shortcoming of institution theory is that it often fails to specify what is being institutionalized (Kamens and Lunde, 1988:170). Indeed, the literature offers a variety of definitions regarding institutions. For example, Dillard et al. define an institution as an established order comprising rule-bound and standardized social practices (Dillard et al., 2004). Burns and Scapens define an institution as a way of thought or action of some permanence (Burns and Scapens, 2000). Barley and

Tolbert define institutions as shared rules and typifications that identify groups of actors and their appropriate activities and relationships (Barley and Tolbert, 1997). The review of Old Institutional Economics provided several more definitions of institutions (Veblen, 1961; Parsons, 1940; North, 1990). And there is some debate as to what actually constitutes change in an organization.

The OIE perspectives and the Burns and Scapens framework should provide sufficient detail to distinguish those activities that are largely ceremonial from those that are technical. The framework is designed to help understand the institutionalization process of management accounting change. On its own, however, it fails to consider the wider influences affecting organizational behaviour of the organizational field and broad societal institutions.

Drawing on both the Old Institutional Economics and sociology-based perspectives of institution theory to describe and explain organizational phenomena will provide a more robust analysis. This is particularly true when studying the effect of externally driven accounting change on institutionalized organizational practices.

Drawing upon the theory presented in this chapter, the following section describes a theoretical framework developed for the thesis.

A Conceptualization of Institution Theory

The perspective of institution theory adopted for this research is one that views both OIE and NIS as essentially describing the same phenomenon, but at different levels within the overall environment. Both describe the influence of norms and values on action and the influence of action on norms and values. Both infer that through routinization practices and accepted norms can be established (or existing ones altered) through repeated behaviour.

The process of interpreting institution theory for this study begins with the OIE stream and the Burns and Scapens conceptual framework for studying management accounting change. This framework is an appropriate starting point for studying management accounting change at the organizational level since it focuses the research on the details of rules and routines that exist within an organization. In order to incorporate this framework into the study some definitions at this point are useful.

The definitions for rules and routines forwarded by Burns and Scapens are accepted for this study (Burns and Scapens, 2000). Rules, therefore, are defined as formalized constraints that dictate how things should be done. By formalized, it is meant that they are usually contained in the formal documents of the organization, but this does not always have to be the case. It may be sufficient for organizational actors to simply state a particular practice is a rule. In either case, the status is that of a formal guide describing how tasks and processes, means to an end, or organizational activity ought to be conducted.

Routines are how things are actually done. Over time they can become informal constraints on organizational behaviour.

The *process* of institutionalization has occurred at the organizational level when rules and routines become accepted as taken-for-granted and are no longer questioned by organizational actors. They can become disconnected from the purpose for which they were originally introduced or developed. Once this process has occurred, institutions at this level take on the definition advanced by Veblen, settled habits of thought (Veblen, 1961) or as Burns and Scapens write, a way of thought or action of some permanence (Burns and Scapens, 2000).

It is recognized, however, that an organization does not operate in a vacuum. Organizations are influenced by the broader environment. A major source of influence is the organizational field. It is from the influence of this realm that we consider the notions of coercive, mimetic and normative isomorphism and the role of professions in influencing organizational behaviour.

The phenomenon of loose coupling, where it exists, is seen as a strategic response by organizations to external influences. In organizations supporting loosely coupled systems, rules and routines would be in place to guide both technical and legitimating activities. In theory, therefore, the process of institutionalization of these rules and routines associated with the open-system and closed system of the organization can occur. The adoption of new rules in the open-system (those relating to satisfying demands from the external environment) might be more frequent as inferred by the notion of adaptability (Thompson, 1967).

Finally, there are the broader societal institutions that, based on Scott's cognitive view of institutions, consist of wider belief systems that affect the actions of individuals in all organizations within a field, rather than in a single organization within that field. They are broader historical, social and political factors affecting organizations (Dillard et al., 2004).

The perspective of institution theory adopted for this research is a multi-level view comprising three levels of institutional influence on organizational behaviour. There are the broad, society-wide institutions that will influence and constrain organizational (and individual) behaviour. This view can be said to be a macro-level view of institutions and these broad norms, habits and values can be characterized as macro-institutions.

Drawing on New Institutional Sociology, the institutional influence emanating from the organizational field is recognized. The organizational field will also exert influence and constrain organizational behaviour, but the norms, habits and values that dominate this sphere are more setting-specific than macro-institutions. As such, they can be characterized as meso-institutions.

Finally, at the organization level, norms, habits and values are even more setting-specific. It is this institutional influence that is conceptualized in the Burns and Scapens framework and referred to as the institutional realm. At this level of analysis, the focus is on the influence of micro-institutions.

By conceptualizing institution theory this way for the study of management accounting change at the organizational level, the issue of influences of the broader environment, including the isomorphic processes described in this chapter is addressed. Professionals associated with an organization's field, for example, exert influence at the micro-institutional level of that organization. Organizational behaviour is still observed, however, at a level detailed enough to increase our understanding of the impact of these influences on the actions of individual actors and the role, if any, of loose coupling. At this level the process of isomorphism and organizational strategic responses to institutional pressures is also considered.

Given the conceptualization of institution theory that will be employed in this study, we now turn to the focus of the study, management accounting information.

Management Accounting: A Definition

In order to facilitate the collection and analysis of data, a working definition of management accounting information is required. This is not to say that data collection was restricted at the outset of the field study. It was not. There is a need to focus, however, on that information which will allow this research to address the issue of how management accounting information is used and thus how management accounting change is adopted by a public sector organization. The distinction between managerial and financial accounting is especially difficult since internal information in public sector organizations is public property (Ansari and Euske, 1987:552). In order to focus the data collection on the research issue, a definition of what constitutes management accounting information for the public sector organization being studied is necessary.

An early definition of management accounting from The Institute of Management Accountants was:

> "...the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization and to assure appropriate use of and accountability for its resources"(Atkinson et al., 1997).

This was later revised to:

> "…a value adding continuous improvement process of planning, designing, measuring and operating non-financial and financial information systems that guides management action, motivates behaviour, and supports and creates the cultural values necessary to achieve an organization's strategic, tactical and operating objectives" (Atkinson et al., 2001:5; Foster and Young, 1997).

The introduction of the term "non-financial" is an important and obvious change. The use of non-financial information has been advocated as an essential component for a more complete understanding of organizational effectiveness and plays an integral role in performance measurement models, such as the balanced scorecard (Kaplan and Norton, 1992).

The Management Accountants Handbook offers a broader scope stating,

> "Management accounting should provide whatever information decision-makers require" (Society of Management Accountants of Ontario, 1993).

In the public sector, however, management accounting has been described as simply referring to budgeting and control (Chan, 2003).

The evolution of management accounting has been described as having occurred in three phases: the cost-accounting period, the modern management accounting period and the post-modern management accounting period (Birnberg, 2000).

In the cost accounting period management accounting focused on providing managers with accurate product costs and there was little, if any, consideration given to the behavioural implications of the accounting system. During the modern management accounting era, economics-based decision models were introduced into the management accounting literature. Consideration for behaviour began to emerge, if only in terms of dysfunctional behaviour, and issues of system implementation and incentives began to get attention.

The post-modern period rejects the mechanistic conceptualization of organizations in favour of the view that organizations are a complex set of interdependencies and relationships. Although it has been suggested that the principal-agent model will continue to dominate the management accounting landscape (Birnberg, 2000), there are factors that will erode this domination and, perhaps, the role of economic theory in management accounting research. These factors include an increasingly complex and unstable operating environment (and hence the need for adaptive accounting systems rather than rigid, standardized decision-making information structures), technology (more information is available to more stakeholders both inside and outside the organization leading to internal and external influences on traditional approaches), and the continued call for meaningful, strategic information that includes both quantitative and qualitative measures as evidenced by the evolution of the balanced scorecard approach to measuring performance[3].

This research, situated in post-modern management accounting, is interested in both quantitative and qualitative information used in managerial decision-making. The definition of management accounting information provided by the Society of Management Accountants is the one adopted for this research and the one that satisfies the "caution of ethno methodologists" about rigorous adherence to

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[3] According the Balanced Scorecard Institute 40% of large corporations surveyed had at least partially implemented the Balanced Scorecard. See http://www.balancedscorecard.org/FAQs/index.html#q7

preconceptions about what "data must look like in order to stand as records of actual social activities" (Lynch, 1991:105).

Burns and Vaivio describe three perspectives of management accounting change: the epistemological nature of change, the logic of change, and the management of change (Burns and Vaivio, 2001). The epistemological perspective questions whether what appears to be change, really is change. Particularly relevant to this research is the issue of "normative claims of change" versus actual change evidenced by empirical data (Burns and Vaivio, 2001:393).

The logic of change views the change process as managed and formal. Unlike the informal change that occurred at Ferac (as previously discussed, see Burns and Scapens, 2000), this process is premeditated, intended and actively guided. The authors also note, however, that management accounting change can also occur in an unmanaged, informal way as organizations "drift", partly in response to external influences.

Finally, where management accounting change is determined to result from active management, the management of change becomes the perspective of study of the change phenomenon.

New Public Management

Significant public sector reform has been taking place in many countries over the past two decades. These reforms have been linked to four "megatrends" comprised of slowing or reversing government growth, privatization or quasi-privatization, automation, and a more international agenda (Hood, 1991). Throughout the literature, the reforms related to these trends have been referred to as the "New Public Management" (see Denhardt and Denhardt, 2000; Broadbent and Guthrie, 1992; Borins, 1998; Humphrey et al., 1993). Canada, New Zealand, Australia, and the U.K. have been particularly active in advocating and implementing New Public Management (Hood, 1995), with New Zealand undertaking the most radical reforms (Halligan, 1997).

A major component of New Public Management is financial reform that calls for the use of performance measurements that focus on outputs rather than inputs (Aucoin and Heintzman, 2000) and "the adoption of accrual accounting procedures whereby more relevant financial data for planning and management purposes is used for assessing performance" (Ferlie and Steane, 2002:1459). The reforms, however, go beyond changes in accounting methods and reports. In Britain, for example, reforms included the delegation of powers to departments, streamlining administrative procedures and methods, and strengthening Civil Service principles and standards, in addition to improving accountability and performance (Modernizing Government Secretariat, 1999).

Reform in Australia occurred via the legislative process through the *Workplace Relations Act*[4], the *Financial Management and Accountability Act*[5], and the *Auditor-General Act*[6].

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[4] 1996
[5] 1997
[6] 1997

Building strategic partnerships with private sector organizations, developing knowledge networks to encourage inter-agency cooperation, and the use of benchmarking are some of the initiatives employed in this country to improve cost effectiveness and service to citizens (see OECD, 2002).

New Zealand also used legislation for public sector reform through the introduction of the *State Sector Act* (1988), the *Public Finance* Act (1989) and the *Employment Contract Act* (1991). As with Britain and Australia, privatization played an integral role in the reform process, as did the delegation of power and responsibility and the improvement in accountability (Mulgan, 2004).

The public sector in America, Canada's largest trading partner (Statistics Canada, 2005), has also attempted significant reforms and has been under pressure to adopt private sector values and management styles (Box, et al., 2001). The U.S. government has attempted to improve the performance of its federal departments through initiatives such as the National Partnership for Reinventing Government during the Clinton Administration.

The creation of the National Partnership for Reinventing Government was announced in March of 1993 and was headed by then Vice-President Al Gore. The purpose of this initiative was to create a government that "works better, costs less, and gets results Americans care about"[7]. The means by which these goals would be achieved included putting customers first, cutting the red tape, empowering employees to get results, and getting back to basics.

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[7] Frequently Asked Questions About the National Partnership for Reinventing Government, May 2000. Online: www.npr.gov/library/papers/bkgrd/q-n-a.html

These same principles have been used by successful private sector organizations as identified in the study by Thomas Peters and Robert Waterman (Peters and Waterman, 1982). That study recognizes the importance of being "close to the customer" (putting customers first), "autonomy and entrepreneurship" (cutting the red tape), "productivity through people" (empowering employees to get results), and "sticking to the knitting" (getting back to basics).

Presented as the "Third Choice"[8], entrepreneurial government was touted as a means by which the American government could meet the demands from taxpayers for more service at less cost (Osborne and Gaebler, 1992). Osborne and Gaebler argued that the environment has become too complex and fast-paced for the traditional bureaucratic governance structure to function effectively. They called for a new approach for managing government organizations, one that embraced entrepreneurship, competition versus monopolistic domination, results-oriented government (i.e. outcomes versus inputs) and decentralization to improve public sector organization performance.

Similar New Public Management political reforms were undertaken in Israel, Finland and Sweden (Beckett, 2000).

Among the commonalities that can be found in the New Public Management reforms initiated in these and other countries, two figure prominently. First, there is the desire to improve performance and accountability through the use of performance measures. The second is the delegation of authority downwards in public sector organizations in

[8] The first two choices for addressing government deficits are raising taxes or reducing services.

order to improve responsiveness to clients and to foster a more entrepreneurial culture among managers.

This change has been embodied in the phrase "to let managers manage" in the case of Australia and Sweden, or to "make managers manage" in the case of New Zealand (Kettl, 1997). Public sector managers have seen the way they do business change as a result of these reforms and a changing environment (Agranoff and McGuire, 2001). Regardless of the terminology associated with the reform, power has been delegated to those overseeing the frontline staff that provides the delivery of programs and services. This has been accompanied by an attempt to monitor and evaluate managerial activities through performance measures and to provide these new decision-makers with enhanced decision-making information.

Skepticism regarding the effectiveness of these public sector reforms has been expressed in the literature. It has been suggested, for example, that public sector reforms such as those related to New Public Management can result in unintended consequences (Hood and Peters, 2004). A criticism of New Public Management reforms in particular is that they may be illusory. Old problems and weaknesses of the public sector may remain in place despite the reforms (Hood, 1991). It has been observed that major public sector restructuring has resulted in considerable expenditures, but few concrete results (Peters and Savoie, 1998:311) and that senior government bureaucrats can give the appearance of change without effecting change at all (Peters and Savoie, 1998:3). And although the push towards greater flexibility and efficiency has led to changes in the way they manage (Denhardt and Denhardt, 2000), reliance on the internal systems model associated with bureaucratic organizations still exists (Bradley and Parker, 2001). One author notes that years of study have found that big plans for change in administrative practices and structure are rarely realized (Rasmussen, 2002). And, paradoxically, changes to accounting methods, in particular, while giving the impression that "rational economic and technical action" is being taken may in fact serve to "provide the freedom for the organization to be unaccountable" (Hopwood, 1984, 183).

Inherent inefficiencies and high costs associated with public administration are the trade off for the advantages of public discussion and criticism of public affairs (Stevens, 1978). Indeed, liberal-democratic societies valuing the rule of law must establish formal operating protocols and procedures for their public organizations (Howlett & Ramesh, 1995) and this dictum has produced many of the challenges facing public sector managers and politicians, including organizational design. The media, interest groups, and citizens demand effectiveness, timeliness, reliability, and reasonableness and satisfying these demands often conflicts with achieving high levels of efficiency (Rainey, 1991).

Review of Case Studies

This study reflects upon and contributes to the growing body of New Public Management literature, particularly in the area of management accounting change undertaken as part of New Public Management reforms. What follows is a review of literature deemed relevant based upon the criteria of methodology (case studies were selected) and subject (the implementation of New Public Management accounting-related changes in public sector organizations).

Through their study of hospitals, Covaleski et al. sought to determine 1) the extent to which vested, external interests are served by the development, implementation and modification of organizational practices and 2), with respect to legitimating activities versus technical activities (i.e. loose coupling), the extent to which legitimating activities penetrated internal organizational practices (Covaleski et al., 1993). They found that accounting systems appeared to determine power in the instance of the case-mix accounting implementation in hospitals and that the institutionalization process of accounting change was infused with power and vested interests. Where hospital administrators had a vested interest in the implementation of the DRG (Diagnostic-Related Groups) framework and case-mix accounting systems (i.e. these systems would increase their power in the organization), externally driven symbolic displays or legitimating activities penetrated internal operating practices thus breaking down loose coupling. The implementation of these systems, therefore, can result in a shift in the traditional power base of an organization. In this study specifically, the shift in power from physicians to hospital administrators was observed. The authors identified two professional groups, physicians and administrators, and noted how the new accounting system had shifted power from one group (the physicians) to the other (the administrators). In this study, institutionalization was seen as an ongoing process rather than an outcome, and was shaped by power, the extent of which may be linked to the degree of loose coupling that existed between external imagery and technical operating processes. The authors found the use of NIS provided useful insights into the study of the DRG framework and case-mix accounting. The use of the NIS perspective enhanced the authors' understanding of the social and behavioural aspects of accounting practices. They concluded that the principal purpose of the DRG and the case-mix accounting systems was to demonstrate conformity with institutional expectations. The authors noted, however, that resource levels could facilitate loose coupling as it was observed that hospitals with sufficient resources had the ability to separate practices undertaken for legitimating purposes (external imagery) from the technical activities. An important finding, however, was that legitimating activities could penetrate into the internal technical activities when the interests of those in power would be served.

Collier examined the devolution of financial management as part of a national policing reform in a local UK police force (Collier, 2001). Despite initial concerns from divisional commanders, the implementation was deemed successful, which Collier attributed to shared values and common interests. This case demonstrated how loose coupling facilitated management accounting change (budget devolution in this instance) by serving as a link between legitimating and operating activities. The study found that loose coupling acted as a link between activities rather than a buffer. Power was seen as a positive force in this case since the shift in power led to coinciding interests; that is, accountability was improved while divisional commanders found their ability to meet operational demands improved. The success of the financial management initiative was attributed in large part to the coinciding interests of greater accountability with the operational interests of the dominant professional group, police officers. The reaction to the reform by the professional group was positive once this group's primary needs were seen to be met. One of this study's main contributions to NIS was the observation that power could be an enabling influence, rather than a source of conflict and that loose coupling, rather than a phenomenon of deviant organizational behaviour, allowed the organization to meet the demands of both internal and external constituencies.

A subsequent study of policing organizations was carried out in South Africa (Collier, 2004). In this study, all four streams of institution theory (old and New Institutional Sociology and old and new institutional economics) were drawn upon to build an explanation for the failure of the implementation of local financial management in South African policing. This pluralistic approach to enhancing institution theory's explanatory power encompassed both internal and external factors that affected the organization. The conclusion reached was that differing ideologies and values were behind the felt need for change. This undermined the change process thus illustrating the role of the influence of power and interest groups. The paper argued that the use of all four streams of institutional theory improved the understanding of the institutional impacts on the organization.

Covaleski and Dirsmith sought to understand how societal expectations of acceptable budgeting practices are articulated, enforced and modified during a period of organizational decline (Covaleski and Dirsmith, 1988). The study involved the budgeting process for the University of Wisconsin during a time of funding cutbacks. In response to a reduction in funds provided by the state government when funding was based on enrolment numbers, the university embarked on a new budgeting process that included qualitative information and program-specific requests. This "new" budget document was rejected by the governor of the state for several reasons. First, the state refused to enter into a budget discourse with the university, preferring instead to stick with the traditional enrolment-based budgeting process. Secondly, the governor did not want to become involved in prioritizing the university's activities, which would be necessary using a program-based budget document. The new budget process was also seen as a political maneuver to gain more resources.

Their research found that there was a very active political element to the budgeting process. The purported "rational" approach taken unilaterally by the university in its new budgeting process appeared to be a product of "social invention" (Covaleski and Dirsmith, 1988:582). The processes adopted by the university and the governor's office were seen to be both a rational response to the resource allocation challenge and a way to project the appearance of rationality. Self-interest was a factor in each process. The university's new process was perceived to be a political move rather than a technical one. The interrelationship between political and institutional forces of conformity was infused with power and self-interest. Powerful groups used their power to enforce institutional compliance under the banner of a socially accepted institutionalized practice (budgeting). To summarize, the institution of budgeting was believed to give the appearance of rationality and technical requirements, but in this instance, this appearance was only a façade for politically motivated and self-interested behaviour by the governor and the university. The study extended NIS theory by demonstrating that rather than adopting a budgeting process in order to conform to societal expectations (normative isomorphism), politics and power infused the adoption and maintenance of the seemingly rational budgeting process.

In a case study of the state of New York's financial management practices, Carpenter and Feroz found that the adoption of generally accepted accounting principles

(GAAP) was done in order to gain legitimacy (Carpenter and Feroz, 1992). In particular, it was suggested that the change in accounting methods was an attempt to gain legitimacy in the financial markets and was brought about by the state's poor credit rating. Powerful interests, political and economic, exerted a coercive influence on the organization. The authors found NIS provided a strong theoretical base for understanding accounting rule choice in the public sector and could be used in a complementary fashion with economic consequence theory and political science theory on power and politics. In a subsequent study of four state governments, the finding that GAAP was a symbolic representation of sound fiscal management was reinforced (Carpenter and Feroz, 2001). Indeed, it was found that the adoption of GAAP did not alter budgeting practices (Carpenter and Feroz, 2001:592). Rather, the adoption was a result of normative and coercive isomorphism and thus the powerful role of the accounting profession was revealed. This research provided further evidence of the usefulness of institution theory for the study of accounting in public sector organizations. In particular, the power of externally driven professionalization on accounting policy choice is highlighted.

Abernethy and Chua drew upon both New Institutional Sociology and resource dependency theory to interpret the findings of their longitudinal study of a large Australian hospital (Abernethy and Chua, 1996). The purpose of the study was to develop an understanding of an accounting control system by exploring its role within the broader organizational control mix and examining the influence of the institutional environment on strategic choice with respect to the control mix. The institutional environment was found to influence the control system, although much of this control could be attributed to resource dependency, as pressure was exerted primarily by the state that provided ninety percent of the hospital's funding (coercive pressure). It was noted, however, that there was also pressure by other external constituencies, namely the wider public, who demanded increased accountability from publicly funded organizations. The study provided an example of new forms of control emerging and becoming institutionalized – "institutionalization in the making" (Abernethy and Chua, 1996: 596) – resulting from changes in the power structure. It demonstrated that organizational actors matter and that they can influence the design of a control system. Driving the change internally was a change in the composition of the board of directors and the financial crisis facing the organization. But it was the role of the powerful professional group (hospital managers) along with state agencies that managed to bring about the change in the belief system (to a resource management culture).

Modell studied the response of senior managers to performance measurements in the Norwegian health care sector, using a NIS perspective (Modell, 2001). Senior managers from Norway's largest hospital were interviewed regarding the implementation of DRG-based (Diagnosis-Related Groups) performance measurements. It was found that while there was a legitimacy-seeking rationale for implementing the performance measures, there was also an efficiency-seeking rationale. Evidence was found supporting both rationales. Legitimacy-seeking behaviour, it was demonstrated, does not always preclude efficiency-seeking behaviour. Loose coupling, therefore, need not always exist. That efficiency gains may be an equally compelling determinant of structural attributes is a hypothesis presented by Oliver (Oliver, 1991:161). It was also noted that organizational actors generally viewed the new system that was implemented to be superior to the old system.

The findings of the Modell study indicate that the adoption of a new accounting system can be facilitated when the new system is seen to be superior to the one it replaces. Legitimacy-seeking and efficiency-seeking rationales can be complementary. This study does not, however, address those situations where key organizational actors do not support the view that the new system is superior to the existing system. The study also draws heavily on the data provided by senior management and accounting experts, rather than by front-line workers. Readers are not given a detailed sense of the impact of the new system on the ground-level staff that provides the services to patients. Nor does the study provide details regarding their role in its implementation. Indeed, the case describes an implementation process that seems to have largely ignored several constituents including professional staff who are presented as having little choice, but to go along with the initiative due to the increasing financial dependence on the government. Thus, the view of health-care professional groups is understated.

Ansari and Euske conducted a study of the Office of the Assistant Secretary of Defense, looking specifically at the use of cost information (Ansari and Euske, 1987). The study sought to identify the conditions that led to the introduction of a production cost information system. The actual design and implementation were compared with the stated objectives. Finally, the role the cost information system actually played in the organization was determined.

Three conceptual models of organizational information use were considered: technical-rational, socio-political and institutional. With "institutional" representing legitimating activities or a "façade for the world to see" (Ansari and Euske, 1987:553), the perspective adopted was that of NIS. The authors utilized socio-political and institutional theory to explain the divergence between the stated objectives of the new cost information system and how it came to be used by organizational members. Given the existence of alternative accounting systems and the lack of use of the new system by managers, no technical-rational use of the system was found. This, however, did not render the implementation useless. Instead, there were sound political and legitimacy benefits of the system. The key finding remained, however, that the intended use of the new accounting system did not occur. In the process the conventional wisdom, that accounting is a rational undertaking, was challenged.

This study made several points that are particularly relevant for studies of public sector organizations. The first key point was the assertion that accounting systems in the public sector appear to perform a highly symbolic function rather than a technical-rational one. A second related observation was that the public sector uses accounting information rationally, but not in the conventional way. Rather, the symbolic use of accounting information was seen as an alternative form of rationality. A final observation worth noting was that accounting systems perform a highly symbolic function in public sector organizations because of the ambiguity surrounding their mission. This relates to the literature concerning the use of performance measurements in public sector organizations (Ansari and Euske, 1987:564). Absent from this study, however, is a discussion of the role of military personnel as a professional group on the use or, as it turns out, non-use of the formal costing system.

In a discussion of New Public Management finance reforms in the Nordic hospital sector, Pettersen noted that although the initiator (i.e. local or national governments), rationale and implementation process for reform initiatives varied across organizations, at the local level the reaction to the effects of the reforms was quite similar (Pettersen, 2004). The author concluded that the common perception of the reforms could be attributed to the domination of norms and values associated with the doctors' and nurses' professions. Evidence is presented, therefore, of the role that the norms and values of a professional group play in organizational actors' response to change. It has been observed that the reaction from professionals is similar across organizations. A review of the existing field studies showed both the symbolic adoptions of new accounting systems and signs of coupling between the new accounting system and clinical actions, such as minding the cost of drugs prescribed. The author noted, however, that further study of coupling was required as there was much "hidden" information regarding the diffusion of accounting system changes into the clinical decision-making process (Pettersen, 2004:331).

Broadbent and Laughlin examined the resistance to New Public Management reform in the heath care and education sectors (Broadbent and Laughlin, 1998). Their study identified the existence of "absorption groups" in schools and General Practitioners (GPs) practices that consisted (primarily) of administrative staff who facilitated the absorption of New Public Management reforms into the organization while minimizing the impact of those reforms on the central core activities. Their research found that although there were similarities between the reforms in both sectors, such as the introduction of contracts, organizations in each sector differed in their ability to minimize the impact of the reforms on their core activities.

In the case of General Practitioners in the health care sector, performance of mandated services was linked to financial incentives. It was found that GP offices were able to delegate the responsibilities associated with the new contract to less senior staff and had sufficient funds to manage the two demands: technical or core activities and the externally-driven activities. Schools, on the other hand, faced increased accountability through the use of league tables that increased the level of public awareness of a school's relative performance. Changes in the education sector involved significant devolution of financial responsibility to the school level. Like the General Practitioners, senior school officials also delegated the responsibility of accommodating the requirements of the reforms to less senior staff, but were less successful in buffering the internal core activities from the revised curriculum and activities imposed by the reforms. The authors observed the different effects of the two types of accounting-related changes: the finance led changes (in the General Practitioners case) and the accountability-led changes (in schools), noting that the latter had a greater effect on the activities of the organizations studied. Again, resource levels were shown to play a role in an organization's ability to maintain loosely coupled systems. In both fields, the response of those in the professional groups was to mind the technical activities while delegating the tasks required for compliance with external demands to less senior staff, where possible.

In her study of the devolution of budgets in the social services sector, Llewellyn reported several interesting observations (Llewellyn, 1998). The first was the need to link accountability with responsibility. In the social services sector budget management was devolved, but authorization for expenditures remained higher up in the organizational hierarchy and the consequences for over-expenditure were virtually non-existent. Responsibility, therefore, was collective rather than individualized. Another observation made in this research related to the social work profession. Specifically, it was stated that there was resistance from staff to assume the necessary administrative work associated with budget management as it was perceived that this might lead to the "de-professionalization" of social workers who out of necessity would become more focused on financial rather than the professional matters of providing the services for which they were trained. The study also brought to light a conflict between organizational spending policies and personal accountability for budget since spending was restricted. Further reinforcing the collectivity of responsibility was the fact that there were multiple sources of access to budgets, such as that illustrated by the discharge of a client from the hospital, which resulted in the claim on another individual's budget after a four-week period.

Llewellyn noted in her conclusion that the delegation of budgets had not created individualized responsibilities and suggested two causes: a control problem or a more fundamental problem of aligning the professional values of social work with financial responsibilities. It was Llewellyn's view that the latter was the cause of the dysfunctional behaviour she observed in the social services sector and recommended an accounting system that supported collective responsibility rather than one that focused on control. The implication of this research is that there are organizational fields or economic sub-sectors in which traditional accounting methods and systems, much of which has been developed in the private sector, may not be appropriate.

The final study to be included in this review is that of Lapsley and Pallot (Lapsley and Pallot, 2000). This study examined new management accounting practices implemented as part of New Public Management reforms at four local governments. This study compared the effects of the accounting change among four quite separate organizations from the perspective of management *and* management accountants, and as such claimed to investigate the "everyday reality" (Lapsley and Pallot, 2000:218) of these two professional groups. Political actors also participated in the study. The response to the pressure to change was different in each organization. The authors described each implementation process as being structural, procedural, participatory, or one of "marketization".

The structural response to change entailed a fundamental change in the way services were delivered to clients and included new values, roles and organizational structure. The procedural response was more subtle. It focused on changing processes, which included decentralization. Participatory change, as the name suggests, involved employees (and citizens) in the change process. While the New Zealand government mandated structural and procedural changes, a local city council that used the participatory change process focused on building a new organizational culture without disenfranchising its existing workers. Finally, marketization involved substantial contracting out and embracing the privatization values embodied in the New Public Management approach.

This study illustrated the variety of ways in which management can respond to pressures to change, even when the doctrine being imposed is drawn from the same approach (New Public Management). The study also found that the quality of management accounting information was critical in operationalizing New Public Management concepts. It is suggested that the quality of accounting information can be an indication of legitimacy-seeking or technical-rational behaviours. Specifically, the "frailty" of accounting information is seen as evidence of institutional isomorphism.

The key findings of these studies can be summarized in the following table:

Table 1

Summary of Case Studies

STUDY	SITE	ORGANIZATION RESPONSE	SUMMARY CONCLUSIONS
Covaleski et al. (1993)	Hospitals	• Resistance to imposed system through ceremonial adoption, acceptance of internally developed system where powerful vested interests are being satisfied	• Identified the role of power in the implementation process • Loose coupling can occur in financially strong organizations, but external imagery practices (i.e. DRG) can penetrate internal practices where those in power have a vested interest in the reform • Adoption of DRG system was symbolic (legitimating activity) – a necessary course of action to maintain resources

			while the internally developed case-mix accounting system redistributed power within the organization to administrators • The institutionalization of both systems was seen as on-going rather than static
Collier (2001)	Police Force	• Successful	• Power was an enabler where interests (between the reform and the operational activities) coincided. • Occupational group's (police) needs were met by the reform • Accounting linked the loosely coupled systems
Collier (2004)	Police Force	• Not successful (resistance)	• Non-coinciding interests and values between reformers and power groups with vested interests resulted in failure
Covaleski and Dirsmith (1988)	Universities	• Resistance	• Identified the role of power in budgeting reform and viewed budgeting as a political rather than technical process used in order to give the appearance of rationality
Carpenter and Feroz (1992)	State Governments	• Ceremonial adoption (resistance)	• Adoption of accrual accounting was a symbolic gesture that did not affect the actual budgeting process of the organizations (loose coupling)
Abernethy and Chua (1996)	Hospital	• Successful	• Reforms were adopted due to coercive and

			normative influences yet organizational actors were able to influence the process as it became institutionalized • Restructuring of the governance model redistributed power. • Norms of established prófessions were copied • New norms developed because of the intervention of powerful groups
Modell (2001)	Health care (hospitals)	• Successful	• Demonstrated that efficiency and legitimacy were not always mutually exclusive • New system was seen as better than the one it replaced
Ansari and Euske (1987)	Defense Department	• Ceremonial adoption • Not successful yet its implementation served a legitimating purpose	• Accounting systems in the public sector perform a highly symbolic function because of goal ambiguity • Accounting information was used rationally but not in a conventional way – alternative accounting systems were in place
Broadbent and Laughlin (1998)	Education and health-care (schools and GP practices)	• Resistance	• Employed a definable group to absorb the organizational effects of reforms • Finance-led changes (GPs) were not as intrusive as accountability-led changes (schools).
Llewellyn (1998)	Social Services	• Resistance	• Concern for "de-professionalization" of social workers

			• Poor link between authority and responsibility resulting in collective rather than individualized responsibility • Accounting systems of control are not suited for this sector
Lapsley and Pallot (2000)	Local government (city councils)	• Some successful, others not.	• There were varied responses to NPM • Importance of the quality of management accounting information in the adoption process: weak information lessens its role in change while a stronger presence of accounting information in the organization's culture facilitated management accounting change processes

In summary, the literature demonstrates that New Public Management reform has met with more failure than success and resistance can be overt or subtle. Successful implementation can be achieved, however, as demonstrated by the Collier (2001) and Modell (2001) studies. These two studies indicate that in order to be accepted a new system must coincide with the values of key power groups. Based on this review of case studies, however, a more common response from public sector organizations to New Public Management driven change is ceremonial adoption and loose coupling. Thus, resistance occurs either overtly (Collier, 2004 for example) or in more subtle ways through the failure to use the new system and/or practices as intended (ceremonial adoption). The role of professional groups appears to figure prominently. The studies showed that where the increased role of accounting measures and financial responsibility conflicted with the values of the dominating professional group, such as physicians, educators, social workers and military personnel, resistance occurred. Conversely, coinciding interests such as in the Collier study (2001) facilitated the success of the reform. The compatibility of managerial and professionals goals has been identified in the literature as necessary for the successful implementation of control practices in professionally dominated organizations (Abernethy, 1996). In several cases (Collier, 2004; Covaleski and Dirsmith, 1988; Modell, 2001; and Ansari and Euske, 1987) the role of professional groups in specific organizations is not explored.

With the exception of the two successful cases, however, New Public Management reforms appear to conflict with the dominant values of public sector organizations, although these values seem specific to certain professional groups. Such conflict can, however, be overcome where a severe financial crisis is eminent or where the interests of powerful groups are being served. Because of the nature of the organizations studied there is often an identifiable traditional professional group. The Carpenter and Feroz study was an exception, but in their study the normative influence of the accounting profession is clearly present.

The conflict between professional control and administrative control has been studied by survey instrument at a large Australian hospital where physicians comprised the dominant professional group (Abernethy and Stoelwinder, 1995). This study drew upon role theory in order to study role conflict (as experienced by professionals working within a bureaucracy) by studying professional orientation and the type of control environment. It was hypothesized that where role conflict existed, job satisfaction or subunit performance would be adversely affected. At the heart of the conflict was the notion of professionals acting autonomously in an environment where control mechanisms were increasing, particularly as it related to resource management.

As might be expected, the results of this study showed that where professionals had a high professional orientation, conflict was reduced when controls were not overly restrictive. One of the greater areas of conflict occurred when the environment was dominated by output forms of control (i.e. imposed targets and performance measures). The study highlighted the tension between professional norms and values (autonomy, for example) and bureaucratic norms and values (rule-based, administrative controls). The cases reviewed here that included the consideration of professional groups presented findings that were consistent with this observation. Unless professional and organizational goals coincide and are seen as complementary, tension will arise. It would appear that an important consideration for New Public Management reforms is the degree to which the reform objectives can be reconciled with the objectives of the dominant professional group in an organization.

Absent from the literature is a study of a public sector organization where no traditional professional group dominates the organization. There is also a lack of a detailed account of how both technical-rational practices and ceremonial practices emerge and become institutionalized, and how they co-exist. The dominance of NIS as a theoretical framework may account for the lack of detail regarding the institutionalization process of new accounting practices at the organizational level. A greater level of detail might be achieved through the incorporation of an OIE perspective for studying organizational change, such as was done with in the Siti-Nabiha and Scapens study cited earlier (Siti-Nabiha and Scapens, 2005).

Summary

This chapter demonstrates that institution theory has been applied in a variety of ways and in different settings. The two main streams of OIE and NIS have been utilized separately, with NIS dominating the management accounting literature (see Baxter and Chua, 2003). More recently, a pluralistic approach that combines the streams of institution theory has emerged. Research settings have included both for-profit and public sector organizations. While the shortcomings of early institutional theory with respect to power and vested interests are being addressed in the literature, there are a number of opportunities remaining to advance this theory.

Utilizing OIE solely as a means to explain management accounting change fails to take into account the wider social context in which the organization and individual actors within that organization operate. The description of the failure at Omega (Scapens and Roberts, 1993), for example, did not include consideration of wider norms and rules that may have existed in the industry. The insights gained from this study could have led to insights for the industry as a whole (the organizational field). Similarly, while restricting the theoretical perspective to NIS may help explain why there is homogeneity among organizations within an organizational field or why public sector organizations adopt New Public Management principles, it does not explain how isomorphism actually occurs at the "shop floor" level, although loose coupling as a strategy for ceremonial adoption has been demonstrated. Nor is there sufficient detail in the New Public Management literature of how loose coupling is employed (if it is employed). The use of absorption groups has been identified as one strategy for separating the activities demanded from the external environment from those undertaken as part of the core technical activities of the organization. Still, as it relates to the use of accounting information for decision-making and thus organizational behaviour, the link between loosely coupled systems and how performance measures generated by both are reconciled, has not been established in the literature. As Abernethy and Chua point out, how and why control systems change is not well understood (Abernethy and Chua, 1996: 570).

With respect to New Institutional Sociology, the area of isomorphism needs to be developed further. The three main types of isomorphism are generally presented as exclusive or complementary forces intermingling with one another to produce the predicted outcome, homogeneity (DiMaggio and Powell, 1983). What is needed is an examination of these forces as they impact the organization at the technical level, and management's response to them. If different levels of institutions exist, as presented in this chapter, to what extent do these institutions conflict with one another and how is this conflict managed?

The notion of conflicting institutional influences on organizational behaviour is particularly relevant to the study of public sector organizations facing New Public Management-driven change. Institutions, as described in the institution theory section of this chapter, are believed to influence action within a particular institutional setting. It has also been observed that New Public Management is largely embedded with values more closely associated (indeed derived from) the private sector rather than those associated with the delivery of public goods and services. The conflict between these values is evidenced in the Llewellyn study. In this study (as with the other case studies examined here), an identifiable professional group played a significant role in the success or failure of New Public Management reform.

The review of sociology-based institution theory brought attention to the impact of normative pressures often associated with professional groups. The success of management accounting change in public sector organizations appears to be significantly contingent upon the successful alignment of competing professional interests by the new accounting system. This suggests that normative pressure is exerted upon an organization from competing sources; a professional group that dominates the organization, such as was the case in the education, health-care, social work and policing studies reviewed, and external sources such as the wider public, politicians, lobbyists, and other professional groups, such as accountants.

With respect to the role of professional groups in facilitating or resisting externally driven management accounting change, the NIS literature has not considered a normative influence from professionalization emanating from within the organization. The OIE approach, particularly as presented in the Burns and Scapens framework for management accounting change, does not consider the influence of professionalization emanating from outside the organization on management accounting change.

While the studies of New Public Management initiatives recognize the role of professional groups, the view of professional groups is narrow and the cause of conflict is underdeveloped. The literature on professions provided a number of attributes of those occupations that qualify as profession groups. Benefits associated with being considered a professional within an organization and within society itself were also identified. The economic and social benefits of self-determination and exclusivity have been identified, along with strategies employed by professional groups in order to maintain those privileges.

What has not been considered in the New Public Management literature thus far is whether or not the public service itself represents a professional group. The implications for management accounting change driven by New Public Management are significant, given the above discussion.

CHAPTER THREE

METHODOLOGY

In this chapter the methodology employed for this research is described. It begins with a discussion of field-based accounting research and the case study method of research. This is followed by a discussion of the methodological approach and perspective of the study. The next section provides a detailed review of the research design including the steps taken to enhance the quality of the research. An overview of the data collected, method of collection, the organization of data and its analysis follow the research design section. The final three sections cover the *Access to Information Act*, trust and confidentiality (and the ethical implications) and the limitations associated with the type of research strategy employed.

Field-based accounting research

Since the mid-1980s there has been a call for an increase in management accounting research that is field-based and empirical (Kaplan, 1986; Johnson and Kaplan, 1987; Kaplan, 1994). It was argued that there is a need for management accounting research that is field-based and empirical rather than abstract and statistical (Maher, 2001; Lukka and Shields, 1999; Bruns and Kaplan, 1987). It had been observed that while accountants have developed powerful techniques and tools in areas such as costing procedures and computer-based systems, there was a lack of awareness concerning the behavioural considerations for using these tools (Caplan, 1992).

Accounting is not a "neutral", technical activity (Humphrey and Scapens, 1996). In order to understand organizational performance management systems, research methods must be capable of capturing a wide range of organizational phenomena (Otley, 2001). More than a technical description of the accounting information systems is required (Roberts and Scapens, 1985). A case-based, empirical field study can provide a richly detailed analysis of organizational processes and is conducive to the study of institutional pressures (Hopper et al., 2001). The role of accounting cannot be understood in isolation and a case-based approach can assist in providing a fuller understanding of the relative role of accounting information in the management of the organization (Otley and Berry, 1994).

The term "field studies" refers to research conducted outside the laboratory in real-life settings with subjects (i.e. people) belonging to a specific community or institution (Fiedler, 1978). In the stream of accounting literature categorized as field studies, the actual type of research carried out varies from interviewing organizational actors as the primary or only source of data (Adams, 1997; Roslender & Fincham, 2004; Dunk & Perera, 1997) to supplementing interviews with some documents (Skaerbaek & Melander, 2004) to fuller accounts involving interviews, observation, and documents (Collier, 2001; Ahrens & Chapman, 2004). Field studies have also consisted of experiments or simulations carried out in the field (Maher & Marais, 1998) or studies that rely primarily upon surveys and responses to essay questions (Pincus, 1997).

In their review of field research in management accounting and control, Ferreira and Merchant offer an operational definition of field research as research that satisfies the following five criteria (Ferreira and Merchant, 1992:4):

- Direct, in-depth contact with organizational participants, particularly through interviews and direct observations, comprises the primary source of research data.
- The study involves real tasks and processes rather than artificially created situations.
- The research design is not totally structured, but evolves as data are collected.
- There is a presentation of rich descriptions of company contexts and practices.
- The resulting publication is presented to the academic community.

Other definitions of field studies exist in the management accounting literature (see, for example, Roslender and Hart, 2003). Ferreira and Merchant's operational definition not only provides a means by which management accounting literature can be categorized, it also provides a set of guidelines for conducting this type of research. This comprehensive definition is the one accepted for this research. One research methodology that can be field-based and can capture richly detailed empirical data is the case study.

Yin defines a case study as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994: 13). Case studies can be a preferred research strategy when seeking explanatory answers to "how" and "why" questions. As a strategy, it is useful when there is no control over behavioural events, such as those that occur in a real organization, and when the focus is on a contemporary event.

Case studies are intensive by nature (Forcese and Richer, 1973:82) and generally provide a rich description of phenomena occurring in a complex environment. They typically rely on multiple sources of information (see Data Sources) and result in analytical rather than statistical generalizations. Statistical generalization involves generating inferences about a broader population based upon the empirical evidence collected from a small sample of that population. Analytical generalizations, in contrast, are based on comparisons of previously developed theory to the empirical evidence collected during the case study. The goal of the research, therefore, is an attempt to generalize a set of results to a broader theory (Yin, 1994).

Case studies can employ participant observation (Spradley, 1980) and close work with participants as data gathering methods (Jorgensen, 1989:19). They can also encompass ethnographies, which involve direct, in-depth contact (Robson, 1993:148; Fetterman, 1998:28-29). A case study is well suited to the study of "real" phenomena and provides richly detailed descriptions (Yin, 1994:13). The research design of a case study can be loosely structured (Robson, 1993:150) and flexible (Yin, 1994:52). It is a useful methodology for investigating the development, implementation and use of information systems within organizations (Darke et al., 1998), and would be, therefore, a useful methodology for the study of accounting systems in organizations.

As a field-based case study, this research contributes to the growing body of empirical studies in management accounting.

Methodology

While the call for empirical accounting research is compelling, the research methodology must first match the research questions being asked. In this case, the interest was in the use of management accounting information at the operational level of a public sector organization. As described in Chapter One, the research question for this study was: how does management accounting change occur in a public sector organization? The "how" nature of this question made case study research an appropriate choice.

Marshall and Rossman identify research strategies and data collection techniques appropriate for various study purposes (Marshall and Rossman, 1989). Exploratory studies investigate little understood phenomena. Case studies employing participant observation and interviewing are suitable qualitative research strategies for this type of research. In order to address the research question, this study sought to describe a management accounting change process and build an explanation for the results. Multi-site case studies, histories, field studies and ethnographies are recommended strategies for explanatory research while participant observation, in-depth interviewing, questionnaires and document analysis are appropriate data collection techniques (Marshall and Rossman, 1989:78).

Ethnomethodology

Ethnography has been described as "the art and science of describing a group or culture" (Fetterman, 1998:1). Ethnographic studies attempt to provide a rich description of an environment, such as an organization, often from an emic or insider's perspective (Fetterman, 1998:20), in order to document the implicit rules and traditions of the group or organization (Robson, 1993:148). The goal of ethnographic research is to understand another way of life from the native point of view (Spradley, 1980). Researchers immerse themselves within a chosen empirical setting and through participation and observation generate a narrative-based interpretation of events (Dey, 2002).

In contrast to the emic perspective, an etic perspective is an external, social scientific perspective (Fetterman, 1998: 22). Once data has been collected from an emic perspective, an etic or scientific perspective can be employed in order to make sense of the study.

Ethnomethodology is a sociological perspective that seeks to study the means by which people make sense of their social world (Garfinkel, 1967). It is an attractive approach for this study given its view that "social reality" is a function of interpretations (Sharrock and Anderson, 1991). This is consistent with the researcher's position that accounting information does not represent a record of "reality", but is an interpretation of "reality". As Lynch writes, devising ways to measure objects and measuring them is not required under the ethnomethodological approach. Instead, the research seeks to exhibit "society's hold on the very measures that take account of it" (Lynch, 1991:105). Interpretation of accounting results, therefore, is as important as the results themselves in influencing behaviour.

Chua describes ethnomethodology as "the study of how people go about doing what they do in their everyday life" and identifies three methodological rules by which ethnomethodological analysis is governed (Chua, 1988):

- The researcher approaches the study site as "anthropologically strange"; that is, regarding fellow citizens as if one were studying a strange, alien culture;
- Social actors are treated as rule analysts and interpreters, rather than as automatons blindly following established rules;
- Ethnomethodology analyzes day-to-day aspects of life, rather than focusing on the unusual.

An important distinction of the ethnomethodological approach from the conventional sociological one is the perspective taken towards the real world. The naturalistic view is that the social world is "out there" and is separate and distinct from our perceptions and interpretations. Ethnomethodology, on the other hand, views "reality" as constructed through the interaction and interpretive skills of social actors (Gubrium and Holstein, 1997). Thus, while conventional sociology might look to rules and norms as explanations for patterned behaviour (in an orderly world), ethnomethodology focuses on how people use rules and their application to specific cases to describe and demonstrate their actions as coherent and orderly (Gubrium and Holstein, 1997:45).

Berger and Luckmann write "everyday life presents itself as a reality interpreted by men and subjectively meaningful to them as a coherent world" (Berger and Luckmann, 1966:19). Rules and norms do not represent an external objective reality in and of themselves. Rather, it is the interpretation of rules and norms by actors and the interaction among actors that constructs the reality or social order that "exists".

An ethnomethodological approach to this research would reject the view that members of the organization are blindly following rules. Instead, it is the actors' interpretation and shared meaning of rules that becomes the focus of the study. When new accounting rules are implemented, it is not only the rules themselves that are important, but also the use and interpretation of these rules by the actors in the organization that is of interest. Data collection, therefore, must include the actors' interpretation of the role of management accounting information (the emic perspective) as well as their use of it.

Research Design

Yin discusses four types of case study research design: holistic, single case studies; embedded, single case studies; holistic, multiple case studies; and embedded, multiple case studies (Yin, 1994:38). The study design employed here is that of a holistic single case study.

Single case studies are appropriate under a number of conditions. For this study, the virtually unlimited access to data from interviews, documents, and most importantly, observation, resulted in a situation that Yin calls a revelatory case. When such opportunities present themselves to researchers, a single case study is justified (Yin, 1994: 40). In addition to this, focusing on a single case, using a single, discrete organizational unit provides an opportunity to study the organization and phenomenon of management accounting at an extremely detailed level.

A purely holistic approach might have resulted in deviance from the original research question of how management accounting information was used in such an organization. That being said, ethnography by nature has holistic qualities as the research seeks to describe as much as possible about the subject of study (Fetterman, 1998:19). The broader context, in which the unit of analysis operates, therefore, warrants inclusion in the data gathering in order to provide a more rich description of the organization and to enhance explanation building.

It is important to state any hypotheses or propositions initially brought to the study by the researcher in order to provide the reader with as much information as possible regarding the conditions that guided the observations reported (Atkinson and Shaffir, 1998: 53). The study began with the construction of a single question: how does management accounting change occur in a public sector organization? Through the development of a case study protocol, the design of the project took shape. Initially, propositions were developed, a data collection strategy was established (methods and instruments) and a conceptual framework was identified. The unit of analysis had been defined by the research question.

The study began with the generation of several propositions based upon preliminary observations, document reviews and organizational theory. Multiple, complementary propositions were later distilled into a single proposition that was later revisited and refined. Given the call for field-based research, the access provided to the researcher and the opportunity to participate in such a large government accounting-based initiative, qualitative data were selected as the data of choice, leading to the selection of a single ethnomethodological ethnographic (see Chua, 1988) case study, with participant-observation as the key data collection technique.

Rather than following a linear sequence beginning with the problem definition and ending with the conclusions and report (see Spradley, 1980: 27), the design for this study was cyclical and iterative in nature. Propositions were developed and evidence was collected in a broad manner. The recording and analysis of data took place simultaneously and as propositions were revisited and refined, observations became more focused and patterns emerged. This iterative process extended through the analysis stage where theory and data were constantly compared in order to build a theoretical framework that would closely fit the empirical data – a theory-building (Eisenhardt, 1989) or reconstruction (Burawoy, 1998) process.

Unit of Analysis

For an in-depth investigation, only "discrete, focused research sites" make sense (Bruns and Kaplan, 1987). The Department of Indian Affairs and Northern Development (INAC) consists of ten regional offices and the National Capital Region (NCR) office (headquarters). In order to accommodate the need for a focused research site, as suggested by Bruns and Kaplan, the unit of analysis for this research was narrowed to a single regional office, that of the province of Saskatchewan. Rather than identify the implementation of the new financial system as the main unit of analysis, the unit of analysis has been defined as this sub-unit of the organization (the INAC-Saskatchewan regional office). The reason for choosing the regional office as the unit of analysis relates to the case study questions and propositions developed in the initial stages of the case study design and the ease of access to this organization available to the researcher.

In order to provide a rich description of the management accounting process this research documents the role of management accounting information in decision-making in a regional office of a government department. The structure of the organization and the routines and processes adopted by organizational actors was examined in order to build an explanation for the impact or lack thereof of a management accounting change implementation. Rather than evaluate the financial system change as an initiative, or the implementation process, the purpose of the study was to understand how the organization adapts to change with the specific goal of building an understanding of the role and use of management accounting information. Once an understanding has been developed, one can examine externally generated initiatives to determine their appropriateness, given the characteristics of the organization to which they are being applied.

Construct Validity

Construct validity refers to the establishment of correct and sufficient operational measures for the issue being studied. Yin establishes two steps necessary to "meet the test" of construct validity (1994:34):

1. Select the specific types of changes that are to be studied, and
2. Demonstrate that the selected measures of these changes reflect the specific types of change that have been selected.

This research focuses on the use of management accounting information. The specific change under study is the implementation of a New Public Management reform initiative designed to enhance decision-making, a part of which included the implementation of a new financial information system. The new system provided different reports for use at the regional office level, different reporting requirements for department-wide use, and different external reports as a result of the adoption of full accrual accounting.

In order to build an understanding of how financial and non-financial information is used for decision-making, the primary measures used were: the effect of reports generated by the new system on decision-making; usage of the system by decision-makers (either directly or indirectly); and management accounting reports and decision-making tools that existed before and after the new system's implementation (i.e. what role, if any, they played once the system was installed).

In order to increase construct validity, three "tactics" are available to the researcher: using multiple sources of evidence, establishing a chain of events, and having draft components of the study reviewed by informants.

Multiple sources of evidence were used throughout the data collection phase and indications of their convergence were identified. Using multiple sources of evidence is likely to result in findings and conclusions that are more accurate and also allow the investigator to address a broader range of historical, attitudinal and behavioural issues accurately (Yin, 1994:92). The sources of evidence for this research are summarized in Table 2. Conclusions were drawn through the use of triangulation.

A "chain of evidence" refers to the logical movement of one portion of the case study to another with clear references to relevant data and methodology. This provides linkages between the original research question(s) and the ultimate conclusions. This research established a clear chain of evidence through:

- Ensuring the case-study protocol ultimately links with the research questions stated therein.
- Following the procedures set out in the case study protocol for data collection.

- Maintenance of a database including reference to the circumstances under which the data was collected (i.e. comments may be from meetings, interviews, observation, documentation, conference calls, casual conversation, etc).
- Reference to relevant data contained in the case study database.

Finally, draft copies of the relevant sections of the study, namely the descriptive and data analysis sections, were forwarded to key informants for review. In the majority of cases drafts were returned with either no or minor corrections and/or additions. On the rare occasion where there was a disagreement with respect to content or meaning, the alternative view presented by the respondent was discussed with others who had access to the original comments (i.e. were present at the meeting in question or possessed some other information relating to the subject) for input.

Internal Validity

Where some type of causal explanation is attempted, internal validity becomes a concern. Internal validity refers to the extent to which a causal relationship can be established (i.e. determining the existence of certain conditions as being caused by other, often preceding conditions rather than spurious relationships). Explanation building and pattern-matching throughout the study was done iteratively beginning with the original proposition and comparing the data against that proposition continuously so that improved and revised propositions could be developed. The use of a case-study protocol and database and the reflexive nature of the inductive research approach enhanced the explanation building process and strengthened internal validity through the continuous examination of other possible explanations for the results found in the field study.

External Validity

External validity refers to the degree to which the findings in a case study can lead to generalizations about areas beyond that of the immediate study. Yin points out that the case study researcher must be cognizant of the differences between generalizing the results of a sample to the wider universe as is done in survey research, for example, and the goal of case studies, which is to generalize findings to a broader theory (analytical generalization rather than statistical generalization, as previously discussed) (Yin, 1994:36).

This research is not intended or expected to produce results that would be representative of all government organizations. The goal of this research is to produce a set of results that can be generalized to a broader theory, institution theory in this case, thereby contributing to the development of that theory.

Reliability

A conventional definition of reliability is "...the extent to which a procedure, especially measurement, produces the same result with repeated usage" (Jorgensen, 1989:37). In short, reliability can be measured by the extent to which another investigator will arrive at the same results when following the same procedures.

The uniqueness of some studies renders exact replication in another context impossible (Creswell, 1994:159). One tactic used for increasing reliability for this study was the creation and use of a study protocol in order to outline the operational steps taken for the collection and analysis of data. An additional strategy employed in this research was the construction and maintenance of a case study database. This database served as a collection area for all data collected, not just for the data that have found their way into the final report.

Credibility

In addition to informant reviews (member checking), Lincoln and Guba recommend peer debriefing as a means to enhance credibility (Lincoln and Guba, 1985). The work, as it progressed, was provided to peers to review "for the purpose of exploring aspects of the inquiry that might otherwise remain only implicit within the inquirer's mind" (pg 308). During the course of this study, findings were presented at several conferences and gatherings of academic scholars. These presentations were made during and following the data collection phases and throughout the analytical process. Specifically, presentations were made at the following venues:

- Management Control Association conference, September 2002, Aston University
- Faculty of Business Administration, March 2003, University of Regina
- British Accounting Association annual conference, April 2004, York University
- Management Control Association Sixth International Management Control Systems Research Conference, July 2004, Herriot-Watt University

- College of Commerce, Accounting Department, April 2005, University of Saskatchewan
- Alternative Accounting Workshop, October 2005, University of Alberta

At each of these events copies of the presentation and a work-in-progress article were available to attendees.

Organization Access

Spradley identifies five criteria for participant observation: simplicity, accessibility, unobtrusiveness, permissibleness, and frequently occurring activities (Spradley, 1980:45-52). Accessibility is an essential component of site selection, as is the type of role the researcher might assume and the degree of access the role provides to the phenomena of interest (Jorgensen, 1989:41).

The Director of Corporate Services of the organization, in consultation with the Executive Management Committee, granted permission for this study and it was conducted under the auspices of voluntary informed consent (see Kimmel, 1988:67). There was no need for participants to not be informed of the research being undertaken; the risk of misleading data was deemed negligible given the amount of effort that would have been required on their part to elude observation. Informants were told that responses to specific questions were not mandatory, yet all questions were answered.

During the fieldwork phase the researcher had full access to all regional and department-wide actors for interviews, observation, and clarification. Regional documentation is archived through a formal process for a minimum of six years[9], but the local records office, local file rooms, and files kept by individuals held documents that were considerably older. Some of these dated back over thirty years. Access to these documents was never denied. Similar access was given to department-wide documents that were archived or held in personal files.

It should be noted, however, that the researcher could not access documentation unless it was known to exist in the first place, and it is recognized that private documents, especially planning documents, may have existed, but were not made available. There were also restrictions with respect to personnel records, but these were not deemed critical to the research

Data Collection

The following section describes the process of data collection, beginning with the scope of data that was established throughout the collection process.

Scope of Data

The data (and method of collection) were broken down into two components. The first component was comprised of formal management accounting information produced by the regional office, headquarters (department-wide) and, where

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[9] See Retention Guidelines for Common Administrative Records of the Government of Canada, Treasury Board of Canada.

applicable, government-wide sources. Examples of this included financial information found in the Annual Estimates reports and monthly management reports produced for senior management by the regional finance sector. This information was collected primarily through documentation and archives.

The second component considered how decisions are made. Evidence was collected primarily through observation and included informal processes normally occurring within the organization, as well as informal documents that were used. This was supplemented by interviews.

Although there was a focus on regionally generated information, a considerable amount of information generated by headquarters was collected as well. Finally, official reports such as the Public Accounts, the traditional financial statements of the Government of Canada, the Departmental Performance Reports and a variety of publicly available data were included in the analysis. Although some of these arguably fall within the realm of financial rather than managerial accounting, the effect on decision-making of information easily accessible to the general public as well as being subjected to significant scrutiny by Parliament and the Auditor General had to be considered when deciding their inclusion in the data set.

Duration of Field Work

Fieldwork began in May of 1999 and was completed in June of 2003. Several follow-up interviews were conducted after June of 2003, but the participant-observation phase was complete – the researcher no longer worked at the organization (to be discussed in the following section of this chapter).

Role of the Researcher

From May 1999 to November, 1999 the researcher held the position of Manager, Accounting Operations. This position dealt almost exclusively with the technical accounting, rather than financial planning, side of the organization. Beginning in November 1999, the researcher assumed the position of Regional Manager, Financial Services, becoming the senior finance officer for the regional office and overseeing all matters related to finance including the financial reporting system.

It is recognized that informed consent alters the responses of informants (Kimmel, 1988:72). There is a dilemma faced by social science researchers of balancing the ethical considerations regarding the use of consent in order to respect the rights of informants against the possibility of informed consent altering the validity of research data. One strategy that attempts to accommodate both concerns is omitting the purpose of the study when seeking consent. The purpose of this study was provided to the informants. It was described as "a study of the implementation of the new financial information system and policies", which, in the opinion of the researcher, was an accurate description of the study's objective and yet was sufficiently neutral to minimize the intentional manipulation of information provided by individuals involved in the study, a process described as subject bias, which threatens reliability (Robson, 1993:67).

In addition to this, it was acknowledged that many of the activities carried out by the informants were done with the knowledge that the activities of organizational actors can be scrutinized by virtually any interested party in Canada through the *Access to Information Act*. Knowing that one's actions and especially the documentation that one creates, including emails, can be accessed by outsiders can affect the ways in which tasks are performed and documents created. A study undertaken by a member of the organization should not have altered informant actions or the documents they created in a significant way since they were undertaken or created with the knowledge that they were being "watched" anyway (i.e. always subject to public scrutiny).

Maintaining objectivity as a participant-observer is a concern for such a study. As Spradley observes, "The more you know about a situation as an ordinary participant, the more difficult it is to study it as an ethnographer" (Spradley, 1980:61). Objectivity was enhanced by the researcher's background and newness to the organization (discussion to follow). Nevertheless, actions that were considered by the researcher during the early stage of the fieldwork to be questionable began to make more sense as the research continued and more time was spent within the organization. Seemingly incomprehensive activities and language began to make sense. As time spent at the organization increased, a better understanding of the culture and history of the organization developed.

An effort was made to maintain objectivity with respect to the observations that were being made. Objectivity was facilitated at the beginning of the fieldwork as the researcher had never worked in the public sector at any government level prior to joining the organization. His educational background was geared towards private sector management and accounting (Bachelor of Commerce degree, Master of Business Administration and a Certified Management Accountant designation, a designation traditionally associated with private sector manufacturing firms). The organization was, in Chua's words, "anthropologically strange" (Chua, 1988:64). This provided a unique opportunity to develop an understanding of the reaction by organizational actors to the changes that were being made from their perspective, since the reactions did not make sense from the researcher's point of view at the time. Given the lack of public sector experience and the private sector background, the perspective was indeed strange and new. For example, the use of accrual accounting for reporting purposes did not seem out of the ordinary. The reactions by co-workers, including professional accountants, however, that were observed, indicated that there would be no benefit to adopting an accounting practice that the researcher regarded as standard. While the researcher's background enabled him to see the intended benefits of the change of accounting methods, and of the new financial system in general, working within the affected organization provided an opportunity to learn an alternative perspective, that of those within the organization. The contrast was startling. It appeared as though two separate worlds, based on the differing private and public sector ideologies, were colliding.

Care was taken from the outset of the study not to assume any "facts" about organizational behaviour or management accounting based upon prior training and experience. In practice, this facilitated the process of viewing the organization as "anthropologically strange". Rather than making judgements on the way things were done in the public service, much of which was a departure from the researcher's experience, the objective was to learn the reason why organizational actors were doing things the way they were. As the underlying value-system and institutions that explained behaviour emerged through the data collection and analysis process, it appeared that an alternative frame of reference existed. The contrast of this frame of reference to that of the researcher's allowed it to be identified as unique, contributing greatly to the research. By considering the dangers and weaknesses of this type of research from the outset, the investigator attempted to maintain a greater degree of objectivity than might otherwise have been the case. While at the beginning of the research, much of the behaviour seemed strange and foreign, as time in the field continued to pass and as norms and values became known, the behaviour being observed began to make sense. One could clearly see how "going native" is a serious consideration during this type of research (Hammersley and Atkinson, 1995). Prior knowledge of this danger, however, can help the field worker recognize the process as it begins to occur, which was the case here.

Sources of Data

The six sources of evidence discussed by Yin are documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts (Yin, 1994:80). These categories provide a useful framework for itemizing the data that relate to the research propositions of this study. The following table summarizes the data that were collected:

Table 2

Sources of Evidence

Sources of Evidence	***Examples of Evidence***
Documentation	• *Emails/Memos/Letters* • *Departmental guides and policy* • *Information/Presentation binders from meetings* • *Minutes from meetings* • *Internal-use spreadsheets*
Archival Records	• *Organization Charts (over time)* • *Financial* • *Employee Surveys* • *Old financial system user reports* • *New financial system user reports* • *Computer usage reports*
Interviews	• *Directors* • *Admin Assistants* • *Finance Staff* • *Program Managers*
Direct Observation	• *Observation and recording of tasks being carried out by organizational actors*
Participant-Observation	• *Attendance at meetings (special meetings, regional program-specific meetings, regional management meetings, regional staff meetings, national finance meetings, national senior management meetings)*
Physical Artifacts	• *Posters, flyers, and bulletins (including logos)* • *Computers/software used* • *Power Point presentation slides*

Each of the six sources identified by Yin was used for this research in an effort to identify emerging patterns and to corroborate findings through triangulation.

Documentation and Archival Records

Documentation and archival data share the characteristic that neither are prepared for nor affected by the research being undertaken. They are unobtrusive measures. They are an important resource as they provide data that has not been influenced by the researcher, a major factor in addressing researcher bias (see Atkinson and Shaffir, 1998). This does not, however, provide assurance as to the lack of bias of the information they contained as each are usually prepared for a specific audience and a specific purpose. Context must be taken into account. As a supplement to (or when supplemented by) other forms of evidence, their usefulness is greatly enhanced.

There is little to distinguish these two types of evidence other than a document is a written form (in most cases) of data, while an archive generally refers to a record (such as employee timecards). An example of a document specific to this research was a report or letter provided to a stakeholder. One archival item was a supplier invoice, another was a departmental budget.

Over 480 pieces of documentation and archival data were collected. This included internal reports created by and for the exclusive use of the Saskatchewan Region, as well as regional documents created for external stakeholders such as Saskatchewan First Nations. Organization-wide internal documents were also collected.

Examples of these included reports created by the Saskatchewan Region in order to comply with HQ reporting requirements. External documentation was also collected, including press releases, public statements, and Treasury Board, Auditor General, and Parliamentary Committee documents.

Interviews

Thirty-six formal interviews were conducted. Interview questions were open-ended allowing the informant to answer in as detailed or as abrupt a manner as he or she felt comfortable. The duration of each interview varied from twenty to forty-five minutes depending on the respondent. Thirty-two interviews were conducted face to face, while four (two with senior finance staff from HQ and two from other regional offices) were conducted over the telephone. In the case of senior regional staff, initial interviews were carried out during the period of 1999 to 2000, with follow up interviews conducted from 2002 to 2003. The interviews were recorded with handwritten notes. The use of a tape recorder, although potentially providing a more accurate account of an informant's comments, may have caused undue stress and concern of confidentiality for the interviewees (Fetterman, 1998:64). In order to enhance the accuracy of both the recording and meaning of the responses, summaries of the interviews were provided to interviewees for clarification and accuracy of transcription. On occasion, summaries were returned with additional information provided, which was included in the data. In one instance, an additional interview was requested to provide more information and clarification, and both the original interview and the supplemental interview were included in the database. In most cases, however, a simple email was received stating that the information was accurate.

Direct Observation

Observations were made throughout the fieldwork phase and were recorded in field notebooks. Direct observation differs from participant observation for data gathering classification purposes in that these observations involved no interaction with the subject. An example is documenting the observed routines of staff performing their duties. This was done from a distance and differs from participant observation in that the researcher does not actually perform the tasks himself, but simply documents the ways in which these tasks are performed. The data collected here related to areas of the organization in which the researcher had no direct influence (i.e. outside of the Finance Sector and Corporate Services Sector). This level of observation has been characterized as "passive participation" (Spradley, 1980:59).

Participant Observation

Participant observation has been employed to "great advantage" by enthomethodologists (Burawoy, 2003) and was the main method of data collection. It is a mode of data collection that requires the direct involvement of the researcher in the daily lives of the actors involved at the study site. Through this interaction the researcher is able to observe and experience meanings from an insider's perspective. It differs from the direct observation recordings in that further insight into motives and behaviour is obtained as the researcher actively participates in the situation (see Yin, 1994:80). The researcher must be wary, however, of any biases introduced by being an active participant in the phenomena being studied. While direct observation as a participant is a primary information gathering method, casual conversations and impromptu interviews are also common sources of data collection (in addition to the interviews, documents, and archives mentioned above) (Jorgensen, 1989:22). By conducting an ethnographic study the researcher takes a phenomenological approach to research rather than entering into the study with *a priori* values regarding how systems should work (Fetterman, 1998:20). The existence of multiple realities is a cornerstone to the emic perspective that lies at the heart of much ethnographic research. Observations were made without judgment or assessment against some objectively knowable standard. Rather, observations were documented simply as observed; the meanings and purposes behind actions were those attached to the actions by insiders in the organization. These meanings were sought out through informal questioning and casual conversation.

Observations of day-to-day activities, casual comments from employees, and activities.associated with specific events such as HQ staff visits and audits, were recorded in field books, written by hand. Personal journal entries of impressions and observations were also kept. The fieldwork journal recorded observations and comments, impressions and thoughts and served as a personal record of the researcher's experience within the organization. Journal entries were always typed up using a word processor and were password protected. Journal entries were recorded approximately once every two weeks and served as a reflective process. Incorporating a reflective process into the study design helps the researcher take into account any personal biases and feelings and assess their influence on the study (Spradley, 1980:72).

Eleven major management meetings were attended (such as national meetings and formal regional meetings) in addition to the regular management meetings, such as quarterly Regional Management Committee (RMC) meetings (eight were attended) and program managers meetings, of which over forty were attended. Sector (Corporate Services) and regional all-staff meetings were also attended. Observations of these meetings and functions were documented, as were comments made by the participants. These observations and minutes were later provided to attendees to ensure their accuracy. Handouts and presentations (reports, Power Point slides, etc) distributed at the meetings were kept. These provided an informative view of the rituals of the organizations when followed up with informal interviews and conversations. A seemingly concise and detailed study on the impact of regional economic development initiatives provided at a meeting, for example, takes on a whole new meaning when it, as a source of data, is supplemented by informal comments such as "its all smoke and mirrors"[10]. This speaks not only to the content itself, but also to the behaviour of the actors in the organization. The researcher, therefore, must be cautious about accepting statements and observable behaviours at face value. The possibility that individuals are being affected by the presence of the researcher and are putting on appearances must be considered. For this research, discussions with trusted informants who have attended meetings where the researcher was not present have provided some assurance organizational actor behaviour was not affected by the researcher's presence at meetings.

[10] Comments from Director and Program Manager at the RMC meeting held in Spring, 2003 – see Chapter Four.

Given the role of the researcher as the senior financial officer for the region, the type of participation for the majority of this study was complete participation (Spradley, 1980:61). An understanding of the rules and norms of the local environment and the broader organizational environment was developed throughout the fieldwork stage. The senior financial officer position was the lead site manager for the implementation of the new financial system. While there was observing, there was also doing.

Artifacts

As mentioned, PowerPoint presentations from meetings were kept and these can be considered artifacts. Additional artifacts collected and/or described included flyers (one page "fact" sheets regarding the new financial information system is an example of a flyer) and posters, such as Financial Information Strategy posters. A listing of computer software being used was also completed. The use of certain software, for example, was determined to infer the level of expertise of certain individuals, which was recognized throughout the organization by other individuals using similar software. An informal "group" existed comprised of these software users.

Organization of Data

For this case study, multiple databases were constructed using the Microsoft Access software program. A database was assembled for each major data type, specific to this project. A database was built for documentary evidence, such as e-mails, with a link to the electronic copy of the document. A separate database existed for the categorization of literature informing the theory development. The following is an example of such a database.

Figure 2

Case Study Database

Microsoft Access - [Docs : Table]

File Edit View Insert Format Records Tools Window Help

ID	ID1	Type	Desc	Sour	Field1	Loc	H Link	Notes
67		F	Financial Analysis- Sask by RCM	INT		20		This is a great summary of vote 5 -
68		F	Financial reforms bypassed	Calga		21		Newspaper article emailed around
69		D	A-Base HR National Meeting	INT		DOC1-14		compare with SMM version
70		D	Results for Canadians - A Mgmt Framework	TB		DOC1-15		
71		F	Reports made easy for managers (OASIS)	INT		22		good doc for management use of s
72		F	Listening to Canadians	Comn		23		survey - good for opinion on gov pe
73		F	Financial Policies Manual section	INT		24		use of "overprogramming"
74		F	Communications Policy Roy Bird Ad	INT-re		25		
75		F	Demo of PS Executives and EX feeder groups	INT		26		great stats - case for institutionaliz
76		F	Ottawa boasts over 453,000 on payroll	Hill Ti		21		tells of how long it took to find out f
77		F	Finance Roles and Responsibilities (HQ)	INT		27		Good for description of relationship
78		D	Integrated Risk Management Framework	TB		DOC2-1		includes message from TB preside
79		D	Framework for Identifying Risks in G&C Progra	OAG		DOC2-2		
80		F	FN Year-End Reporting Handbook	INAC		28		2001
81		F	Sample of Agreement revision incl. TP request	INT		29		Veterans Funding from IGR w T&C
82		F	Salary Forecasts - Full Docs, multiple time fra	INT		30		Include salary portion of MVR/OSN
83		F	Management Variance Report (MVR) instructs	INT		31		
84		F	MVR Response from HQ January 2003	INT		31		
85		F	CADC Calculations	INT		32		
86		F	RPA Working Group Documents	INT		33		Good mapping of OASIS shortcomi
87		F	Charts	EXT		34		2000-01, 2002-2003
88		F	CANE Budget Request w annual plan	INT		35		NY Budget File 2002-03
89		F	Leadership and Learning Budget Request	INT		35		NY Budget File 2002-03
90		F	Funds Recdeived From HQ Tracking Doc	INT		35		Jun 02
91		F	Budget Transfer Form for Cash Managed Fund	INT		35		Vote 15 to Vote 5 cash managed t
92		F	LTS Budget	INT		35		NY Budget File 2002-03
93		F	Int Free Balance Report All RCM, All Vots	INT		35		NY Budget File 2002-03
94		F	2002-2003 Initial Budget Fax from HQ	INT		35		Directed to FS, not CS - from John
95		F	CS financial report by CCM	INT		35		Feb 2002
96		F	Projected FTE Analysis	INT		35		May 6, 2002
97		F	Prior Year Vote 5 Surpluses	INT		36		For surplus PM! Good doc
98		F	Vote 15 Surplus investigation - J Bergen	INT		36		Illustrates importance of this PM
99		F	PAYE for Collective Agreements	INT		36		April 2002
100		F	Negative encumbrance impact analysis	INT		36		
101		F	Salary PAYE and accrual calculations	INT		36		Dev by Ron Schneider and I for 200
102		F	2001-2002 Common Initiatives forecast	INT		36		March 19, 2002

Record: 1 of 323

Datasheet View

In this example, there are nine fields. The first two fields provide identifiers for each record. The first is a key identifier, which was used when all of the databases became linked. The second field provides an indication of the type of record. In this case these are all documents, as identified in an earlier record (not shown). The third field identifies the document as either a file folder of related material (F) or a single document (D). The description field notes either the exact title of the document or a brief description of those documents without a title. The fifth field identifies the source, such as an internal document (INT) or a Treasury Board document (TB), for example. The next field is used to identify a specific source for the provision or creation of the document. That is, it identifies the individual who created the document by name, if applicable. This was used to guide the researcher for follow up questioning and further document gathering, but has been left blank here for confidentiality purposes. The seventh and eighth fields are related to the filing system for the document, providing either a file locator for physical data or a hyperlink for electronic data. The final field is for any relevant notes the researcher made about the document.

Field and interview notes were made by hand in bound notebooks. These notes were subsequently transcribed into electronic form using a word processor. A hyperlink to the electronic copy is included in the "notes" field. The electronic copy provides a reference to the original handwritten source (i.e. Field Book II, pages 42-51) and the original notebooks were kept.

Data Analysis

The primary analysis technique utilized for this research was explanation building using pattern matching. The process is iterative in nature (Yin, 1994:111) in that propositions (initial and subsequent) are continuously revisited throughout the data collection and analysis phase until a final explanation can be derived. The emphasis is not on logical deductive reasoning, but rather on informing through systems of ideas (Neuman, 1991). A theoretical pattern can be developed in an iterative fashion in contact with the pattern emerging from the data, a process described by

Campbell (1966:98). As Campbell points out, "...there are many aspects of the pattern demanded by theory that are available for matching with...observations in the local setting" (Campbell, 1975: 182). Documentation was reviewed using a form of content analysis (see Robson, 1993: 275). In particular, documents were categorized with respect to type (i.e. report, letter, email, etc), subject matter, intended audience, source, date, and where possible, context.

Ethnographers seek out patterns of thought and behaviour as they sift through minutia of data. Phenomena can recur and they recur within the context of some discernible relationships (Forcese and Richer, 1973:9). From these patterns crude models develop that are further tested against data in an iterative manner until themes emerge that consist of a collection of matches between a refined model ("abstracted from reality") and the ongoing reality (Fetterman, 1998:96-97). This process has been described as cyclical, beginning with ethnographic questions, followed by data collection, recording, analysis and the revisiting and refinement of further ethnographic questions (Spradley, 1980). The process then repeats itself.

Yin also describes an iterative process for explanation building, a type of pattern matching. Beginning with an initial proposition, this is compared with data collected at the initial stages of the inquiry. The proposition is revisited and refined and assessed against further data. The end result is a final explanation achieved through a series of iterations. Against this, rival explanations are considered and tested.

This research began with an original proposition drawing upon Weber's theory of bureaucracy:

"INAC-Saskatchewan would resist the new financial information system and the associated change in behaviour anticipated by its implementation due to the restrictive culture emanating from the bureaucratic structure of the department that has been cultivated over decades".

As data collection moved forward, broad patterns emerged from observations, documentation, and archival data, and particularly through interviews, where patterns of language revealed a common understanding among actors in the organization that "outsiders" would not easily identify (if at all). Early in the data collection phase, it appeared that the theory of bureaucracy held insufficient explanatory power to model the reality that was being recorded, as the principles of rationality and efficiency were not found to be present in the typical way. A pattern that dominated the data was the existence of informal routines that, to the actors, were every bit as important and legitimate as the formal processes of the organization, even in instances when they were no longer contributing to the stated goals of the organization. Alternative theories were considered, particularly agency, stakeholder, and resource-dependency theories before institution theory was deemed to provide the theoretical framework most helpful in interpreting the organization's behaviour.

A second, more powerful proposition was developed based upon the Burns and Scapens conceptual framework of management accounting change (described in chapter two):

"INAC-Saskatchewan would resist the new financial information system and the associated change in behaviour anticipated by its implementation due to the rigidity of institutionalized processes that held their own meaning to organizational actors".

As the implementation of the new financial information system continued, the reaction of organizational actors did not completely fit the Burns and Scapens framework, particularly as it related to another theme, professionalization, which was emerging from the data. Drawing upon new institutional sociology (NIS), the original Burns and Scapens framework was further refined to reflect the patterns and themes in the data. This iterative approach to explanation building provided the opportunity to see Old Institutional Economics and New Institutional Sociology as complementary rather than competing streams of theory based upon the empirical data that had been gathered.

The result was the creation of a more robust framework and proposition drawing upon two streams of institution theory to explain the phenomenon of public sector adoption of externally driven management accounting change. More specifically, a final proposition remained:

"INAC-Saskatchewan would *not* resist the implementation of a new financial information system. The associated change in behaviour anticipated by its implementation, however, would not be realized due to the rigidity of institutionalized processes and attitudes supported throughout the department in the form of an overriding normative influence caused by professionalization that conflicted with the taken-for-granted assumptions about management accounting information derived from outside the public sector".

Access to Information Legislation

The *Access to Information Act* was developed with the purpose of extending

> "the present laws of Canada to provide a right of access to information in records under the control of a government institution in accordance with the principles that government information should be available to the public, that necessary exceptions to the right of access should be limited and specific and that decisions on the disclosure of government information should be reviewed independently of government" (Department of Justice, 2004:A-1).

The *Act* played two important roles for this research. First, it guaranteed full access to virtually all archived documentation from the Government of Canada. The only exceptions would be documents relating to national security, employee privacy, and the like, none of which were critical. Although submission of a formal request through the *Access to Information Act* was never made (all requested documents were provided voluntarily), the existence of the *Act* facilitated the access (i.e. individuals were willing to voluntarily provide documents that they knew they would have to release if a formal request was made).

The second implication relates to the content of the material reviewed. The existence of the *Act* means that virtually all documentation created within government can be viewed by those other than the intended audience. It is important to consider the context within which a document is created, of course, but it also important to consider that documents are created with the knowledge that many people can access them. It is, therefore, essential to read each document critically and supplement one's understanding of the meanings contained therein through corroborating evidence (Yin, 1994:82; Fetterman, 1998:93; Robson, 1993:280), particularly in this case.

Trust and Confidentiality

Ethical considerations for field research figure prominently in the literature. The code of ethics to which ethnographers subscribe specifies first and foremost saving the people or community under study from harm (Fetterman, 1998:129). It is essential for the researcher to safeguard the rights, interests, and even the sensitivities of informants (Spradley, 1980:21) and individuals must be protected (Canadian Anthropological Society, 2002; see also American Anthropological Association, 1998)[11].

In field research trust is necessary to collect accurate, dependable information and for unobstructed access into the daily lives of informants (Jorgensen, 1989:70). It will improve the quality of data (Johnson, 1975). Jorgensen identifies obstacles

[11] With its origins in anthropology, ethics in ethnographic research often draws upon its anthropological roots.

created in an environment that lacks trust, such as hostile informants and politically motivated responses (Jorgensen, 1989:78), and identifies strategies for overcoming them such as engaging hostile or "cold" informants directly. While understandably cool at first, relations with informants warmed up rather quickly as the researcher became better known. Access to individuals and documents was not obstructed and responses to direct questions were forthcoming and seemingly sincere. The environment, however, should be recognized as being highly politicized. Actions and responses to queries were received with skepticism (not cynicism, however) and motives other than those expressed by the informant were considered throughout the fieldwork phase.

One factor that can enhance trust is the expectation of confidentiality and the researcher's ability to maintain it (Fetterman, 1998:141). While the *Access to Information Act* addresses the issue of confidentiality of documents (see above), it does not apply to observations and interviews carried out during this research. Informants have the right to remain anonymous (Spradley, 1980:21) and for this study, they are.

Anonymity has been described as the third state of privacy, where the individual seeks freedom from identification (Kimmel, 1988:87). It can be argued that informants are more willing to speak freely when they are not speaking with a "stranger". Informants, therefore, are not on guard. And in the case of some informants interviewed for this study, the researcher was in a position of authority. This is recognized. It should also be recognized, however, that a supervisor in the public service could not summarily dismiss or punish a subordinate based on differing opinions. This is the liberating reality of an environment that has a very active union and more than one alternative to the grievance process (ombudsman office and the office of wrong-doing are two examples). Informants under the supervision of the researcher, therefore, could be expected to speak freely. As with all interview information, however, corroboration through interviews with other informants, documentation and observation was sought.

A comment that was heard on several occasions (and provides an accurate indication of the willingness of the participants' involvement in the project) was "don't say I told you so, but…". Honesty did not appear to be an issue, but anonymity was, even in those cases where it was not explicitly requested or offered. Anonymity therefore is preserved throughout the pages of this thesis.

Although no informant is identified by name in this thesis, the public service in Canada is not sufficiently large, in the researcher's opinion, to guarantee anonymity, particularly given the descriptive nature of the research. It would not require a great deal of effort on the part of an informed reader to ascertain the general source of many of the comments and documents cited here, even though no names are mentioned. It is the researcher's opinion that a reader would be able to identify particular individuals in many cases based on the job classification, subject matter, and the way in which access to the subject matter is generally granted by level within the organization.

Confidentiality was not explicitly guaranteed. It is the researcher's opinion, however, that it was implied and informants conducted themselves based on that assumption. The assumption of confidentiality, especially as it related to informal conversations and comments made at meetings that are not reflected in the official minutes, was found during the field study to be well engrained in the culture of this organization.

In order to achieve the objective of providing a richly detailed description of the environment and processes therein while ensuring anonymity of the informants, informants are identified in this thesis by a generic job title (i.e. "Director" rather than their more specific title of "Director of Economic Development", for example) or by their job category acronym (i.e. "FI" for a finance group employee rather than "FI-03", which further narrows down the source of the information provided to the point where the individual can be easily identified – in this example, there is only one position classified as an FI-03 in INAC-Saskatchewan).

Limitations

Two primary significant limitations to ethnographic case studies are bias and losing objectivity. Each will be addressed.

Case studies represent a researcher's interpretation of social reality and therefore there is no such thing as an objective case study (Scapens, 1990:277). In this type of the research (an ethnographic case study), the researcher is the data collection instrument (Fetterman, 1998:31).

Bias, however, can also exist in other forms of inquiry, including experimentation, historical inquiry and surveys (Yin, 1994:10).

One way to address bias is to present findings to colleagues (Yin, 1994:59; Lincoln and Guba, 1985), particularly during the data collection phase. As previously mentioned, this research was presented as a "work in progress" throughout its development at peer-reviewed conferences and academic gatherings. A researcher can also guard against the effects of bias by making them explicit (Fetterman, 1998; Hopper and Powell, 1985). This was done through the provision of the researcher's background, which clearly describes a frame of reference quite different from that existing at the organization being studied. By being explicit, the researcher can identify *a priori* values and be aware of their potential impact on the research. The reflexive process of keeping a personal field journal assisted in the identification and role of these values throughout the study.

Bias can be particularly damaging in participant observation studies where the researcher may have an opportunity to manipulate behaviour by being an active member of the organization. In this organization, this would have been difficult to orchestrate given the devolution of authority and the limited influence of the senior finance position (i.e. the position is not represented on the senior management team and while it accounts for budgets, it does not control them).

The second inherent danger in ethnographic studies for the researcher is the process previously mentioned in this chapter and described by Hammersley and Atkinson as "going native" by adopting the norms and values of the group under study (Hammersley and Atkinson, 1995). This has also been described as "becoming the phenomenon" (Jorgensen, 1989:62). A participant observer can become a supporter or advocate of the group under study and may not be able to maintain an objective distance (Yin, 1994). The result is research that is contaminated with subjectivity and personal opinions. Again, critiques provided by peers throughout the research process enhance objectivity.

CHAPTER FOUR

DATA

This chapter presents the data collected for this study. It is comprised of two main sections. The first is a brief overview of the context of the study. This section begins with a description of the federal Canadian public service, its structure and its financial reporting. This is followed by a review of New Public Management in Canada and of one initiative in particular, the Financial Information Strategy. Finally a description of the federal government department of which the organization being studied is a part, is provided, along with a brief overview of the unit of analysis itself, the Saskatchewan regional office.

The second section is comprised of the field study data. The field study is broken down into three phases demarcated by the implementation of the Canadian government's Financial Information Strategy. In the first phase, the situation at the organization is described as it was prior to the implementation of the Financial Information Strategy. In particular, a review of the budgeting process, the formal accounting system, the management accounting reports, external reports, and performance measures are reviewed. It is in this phase of the study that an informal management accounting system was documented and this, too, is described.

This is followed by the second phase of the field study, the implementation of the Financial Information Strategy at the organization.

The final phase of the field study re-visits the budgeting process, the management accounting reports, external reports, and performance measures subsequent to the Financial Information Strategy implementation.

Finally, a summary of the key findings drawn from the data is provided.

Context

Government of Canada

Public services in Canada are provided primarily through three levels of government: federal, provincial, and municipal[12]. The focus of this research is on the federal government public service.

Services provided by the federal government are done so through federal government organizations, such as departments, agencies and crown corporations. The attributes that differentiate these types of organizations (i.e. an agency versus a department or crown corporation) are governance structures and adherence to various legislative acts, such as the *Public Service Staff Relations Act* (PSSRA), the *Financial Administration Act* (FAA), the *Public Service Employment Act* (PSEA), the *Public Service Superannuation Act* (PSSA), *the Official Languages Act* (OLA) and the *Access to Information and Privacy Acts* (AIPA).

[12] There is also a growing Non-government organization (NGO) sector comprised of not-for-profit organizations delivering public services, often funded by government. This mode of public service provision is referred to as alternative service delivery.

A department, for example, must adhere to the hiring practices outlined in the *Public Service Employment Act*, while an agency does not. Of the various types of organizational structures used by the government, the departmental structure is the most highly regulated and the traditional organizational form for federal government organizations delivering public goods and services (Kernaghan and Siegel, 1989:140).

Departments exhibit the characteristics of a bureaucracy in both form and functioning. These characteristics include a hierarchical organizational structure, defined jurisdiction, specialization, professional training, fixed compensation, and permanence (Marx, 1966). A typical Canadian government department is structured as a pyramid (a hierarchical organizational structure) with an elected Member of Parliament (appointed as a minister) at the top who is responsible for the department.

Jurisdiction refers to the limited sphere of activities for which an organization is responsible and the fact that the organization will not cross over into another sphere of activities. For example, the Department of Indian Affairs and Northern Development has a clearly defined mandate derived primarily from the *Department of Indian Affairs and Northern Development Act* and the *Indian Act*. With jurisdictional boundaries established, this leads to the development of specialization. That is, the organization and its staff become highly specialized in delivering a specific set of services.

In order to deliver services effectively, professional training, the fourth characteristic of bureaucracies identified by Marx, is provided, largely in house. There are specialized training programs for managers entering the public service (Management

Training Program, the Career Advancement Program, and the Accelerated Associate Deputy Minister Program) as well as an official school designed for providing training specifically for workers in the public sector[13].

Marx states that in a typical bureaucracy employees receive compensation that is set out in a schedule rather than set at the discretion of supervisors. In the Canadian federal public service jobs are categorized by primary activity, and within each category a variety of job levels are established, based on the level of responsibility. Salary ranges are specified for each job level in each category. Compensation, therefore, is fixed and beyond the discretion of supervisors[14]. The main categories relevant to this research are Administrative Services (AS)[15], Program Administration (PM), Financial Management (FI), Personnel Administration Group (PE), Clerical and Regulatory (CR), and the Executive Group (EX).

Finally, departments generally enjoy a greater degree of permanence than might be found in other sectors of the economy. By virtue of the services they provide and, often, their monopolistic nature, they are relatively permanent structures in the Canadian economy. The federal government department relevant to this study, as described in a subsequent section of this chapter, has been in existence in one form or another for well over one hundred years.

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[13] The existence of the school is enshrined in legislation, *Canada School of Public Service Act (1991)*. The federal Government also has contracts with the Banff School of Management, Royal Roads University for training delivery.

[14] A notable exception is at the Director (EX) level. Employees at the EX level do have fixed compensation rates, but are also entitled to additional compensation based on performance. The "performance pay" is awarded at the discretion of the supervisor.

[15] Each job title is followed by the acronym used in the everyday language of the organization.

The majority of employees in the federal public service belong to a single union, the Public Service Alliance of Canada or PSAC[16]. The two most notable exceptions are the Executive group (EX) and the Financial Management group (FI). The EX group have no union affiliation, but its members are supported by networking mediums such as annual EX meetings (department-wide), a magazine entitled Public Service Executive and an association, APEX (the Association of Professional Executives of the Public Service of Canada). The EX group, by and large, are well versed in the culture of the public sector as ninety-five percent of entrants into the EX category are recruited from within the public service itself[17].

The FI group belongs to a collective called the Association of Canadian Financial Officers, which essentially is a union (the group negotiates employment contracts on behalf of its members). Since there are three separate professional accounting designations in Canada[18], it provides a unifying association for the professional accounting staff of the federal public service[19].

In addition to these connections, public service employees as a group have an affiliation. In Canada, one day per year is dedicated to honouring public servants (Public Servant Day) during which events are held across the country to celebrate

[16] This union has over 150,000 members (http://www.psac-afpc.org/about/who/who-e.shtml), while the total number of public servants working for the federal government in 2000 was just over 186,000 (http://www.hrma-agrh.gc.ca/reports-rapports/es-se99-00-1_e.asp).
[17] "The Demographics of PS Executives and EX Feeder Groups: a presentation to the CCMD Board of Governors" by Scott Searson, President, Public Service Commission of Canada, December 14, 2001.
[18] The "CA" designation is administered by the Canadian Institute of Chartered Accountants; the "CGA" designation is administered by the Certified General Accountants' Association of Canada; and the "CMA" designation is administered by the Society of Management Accountants of Canada.
[19] The first aim of the organization is "To unite in a democratic organization all public service financial administrators". For more information see: http://www.acfo-acaf.com/index.html

their work. There are public service awards for long-time service and a public service magazine that celebrates what it means to be a public servant.

These public sector employees also share a commitment to community service. Indeed, each employee is entitled to one paid day off per year to perform volunteer services outside of their normal work-related duties.

A key organization for the management of the federal public service is the Treasury Board Secretariat (also referred to in the public service and in this document as the Secretariat or simply Treasury Board). The Secretariat reviews all expenditures and annual budget requests made by the departments before they are presented to Cabinet (the Cabinet is the executive branch of government comprised of elected Members of Parliament who have been appointed to ministerial positions, and the Prime Minister). It is also responsible for the management of personnel, the development of policies, directives, and regulations, and performs the comptroller function (i.e. sets accounting policies, internal control systems, etc). In short, it acts like a general manager for the federal public service (Treasury Board of Canada, 2004). Since all budget proposals must pass through the Secretariat before reaching Cabinet and since they provide the formal directives and procedures for the management of government activities, this organization is very influential. While its responsibilities are diverse, one of the overall purposes of this organization is to ensure the efficient and effective use of resources, both human and financial (Kernaghan and Siegel, 1989).

Reporting

The primary way in which the government reports its financial results is with a document entitled the "Public Accounts". This document contains highly summarized financial statements that are reviewed by Parliament through a parliamentary committee and are available to the general public. The Public Accounts are issued in three volumes. The first volume presents summarized information, including the government's financial statements. The Public Accounts consists of four primary financial statements: a Statement of Transactions, a Statement of Revenues, Expenditures and Accumulated Deficit, a Statement of Assets and Liabilities, and a Statement of Changes in Financial Position (Public Works and Government Services Canada, 1999). The Office of the Auditor General, an independent government organization[20], audits these statements. While these four statements contain highly summarized information, information in greater detail is also provided in Volumes II and III. Volume I of the 1999 Public Accounts was 257 pages in length. The second volume, which provides detailed financial information and is appropriately titled "Details of Expenditures and Revenues", was 424 pages long that same year. The final volume, Additional Information and Analyses was 334 pages long in 1999.

These reports are similar in form to an annual report for a large corporation. "Management" discussion and analysis make up a large part of the document and include comments on economic conditions, trend analyses, budget to actual comparisons and so on. Volume II contains information on a per department basis.

[20] The Office of the Auditor General reports directly to the House of Commons rather than the ruling government of the day.

This information, however, is still highly summarized. Expenditures are reported on the basis of business lines (i.e. the type of program being funded) and by type of expenditure (i.e. payments for operating expenditures, grants to individuals and so on), but in the case of the Department of Indian Affairs and Northern Development, or any other department for that matter, information by regional office is not provided.

Although these statements appear to be straightforward one Royal Commission[21] studying the financial management of the Government of Canada reported that "it would be difficult for anyone but a skilled accountant familiar with the organization of government to determine the exact amount of the budgetary deficit" (Royal Commission on Financial Management and Accountability, 1979:254).

A second important reporting document is the Departmental Performance Report. These reports are made available by the Treasury Board and relate, as the title suggests, to the performance of each department (there is a separate report for each department). It could be said that the Public Accounts report on spending and therefore compliance with legislative authority for the utilization of public monies. The Departmental Performance Report, or DPR, reports on the results that have been achieved from that spending. Prior to the review of budget requests by Cabinet, each department creates a document entitled Report on Plans and Priorities, or RPPs, which outlines in a detailed manner the department's goals and objectives along with the associated expenditure plans.

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[21] A Royal Commission is a major government inquiry into an issue. A temporary committee is assembled to study issues outlined in a terms of references after which recommendations are made to government officials.

The Departmental Performance Report refers back to the objectives of the organization identified in the RPP and provides *ex post* information on the achievements of the department. These reports identify the key commitments made by the government for the department and report on the results of the department with respect to achieving those commitments. They include sections on departmental performance, consolidated reporting, financial performance and a departmental overview (a descriptive section of the report outlining the mandate, organization and business description of the department). Both reports are produced annually.

Budgeting

The budgeting process for federal government expenditures is described (and illustrated) as circular and takes place annually (Treasury Board of Canada, 1996). Departments begin the process by submitting a business plan (the Report on Plans and Priorities) to the Treasury Board. The role of Treasury Board is to scrutinize the plan and, where necessary, ask for revisions, clarifications and justifications for planned expenditures. The finalized plans are forwarded to Cabinet, where government priorities are established.

The Government of Canada has employed many budgeting processes over the years, including line-item budgeting, performance budgeting, program budgeting and zero-based budgeting (Kernaghan and Siegel, 1989). Today, budgets are generally prepared at the departmental level by "service line" or major business segment, within the context of the department's overall strategic objectives. This is not unlike line-item budgeting in practice, although service lines are a summary of line-items (i.e.

they would include multiple spending activities such as salary and overhead costs, along with transfers to individuals and organizations, in a single line associated with a particular program or initiative). Multi-year plans are prepared that outline the objectives of the department and project budget requirements beyond a single fiscal year. The final planning document, the Report on Plans and Priorities, serves as a guide for a department's activities. This is followed, at the end of the fiscal year, by the production of the Departmental Performance Report.

The above section provides a broad overview of the administration and procedures of the Government of Canada. The delivery of public goods and services is performed by myriad organizations including departments. Departments are the oldest form of federal government organizations, are the most highly regulated and are highly bureaucratic in nature. The public service workforce performs highly specialized activities and is tightly connected through union affiliation, associations and through the shared values of the public service itself as expressed through events such as public servant day. Government reporting is highly summarized, as might be expected for such a large organization. Documents that report solely by department are more detailed and provide more information relating to plans and performance. Finally, we note that despite the highly regulated, bureaucratic structure of departments, numerous changes in the budgeting process have been attempted throughout recent history.

New Public Management

The process of public sector reform in Canada has been described as episodic and limited in scale and dimension (de Laine, 1998). At least one author, however, deems this characterization as "unfair", noting that while the structure at the central level of the Canadian government has remained the same, changes have occurred at the local level where service delivery occurs (Ferlie and Steane, 2002). Episodic or not, reform in Canada has not been as widespread as in other countries and has lagged the reforms of the UK, Australia and New Zealand. Although some significant public sector initiatives took place in the 1980's, Canada began its foray into New Public Management in the 1990s (Linquist, 1997), espousing the need for responsible spending, client-centered service delivery, results-based management and results-based reporting in government in a document entitled Results for Canadians (Treasury Board of Canada, 2000a; see also Getting Government Right, Treasury Board of Canada, 1997).

In 1990 the document Public Service 2000 (also referred to as PS 2000) was issued (Privy Council Office, 1990). This was a document intended to promote significant reform across the Canadian federal public service in order to prepare it for the challenges that awaited it in the new millennium. One of the themes that emerged from earlier reform initiatives was the notion of "letting managers manage". PS 2000 promoted this in a number of ways including shifting authority to ministers and departments from central agencies such as Treasury Board and moving to single operating budgets (i.e. virements)[22].

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[22] The People Side of Budgets, Draft, December 18, 1991, Treasury Board of Canada

The latter allowed managers to move funds to where resources were needed (i.e. between salary, minor capital, and operating expenses, such as travel and so on). It is important to note that the delegation of authority to the regional offices of departments was considered a priority (Privy Council Office, 1992). Also important was the promotion of a more entrepreneurial spirit among managers that accompanied this new authority. Managers, for example, were encouraged to focus on results rather than rules and procedures (Parliamentary Research Branch, 1998). This represented a significant change in mindset, and although PS 2000 would falter under a new government and program spending cuts, promoting the new mentality, single operating budgets, and the ministerial authority delegation change would remain.

As the 1990s continued numerous strategies were employed in an attempt to improve client service. These included partnering with other levels of government and the private sector, alternative service delivery (i.e. funding non-profit organizations to provide public services), and service clustering (one-stop service providers). Other initiatives included improving accountability to Parliament, improving performance measurements and modernizing the comptrollership function (Treasury Board of Canada, 1997).

Comptrollership in the Canadian government traditionally referred to the recording and reporting of financial information and providing assurance that resources were used in the manner for which they were intended. The Canadian government sought to modernize the role of comptrollership in the Canadian public service by emphasizing "integrated financial and non-financial performance information, vigorous stewardship of resources, sound risk management and open reporting of results" (Treasury Board of Canada, 2001a). An initiative aimed at improving the comptrollership function was entitled Modern Comptrollership. The government viewed traditional comptrollership as focusing on financial information, while Modern Comptrollership focused on people (Treasury Board of Canada, 2001b). The reform was aimed at providing managers with information that enabled them to make more "appropriate" choices and to work smarter to achieve better results. A key part of the Modern Comptrollership initiative was the Financial Information Strategy.

Financial Information Strategy

In 1995, Treasury Board approved the Financial Information Strategy or FIS, a government-wide initiative aimed at improving decision-making, accountability and organizational performance. FIS was intended to create a financial management model comparable to that of the private sector, according to the document Getting Government Right (Treasury Board of Canada, 1997:16). The importance of this initiative is evidenced in the literature that accompanied its implementation. As an integral role in Modern Comptrollership, it is listed first in the supporting initiatives component of the Modern Comptrollership logic model (Appendix 1). A more telling graphic is its depiction as the centrepiece of a puzzle that illustrates the linkages between the various public sector reform initiatives and objectives (Appendix 2).

FIS is comprised of three key components: systems, policies, and people. With respect to systems, a commitment was made to upgrade each department's computerized information systems to "new modern integrated information systems" (Treasury Board of Canada, 2002a), akin to enterprise-wide resource management systems. One of the changes in policies related to FIS was the move from modified accrual accounting to full accrual accounting. Prior to the introduction of FIS, modified accrual accounting was used, which neglected the amortization of capital assets. Although this could be interpreted as a change in financial reporting targeted at external users of financial information (i.e. for use by those outside of the reporting department), it was introduced as much as a tool for managers within departments as a change for external reporting purposes (Treasury Board of Canada, 2002a: 2).

The third component, identified as "people", focused on the use of information. Specifically, it involved a "cultural change" (Treasury Board of Canada, 2002a:1) resulting in the shift from compliance reporting (i.e. reporting where money is spent) to increased accountability and reporting on effectiveness, efficiency and value for money (Treasury Board of Canada, 2002b). FIS, in tangible terms, is about generating more useful and relevant information (Treasury Board of Canada, 2002c). A major desired outcome that was identified was enhanced decision-making leading to improved organizational performance, although specifics regarding the measurements used to evaluate the performance improvement were not provided. Thus, a key success factor under the "people" component was to have managers use both financial and non-financial performance information in their decision-making processes. The cultural change called for managers to embrace the concepts underlying much of New Public Management in general and the document Results for Canadians specifically. That is, improving efficiency, effectiveness and economy in the delivery of public goods and programs.

A useful summary of the promoted benefits of FIS was provided in the Frequently Asked Questions section of the Treasury Board website constructed to promote and explain the initiative[23].

Table 3

Benefits of FIS

Benefit	Detail
Stronger focus on results based management	• Managers will have performance indicators for past decisions, plus • Indicators on strategic priorities • Key Success Factors
Integration of operational and financial information	• Minimizing re-keying and manual intervention • Managers will be provided with financial management information (not just budget information)
Improved asset management	• Better management of assets through the use of accrual accounting and asset tracking (receivables, real property, etc) • This *may* (italics added) improve service delivery
Better identification and comparison of costs	• Accrual accounting to provide a more complete cost of programs • Costs can be compared against other departments and private sector organizations leading to more accurate financial performance measurement
Other benefits	• More timely and relevant departmental and government-wide reports • More informed decision-making

While some specific benefits are improvements in processes, such as reducing re-keying and the production of timelier reports, the general theme of this table is the

[23] http://www.tbs-sct.gc.ca/fin/sigs/FIS-SIF/FIS-SIF_e.asp

improvement of decision-making through the provision and use of improved decision-making information.

The breadth of the expected impact of this initiative is neatly summarized in an accompanying table from the same web site. In it seven distinct stakeholders are identified, ranging from administrative staff through to parliamentarians and the general public.

Table 4

Stakeholder Impact

Stakeholder	Impact
Managers	• Access to better financial and non-financial decision-making information • Change from budget managers to business managers • Impact of decisions measured by impact on future operations (in addition to current year results)
Financial Specialists	• More active role in supporting management decisions
Material Management and Real Property Officers	• Determine appropriate investment levels of capital assets • Oversee amortization of assets • Determine effectiveness of capital asset utilization
Human Resource Specialists	• Access to better information for costing personnel decisions (supportive role to management)
Administrative Officers and Financial Staff	• Better coding accuracy through direct entry into integrated system.
Parliamentarians and the Public	• Access to more relevant and timely financial information
Departments	• Maintain detailed financial records (i.e. their own "books")

Each government department was required to become FIS-compliant by April 1, 2001[24]. What FIS compliancy actually entails is somewhat illusory in the government literature beyond the implementation of a new (or upgrading of an existing) information (i.e. accounting) system, training of staff and managers to use the new system, and the adoption of accrual accounting. It is the latter that appears to carry the most weight considering the government's commitment to produce accrual-based accounting financial statements for the 2001 - 2002 fiscal year (Department of Finance, 1995). It should be noted that in addition to reporting on a full accrual basis, departments would also be required to continue reporting financial information on a modified accrual basis. In other words, the existing reporting policies remained in place in order to satisfy parliamentary requirements regarding appropriations, and two sets of accounting methods and practices would be used simultaneously.

Department of Indian Affairs and Northern Development

Expending over $4 billion annually and employing 3,500 people (Treasury Board of Canada, 2001c), the Department of Indian Affairs and Northern Development is responsible for the administration of programs and funding for Canada's Aboriginal Peoples[25] and for the development of northern Canada. In practical terms this means the department is responsible for programs such as education, housing, social assistance, and infrastructure on reserves as well as encouraging economic development. Reserves are tracts of land for the exclusive use and benefit of

[24] The Government of Canada's fiscal year runs from April 1 to March 31.
[25] Aboriginal Peoples refers to First Nations (such as "Status Indians" living on reserves), Metis, and Inuit peoples.

aboriginal bands (distinct groups of Aboriginal Peoples) which are set aside as described in the *Indian Act*. The *Indian Act* was introduced in 1876 as a means of managing the affairs of Aboriginal Peoples and in particular to manage the designation of lands for use by Aboriginal citizens. The *Act* has been re-written extensively since the 1870's and some of its sections have been successfully challenged in court in recent times. The *Act* remains in place today, however, and continues to serve as the legal authority for the Government of Canada to address matters relating to the aboriginal population.

The department has been in existence, in one form or another, for over one hundred years, an old department indeed by Canada's standards. It has increased in prominence particularly in the last four decades as the Aboriginal population has grown from 3% in 1998 (Statistics Canada, 1998) to over 4.4 % of Canada's population by 2001 (Statistics Canada, 2001).

The official name of the department is the Department of Indian Affairs and Northern Development. It often goes by the name Indian and Northern Affairs Canada or simply INAC (pronounced eye-knack). The name INAC will be used throughout this research in reference to the department as a whole. When a specific part of the organization is described, its designation will follow the INAC name (i.e. the Manitoba regional office would be referred to as INAC-Manitoba).

The structure of the department today consists of a main organizational unit, referred to as "Headquarters" or HQ located in Ottawa, and ten regional organizations dispersed by geographical region. The structure is a traditional hierarchy.

Headquarters is divided up by functional area (see Appendix 3). Each major functional area is subsequently sub-divided into units that deal with specific activities. For example, the functional area of "Lands and Trusts" is responsible for carrying out the numerous activities related to reserves and monies held on behalf of aboriginal individuals and bands. Broadly speaking, "Lands" refers to the acquisition and maintenance of reserve land by aboriginal bands. The Lands and Trusts sector is further subdivided into a Lands sector and a Trusts sector. There is a further sub-unit in Lands that deals with Treaty Land Entitlements (TLE), which involves the acquisition of land resulting from a treaty agreement signed between specific aboriginal bands and the Government of Canada. As one moves down the hierarchy of the organization, each functional area becomes increasingly specialized.

The ten regional offices of the department are located throughout the country, dispersed by province or region (the Atlantic Canada Region is comprised of four provinces). Each regional office is also functionally structured based on the various programs it delivers, such as social programs, capital projects (i.e. infrastructure such as building schools or installing water and sewer lines on reserve land), and Treaty Land Entitlements, to name a few. The structure of the regional offices parallels that of HQ. The exception is the Alberta region, which is structured by Treaty[26].

A Regional Director General or RDG heads each regional office. The RDG reports directly to a Deputy Minister and Associate Deputy Minister. A Deputy Minister is a "second in command" and reports directly to the Minister.

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[26] Three main treaties were signed between three separate groups of aboriginal bands in Alberta and the Government of Canada. The Alberta region has set up what amounts to three mini regional offices to provide services to each of these three treaty groups.

The RDG is supported in the region by an Associate Regional Director General or ARDG. Overseeing each functional area at the regional level is a director who would report either to the RDG or ARDG. The organization is very much top-down managed, particularly in terms of strategic direction. The Minister will align the strategic direction of the department with the overall goals of the government and this direction is communicated down to the regions through the Deputy and Associate Deputy Minister to the RGDs. The RDGs will then communicate the directives at the regional level and ensure their implementation.

Unit of Analysis: INAC-Saskatchewan

Located in western Canada, the province of Saskatchewan has a population of approximately 979,000[27] and a landmass of 651,900 square kilometres[28]. Approximately 13.5% of the province's population is of aboriginal ancestry, much higher than the national average of 4.4% (Statistics Canada, 2001). This population is organized into 74 bands. There are also ten tribal councils (associations that represent a group of bands) and a province-wide association of bands called the Federation of Saskatchewan Indian Nations. INAC, through the Saskatchewan regional office deals with each of these groups.

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[27] Government of Saskatchewan population statistics, 2001.
[28] Government of Saskatchewan Fact Sheet, 2004.

The unit of analysis for this study is the regional office of the Department of Indian Affairs and Northern Development for the province of Saskatchewan, or INAC-Saskatchewan.

The Saskatchewan regional office employs 236 people and has an annual budget of approximately $630 million. It is concerned with the delivery of programs and program funding to First Nations in the province of Saskatchewan and ensures the accountability of First Nations' groups providing program delivery (the delivery of services by First Nations themselves using funding from INAC - an audit function). The main office is located in Regina and there are two satellite offices located in the towns of Fort Qu'appelle and Prince Albert. As is the case in all the regional offices, the organization is headed by two senior management positions, the Regional Director General and Associate Regional Director General. It is structured by functional area with each functional area being headed by a Director (see Appendix 4).

As a result of the devolution of authority in the mid-1990s, each functional unit manages its own budget and is set up as a responsibility centre, which is the government equivalent of a cost centre in a private sector organization. Each director is referred to as a Responsibility Centre Manager or RCM and their units are referred to in departmental accounting terms as RCMs. In the larger organizational units, such as Corporate Services, budgets are further devolved to more specific functional areas, such as the finance unit. The manager of such a unit is referred to as Cost Centre Manager or CCM and their units are called CCMs. There is really no difference between RCMs and CCMs from an accounting perspective equivalent to that found between cost centres and profit centres in private sector organizations. Neither RCMs nor CCMs generate revenues or profits at INAC. They are both cost centres.

The finance function falls within the Corporate Services area and is headed by the Regional Manager of Financial Services, the senior finance position in the region. There are two main sections of the finance sector (this is the same for all regional offices[29]): Accounting Operations (AO) and Resources, Planning and Analysis (RPA). The former is focused on transactional data such as inputting information for cheque production and verifying and approving information entered by the responsibility and cost centre staff. There is also a post-audit function in this area. This area is focused on historical data. The RPA unit, on the other hand, primarily performs a budget management function. As such, it is here that planning and performance information (the formal management accounting information) is produced and monitored.

Because of the variety of programs and services either delivered directly by INAC or funded by INAC, there is no dominant professional group within INAC-Saskatchewan.

> *"There are a couple of engineers and social workers and a handful of professional accountants[30]. The majority of folks, however, including the engineers and accountants, are career public servants. The average length of service is almost eighteen years[31] and I would say it's even longer for senior management, many of whom are about ready to retire".*
>
> -Manager, Human Resources

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[29] Organization Chart: B.C., Alberta, Yukon, NWT, Saskatchewan, Manitoba, Ontario, Quebec, and Atlantic regions.

[30] The number of staff holding a professional accounting designation varied between four and five throughout the course of the field study – field notes.

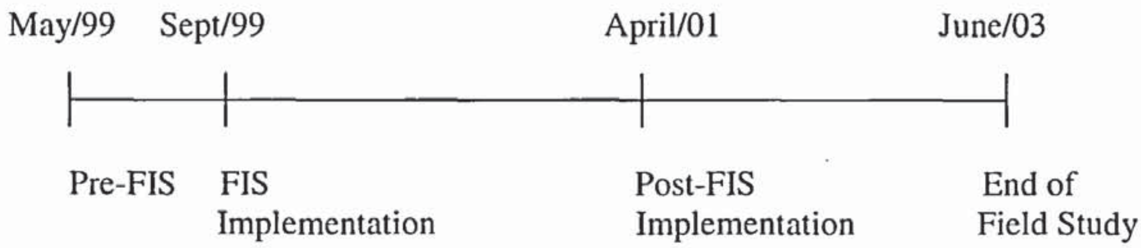
[31] Verified by a PeopleSoft report – PeopleSoft is the Human Resources personnel management system.

Field Study

The field study began in the spring of 1999 and carried on until the summer of 2003. Within this four-year period three distinct phases can be discussed: the pre-Financial Information Strategy implementation period, the period of implementation of the Financial Information Strategy, and the post-Financial Information Strategy implementation phase. The following timeline illustrates the duration of each of these phases.

Figure 3

Management Accounting Phases



The pre-FIS portion of the field study describes the accounting system, regional reports and the decision-making process in the regional office at the time the study began. The FIS implementation section describes the implementation process up to the fiscal year beginning April 1, 2001 when the department as a whole was declared FIS-compliant. The post-FIS section revisits the regional reports and decision-making processes to assess the impact of the Financial Information Strategy on regional operations. During this time, two additional management accounting initiatives were launched by the department and each of these and their impact on the region's operations are described.

Pre- Financial Information Strategy

As with most other regional offices, the Saskatchewan regional office is organized in a bureaucratic form similar to that of HQ with communication between regional sectors being somewhat less than ideal. This characteristic permeates the entire department. Information flows most efficiency in a horizontal manner between the regional and HQ sectors rather than vertically or horizontally across sectors in the regional office[32].

For example, the finance sector at the Headquarters level is divided in a similar way to the regional finance sectors. The HQ equivalent of Accounting Operations is the Financial Policies, Systems, & Accounting Directorate (FPSAD), which oversees the financial system, sets accounting policies and is responsible for the department's financial statements and Public Accounts. There is also a HQ Resources, Planning and Analysis (HQ - RPA) sector responsible for assembling department-wide forecasts, securing funding from Treasury Board, and ensuring compliance with Treasury Board standards while managing the department's resources. In addition to these sectors, there is also a Transfer Payment sector and a Financial Analysis and Program Review sector[33]. The greatest interaction between the regional and HQ staff occurs between counterparts[34]. For direction regional staff often consults with HQ

[32] Former Manager, Accounting Operations – Saskatchewan Region, May, 1999.
[33] Finance Branch Organization Charts, March 2002.
[34] Finance Officer Interviews; Administrative Assistants Interviews; Clerical staff interviews; Human Resources Manager interview; Program Manager interview

staff from the same sector (i.e. Accounting Operations' staff at the regional level deal primarily with FPSAD staff in HQ while regional RPA staff deal primarily with staff in HQ-RPA) for guidance rather than with their supervisors. Informants report (verified by observation) that this type of communication occurs in all other regional areas with staff dealing primarily with their HQ counterparts rather than their supervisors in many instances[35]. The lines of communication, therefore, tend to be more horizontal than vertical.

A common comment is that the various sectors throughout the department do not communicate with each other in a meaningful way, a characteristic often referred to as "stovepipes" (Auditor General of Canada, 1997; Treasury Board of Canada, 1996). "Stovepipes", or compartmentalization, has been a concern for INAC for some time, and was an issue brought to the attention of INAC-Saskatchewan's management in the Spring of 1999[36]. The processes for communication and group decision-making at INAC-Saskatchewan revolve primarily around established working groups. While some committees are formed on a temporary basis for specific tasks[37], there are several permanent working groups that meet on a regular basis. The primary group, a cross-functional committee, is called the Executive Steering Committee or ESC, which meets each Monday morning. This group is comprised of EX-level staff only (the directors, the ARDG and the RDG). At these meetings the RDG or ARDG delivers communications from the deputy minister, current issues are discussed in

[35] AS, PE, and PM interviews; field notes.
[36] ARDG comments: Regional Management Committee, North Battleford, June 1999.
[37] Examples include the six committees formed in December of 2001 to conduct a review of the region's various activities.

order to decide upon any actions required, and general updates regarding sector activities are provided[38].

The only other permanent cross-functional committee is the Regional Management Committee, or RMC, whose members include all EX-level senior managers and most of the program managers as well. RMC meetings are held quarterly.

Despite these groups, the stovepipe phenomenon remained an issue, however, for the department. Based upon the results of a department-wide staff survey, sharing of information figured prominently as one of the five key areas needing improvement in INAC's action plan to address employee concerns[39].

Budgeting

The funding received by the regional offices can be broken down into two broad categories: operational and program expenditures. Operational funding is used for the administration of the regional offices and includes such items as salaries, travel expenses, rent, and so on. The program funding represents monies used for the provision of goods and services to First Nations groups and individuals. Examples include payments to individuals for post-secondary education, funding for capital projects such as the construction of sewage facilities, and funding for education delivered on reserves. In some instances these funds are transferred to First Nations groups, which, in turn, provide the service. In other cases, the services are provided or managed directly by INAC staff.

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[38] Field Notes.
[39] Public Service Employee Survey and DIAND: A Plan for the Future. File # A1465-1.

The budget for the Saskatchewan region is determined by the main INAC office, INAC-HQ. Budget information is communicated to the region in two ways. The formal communication mechanism is a binder of documents entitled the Budget Regime, which outlines the funding that each region will receive in an itemized manner[40]. Prior to its release, however, information regarding funding is "leaked" to the regions[41]. This informal budget information is given in the form of an across the board percentage increase or decrease (i.e. funding might increase one year by 2%, meaning that each budgetary line item will increase by 2% from the previous year's original budgeted amount). This information is provided each year through a conference call between the Director of Resource, Planning and Analysis from HQ and (usually) the Directors of Funding Services and Corporate Services from the regions. The actual formal or official budget is received some time later in hard copy, either by fax[42] or through interoffice mail.

The Budget Regime document is a relatively static document in that the format and funding categories have remained the same for many years[43] with only the amounts allocated to each line item changing from one year to the next[44]. The Regime contains the budget information, but also guidelines and processes for the use of the funds and any required reporting. Similar to an operational manual, it is produced by the HQ staff outlining the processes that regions are compelled to follow[45].

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40 INAC Budget Regimes 1999-2000; 2000-2001; 2001-2002; 2002-2003.
41 Director interview
42 2002-2003 Initial Budget fax received
43 Director interviews
44 An exception is additional funding received for special one-time initiatives.
45 HQ Finance staff interview

While some funding is intended only for a specific purpose and must be used for that purpose or returned to HQ, much of the funding can be moved around among various categories of expenditures as a result of the devolution of spending authority.

Similarly, the Saskatchewan regional office creates budget regimes for the distribution of funds to the RCMs within the region. There are two budget regimes created at the regional office; one for operating funds and one for program funds. As with the regime provided by HQ, there is a template of procedural instructions for each regime that is used year after year with the bulk of the annual changes occurring in the budget figures[46].

At the regional level, each RCM submits a budget proposal to Corporate Services for operational funding. This is submitted after the national budget regime is released and is based on the prior fiscal year's expenditures[47]. For program expenditure funding, in some instances formulas are used for the funding provided to recipients. These formulas are established at the HQ level, leaving little room for RCMs at the regional level to establish their own budgets. For example, funding for elementary/secondary education is based upon a dollar amount per student enrolled in a school. Determining the annual budget in these cases is simply a matter of multiplying the dollar amount allocated per student as provided by HQ by the number of students enrolled, information which is provided by each school. Some of these funds are transferred to the ultimate recipients (First Nations groups) and INAC-Saskatchewan's role is one of monitoring for program compliance. While this is the

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[46] INAC-Saskatchewan Corporate Services Management Regime: fiscal years 1999-2000, 2000-2001, 2001-2002, & 2002-2003. Funding Services Management Regime: fiscal years 1999-2000, 2000-2001, 2001-2002, & 2002-2003.
[47] RCM Budget Request Forms, 1999-2000.

case for some of the funding (such as social assistance and education funding), there is flexibility with respect to capital projects (for which a ten year plan is designed), special initiatives (such as economic development) and some types of recurring funding (such as land surveys). While all program funding has some restrictions attached to it and is often based on funding formulas there are still opportunities for discretionary decision-making for managers at the regional level[48].

Departmental Accounting System

Prior to the implementation of the FIS-compliant accounting system, no complete electronic accounting system had been in place in the department. From 1992 until the roll out of the new FIS-compliant accounting system the department used a DOS-based system entitled the Departmental Accounting System (or DAS). DAS was a rudimentary cash-basis accounting system with the main function, according to finance staff[49], of accounting for expenditures and producing cheques for suppliers and clients.

There was no capacity in the system to account for receivables or to establish liabilities. In order to account for expenses incurred before the March 31st fiscal year-end, but not paid until some time in the new fiscal year (accounts payable), extended accounting periods were used. The regular fiscal year is comprised of twelve monthly periods with April, the first month of the year designated as Period 1 and March designated as Period 12.

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48 INAC Budget Regimes; Director interviews.

49 Finance Officer, Admin Assistant interviews

Under the Canadian government's accounting system, three additional or extended periods were added to each fiscal year, designated Periods 13 through 15. Thus Period 13 (April of the following fiscal year) would be used to pay outstanding March invoices, Period 14 (May) was used for estimates (goods received, but not invoiced), and Period 15 (June) was used exclusively by HQ for adjusting entries and corrections. In this way some degree of accrual accounting took place. During this three-month period, two accounting systems were run simultaneously (old year and new year). Receivables, overpayments, accountable advances and the like were tracked completely separately on spreadsheets or other informal documents, including hand-written lists with a calculator printout attached[50]. Capital assets were not amortized pre-FIS. Despite its lack of fundamental accounting capabilities, huge user manuals (in total over four hundred pages in length) documented every function this system could perform in a step-by-step manner[51]. These formalized procedures, however, were not easily accessible to the researcher (who eventually found all three volumes in various locations throughout the main office) and were no longer made available to new staff by the HQ office.

> *"We stopped printing those years ago when we decided to put everything up on the intranet. But we haven't done that yet, either. The best bet is to just ask your counterparts in other regions or your staff how to work all of the functions"*
>
> - HQ Finance Staff member

Regional staff managed to do without these manuals by keeping specific procedure lists in binders kept by their workstations. These binders, referred to a "desk

[50] 1997-1998 Public Accounts Plate II-5 (Accounts Receivable re: Bands) correspondence dated June 29, 1998.
[51] DAS User Manual Vol. I, II, III.

books"[52], might contain photocopies from the original manuals of the procedures one needed to know in order to fulfill the accounting responsibilities associated with a particular position. But more often than not these books simply contained hand-written, step-by-step procedures constructed by the person holding that position or their predecessor[53]. In order to approve a payment in the system, one simply turned to the page outlining the exact steps required (i.e. go to this screen, hit the F3 button, hit the ESC key, arrow down to a new screen, and so on).

The primary and often only sources for learning the system for new staff were the desk books and being trained by those already familiar with the system. Because modifications to the system continued to occur after the production of user manuals, desk books and "corporate knowledge"[54] became in the aggregate the de facto manuals for the system in the regional office. It should be noted, however, that each desk book contained only information relevant to a particular position and thus only explained a small portion of the system's capabilities.

The system was used primarily by the administrative assistants at the RCM level and the finance staff[55]. Administrative assistants would enter in invoices to be paid, staff in the finance area would approve these and once this approval was given, the transaction was complete and a cheque would be produced.

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[52] Field Notes; Administrative Assistants interviews.
[53] Field Notes, Administrative Assistants interviews.
[54] Corporate Knowledge is a term used frequently by the members of the organization to describe knowledge acquired and held by staff that is not (usually) documented in any way.
[55] DAS usage reports drawn September 1999, January 2000 September 2000 and March 2001; Administrative Assistants and Finance Officer interviews; AS-02 and FI-01, FI-02 and FI-03 job descriptions

From the early stages of the field study, however, it was found that DAS was more than a simple "cheque-writing" system. It had a budget management capacity and, according to the user manuals, was designed to be used as a budget management system. The system contained budget information allocated by RCM and by business line item against which actual and planned expenditures could be compared[56].

The system produced a budget variance report that displayed the expenditure description, annual budget, the actual expenditures (year-to-date), the hard commitments, the soft commitments and the free balance (projected surplus or deficit). The budget was an amount entered into the system by the finance staff at the beginning of the year based upon information provided by the RCM. The actual expenditures represented those expenditures that had been incurred throughout the year (and had been paid for). Hard commitments resulted from the issuance of a purchase order and represented planned expenditures for which the RCM had made a firm commitment. Soft commitments represented planned expenditures, but for which no formal commitment had been made (i.e. a forecast). The free balance represented projected surpluses and deficits calculated by the formula:

Budget – Actual Expenditures – Hard commitments – Soft Commitment = Free Balance

The following illustrates the format of the budget variance report provided by DAS for travel expenditures for a particular RCM.

[56] DAS Variance Report By RCM

Figure 4

DAS Budget Variance Report

ITEM	BUDGET	ACTUAL	HARD COMMITMENTS	SOFT COMMITMENTS	FREE BALANCE
Travel	6000	2500	500	1000	2000

It became apparent, however, that this function was not being used in the way it was intended. A summary level budget variance report showed that the region projected neither a surplus *nor* deficit. Instead, the report indicated that the region, with an annual budget in excess of $630 million, generally planned a zero budget variance[57]. The only exception was in capital projects budgeting where deficits were sometimes planned.

By drilling into the system and reviewing variance reports by RCM, it was found that while some business line items showed a deficit and some business line items showed a surplus, on the whole each RCM planned a zero free balance for the fiscal year ended March 31, 2000[58]. A budget activity report produced in July of 1999 showed that there were very few, if any, transfers of budget between business line items at the RCM level. Interestingly, throughout the fiscal year the system would report that the entire budgets were committed throughout the year[59]. In other words, rather than utilize the budgeting function to identify potential surpluses as they arose throughout the year, commitments were established in the full amount of the funding received at

[57] DAS Variance Report – All RCMs, Summary July, 1999
[58] DAS Variance Report, by line item, by RCM, July, 1999
[59] DAS Funds Available reports.

the RCM level. This was not changed until very late in the year, as described later in this chapter.

With the system unable to indicate where potential surpluses might exist, it fell upon the Finance staff to routinely question the budget requirements of each RCM.

> *"The role of finance is a challenge role. The staff must push the RCMs to declare any potential surpluses or shortfalls as early in the fiscal year as possible."*
>
> - Senior Director

Interviews with the administrative assistants, directors and program management staff members drew the same responses to questions regarding this use of the budget function in DAS, which was, in effect, the formal management accounting system. Should a RCM identify a surplus, it was the regional office's policy to reallocate those excess resources from one functional area in the organization to another[60].

> *"Surpluses are up for grabs and should be taken from the RCM as soon as possible so we can find another use for those within the region".*
>
> - Director

While RCMs were provided with an annual budget at the beginning of the fiscal year and were expected to be responsible for that budget, in practice when a surplus did appear in the DAS system, the budget was clawed back (i.e. removed from the RCM budget) into the general regional fund where:

"If the RCM really needs that money back, they can present their case to the senior management group"

- Director

The Corporate Services sector could, and did, arbitrarily take back a portion of a RCM's budget throughout the year in those cases where it was felt that a surplus might exist[61]. These decisions were often based on historical patterns, as the Director noted:

"Every year the RCMs say they will use all of their budget and every year they end up "surplusing" funds".

- Director

In order to protect their budgets, no surpluses were identified until it was quite clear that the money could not be used by the RCM. As the Director of one RCM stated:

"We don't trust Finance".

- Director

The identification of surpluses, when it did occur, often did not take place until late in the fiscal year. In order to qualify as a completed transaction, goods or services must have been received by the fiscal year-end date of March 31st. As that date approached and suppliers could no longer guarantee delivery, RCMs would surplus their excess funds.

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[60] EX, PM, AS interviews.
[61] Budget Transfer Documents for the Fiscal years ended March 31, 2000 and March 31, 2001.

At year-end, therefore, surpluses would appear. In one instance, a RCM identified a surplus amounting to over $1 million with three weeks remaining in the fiscal year[62]. There was no indication of a surplus throughout the year[63].

One notable exception to the practice of budgeting to zero occurred in the area of capital projects expenditures. In some instances budget line items for capital projects would show a deficit during the fiscal year[64].

> *"Funding Services would budget a deficit for capital projects as part of the "cash management" process. They would plan projects when they expected money to fall out from other areas. They could then use this money to complete capital projects."*
>
> -Finance Officer

The process of budgeting for a deficit was called "over-programming"[65], an interesting use of language since departments could not, by law, spend more than they were allocated by Parliament[66], and therefore should never budget for a deficit. Although surpluses were not formally declared by the RCMs early enough in the fiscal year for planning purpose, directors seemed to know that surpluses would indeed appear as the year wore on and planned for them. The process of "cash management" is described in a subsequent section of this chapter.

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[62] Budget Transfer Request, March 7, 2000.
[63] MVR reports September 1999, November 1999, January 2000, February 2000; DAS Variance reports.
[64] DAS Budget Variance Report, 1999, 2000
[65] EX Interview; Field notes.
[66] Section 32, *The Financial Administration Act.*

Two observations, therefore, were made at the early stages of the field study. First, the formal accounting system was not being used in the way it was intended and second, RCM managers and directors were highly motivated to keep as much funding as possible within their respective responsibility centres. Turning to the first observation, data collection activities began to focus upon the question:

If managers did not use DAS as a budget management tool, how did they manage their budgets?

On the surface it appeared that budgets were being allocated to RCMs where they were being fully committed. As year-end approached, surpluses and deficits appeared giving the impression that perhaps budgets weren't being managed at all. It was quickly determined, however, that budgets were being tracked and managed informally with a good deal of precision. Managing through "off the record" and "out of sight" systems kept a RCM's results hidden from the regional senior managers and finance staff and the senior managers at HQ[67]. RCM visits revealed that each had developed its own method of planning and tracking expenditures and these systems varied greatly from one RCM to the next. Managers, directors and/or administrative staff, usually the latter, had designed and were using their own informal management accounting systems[68].

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[67] EX, PM, AS interviews.
[68] Field Notes

As the data collection progressed it appeared that the development of these individualized management systems could be attributed to four causes: the formal system's lack of reporting when it was first implemented, an ineffective chart of accounts, the devolution of authority and the increased visibility of planning activities associated with the new system (and the consequences of this visibility).

A significant aspect of the DAS implementation was the lack of reporting available during the first two years of its use.

> *"All we cared about at first was making sure that cheques were being produced for clients and suppliers".*
>
> - Finance Officer - HQ

Reports for managers became a secondary consideration due to resource constraints[69]. This two-year period represented a time of considerable stress and uncertainty for Program Managers as evidenced by the emotional comments from one informant present during the system's implementation:

> *"We didn't have any (expletive) reports...for two years! They nearly killed Ian (the software implementation manager) in Ottawa. In order to track anything we pretty much had to do it manually...eventually using spreadsheets".*
>
> -Finance Officer

It was also during this phase, however, that regions and their managers began finding themselves with increasing financial authority and responsibility resulting from the

[69] HQ Staff comments; Finance Officer interview.

government-wide devolution of authority initiative. Throughout the early to mid-nineties managers, some with little or no previous budget planning and management experience, struggled to carry out their responsibilities during a time when the formal accounting system did not produce the information necessary for them to do their jobs.

The formal accounting system did eventually provide a variety of reports. An underlying shortcoming of the system, however, was the chart of accounts used by the department. The chart of accounts in use at the time had been originally developed in 1977 and had changed little since its implementation in 1978[70]. Most of the changes that had occurred since then were the result of ad hoc additions[71]. In some cases two (or more) different codes existed for the same activity[72]. The result was widespread errors in coding (i.e. journalizing expenditures to the wrong account)[73], activities for which no coding existed and for which expenditures were "forced" into a non-related activity code[74], and reports that did not provide sufficient information to the RCMs[75].

Finally, an important result of the department's adoption of this computerized accounting system is that regional finance and management staff as well as Headquarters staff could access all the information it contained. Therefore, for information entered into the system, including information for planning purposes such

[70] The Evolution of the Present Chart of Accounts – Department of Indian Affairs and Northern Development. Prepared by Ian McIntyre, December 2002.
[71] HQ Finance Officer interview
[72] RAN expenditure funding; ROP expenditures. – RAN and ROP are programs designed to assist First Nations-run organizations.
[73] Finance Officer interview
[74] Director interview; HQ communication, March 2001.
[75] Finance Officer interview; Director interview, Administrative Assistant interview

as budgeting, the RCMs and the region as a whole for that matter, could no longer restrict access.

> *"In the past, regions produced the reports for HQ manually periodically and had some discretion on how things were reported. In an automated system, that information was available to HQ staff in its raw form...and wasn't subject to clarification by regional staff".*
>
> - HQ Finance Officer

As will be described, this off the record method of managing budgets would be one of two entrenched informal accounting practices documented at INAC-Saskatchewan. Before considering each in detail, the primary formal management accounting report for the Department of Indian Affairs and Northern Development, the Management Variance Report, is described

The Management Variance Report

The Management Variance Report, or MVR, is a budget variance report that was produced by the region six times per year (June, September, November, January, February, and March). The MVR was described as the "formal vehicle" for reporting on regional financial deficits and surpluses to serve the information needs of senior management[76]. There were two main reporting processes. The first was the transfer of financial information directly from the regional accounting system to HQ in the form of an electronic data file. The second was a paper report consisting of forms provided by HQ.

There were seven activities related to each MVR report at the regional level[77]. The process was managed by the RPA sector of Corporate Services and began with the provision of year-to-date expenditure information to each RCM, drawn from the accounting system. This was provided despite the fact that each RCM can access their own budget and expenditure information from the accounting system and have staff that was trained to do so. The process of providing the expenditures-to-date continues because it has "always been done"[78] using the same forms that were designed when the RCMs did not have this access[79]. Each Director was then required to complete a manual form which compared the annual budget assigned to each activity against planned expenditures (based upon expenditures to date). In this manner, projected surpluses and deficits should be identified. As the reader will recall, this is information that can and was intended to be contained in the formal accounting system (DAS). Nevertheless, this budget projection is manually performed and is the second activity in the formal MVR process.

> *"It was necessary to do this prior to the full functionality of DAS, I suppose. I don't know why we continue to provide each RCM with this information and these old forms. Probably because they never look at the system (laughs)".*
>
> - Senior Finance Officer

This process was usually carried out by the administrative assistants and signed off by the Director or whoever was acting as the director at the time[80]. Again, the level of sophistication used varied greatly from one RCM to another. The Inter-Governmental

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[76] Annual letter to Regional Directors of Corporate Services from the HQ Director of Resource Management and Reporting.
[77] INAC-Saskatchewan Management Variance Report Reporting Schedule
[78] Finance Officer interview.
[79] MVR forecast form.
[80] Field Notes.

Relations RCM, for example, submitted a report comprised of coloured spreadsheets that could be up to fourteen pages in length. In contrast, some MVR RCM reports consisted of the original form provided by finance with projections penciled in.

The third activity involved manually entering the information provided by the RCMs into a spreadsheet. This activity was performed despite the budget forecast capability of the formal accounting system. Rather than update the projections in DAS, however, the practice of using a spreadsheet continued[81]. This spreadsheet contained the forecasting information for the entire region. This spreadsheet was then forwarded to Funding Services where, as the fourth activity, additional information relating to the program expenditure funding was provided along with a narrative detailing the causes of identified surpluses and deficits.

The fifth and sixth stages were review stages. The directors of Corporate Services and Funding Services conducted the first review. At this stage, projections may be returned to the RCMs for clarification (or challenged). Once this is complete, these directors along with the senior finance officer then reviewed the MVR with the senior management of the region, the sixth activity. For Saskatchewan, the Associate Regional Director General performed the final review. The MVR was a formal decision-making tool in the sense that surpluses and deficits should be identified and the senior management of the regional office can then determine where to re-allocate funding based on the priorities of the region. In practice, fund re-allocation decisions were not made during this process[82]. Rather, the purpose of the review stage with the ARDG appeared to be the execution of a "challenge" function. That is, the ARDG

[81] FI interview

would question the validity of the numbers being presented in order to evaluate whether or not RCMs had been forthcoming and sufficiently challenged by the finance staff. The Directors of the RCMs were not present during these meetings[83].

The final activity was the approval of the MVR by the region's senior manager, the Regional Director General, and the submission of the paper report by mail to HQ. The formal procedures required his signature, although there was never a meeting with the RDG to discuss the MVR throughout the entire period of the field study. Instead, it was sent to him via inter-office mail and returned, signed, the same way.

The hard copy of the MVR appeared to have been created to serve as a key document for the decision making process (the data file consisted of raw data). It was, however, a highly summarized, short document. Although the entire package prepared by the regional finance sector was sixteen pages in length, only three pages comprised the actual MVR that was required by HQ. The intention of the report was, as previously stated, to identify surpluses and deficits and this was reflected in the MVR pages submitted to HQ. Each page was comprised of four columns: description, current budget, current forecast, and projected surplus/deficit. The first three pages reported on the financial projections in a highly summarized manner.

The remaining thirteen pages, highly detailed spreadsheets, were submitted to HQ until the region was advised during a casual conversation[84] that HQ staff was not using these additional reports and they were not part of the formal MVR. The reports

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[82] Field Notes – virtually all of these meetings were attended by the researcher during the on-site field study.
[83] Field Notes.
[84] Field Notes.

were submitted simply because someone from the region many years ago thought they were required and trained his replacement to continue including them[85]. This practice was simply adopted by the organization and continued, although there was no reason for it.

The additional reports provided more detailed information and were created on spreadsheets that feed into the MVR forms. These detailed spreadsheets reported on forecasted expenditures by RCM and compared total budget (not budget by RCM) to total forecast and reported on any predicted surpluses or deficits.

Neither the MVR, nor the accompanying detailed reports, were provided to the regional managers or directors, nor were they asked for during the period of the field study. Funds were reallocated where possible based on the review with the Directors of Corporate Services and Funding Services and the Associate Regional Director General[86].

An analysis of the MVR reports submitted to HQ provides an indication that the practice of forecasting to budget (i.e. projecting a zero free balance) is not only an activity undertaken independently by the RCMs, but is also the practice of the region as a whole.

[85] FI interview; AS interview.

In general the region reported a zero free balance on each MVR report for all activities and funding types[87]. The deficits planned for in the system from capital projects were not shown in the MVR.

There were two exceptions to the practice of reporting a zero free balance. Where regional management felt that funding provided by HQ for a particular activity was insufficient, a deficit would be shown throughout the year in order to make the lack of sufficient funding visible to HQ[88]. Even when the regions were informed by senior HQ finance staff that no additional funding would be available and that the regions would have to "manage their shortages internally"[89], the region continued to show deficits in these areas so that:

> *"...when money falls out (becomes available to regions from HQ) later in the year they know that we can use some of it".*
>
> - Director

The second exception was the declaration of a surplus, usually as year-end approached when senior management decided that the region simply could not use the funds. In these cases, however, this information was usually communicated directly to senior HQ finance staff in order to let them know as soon as possible rather than wait for the formal MVR process.

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[86] Field notes.
[87] Saskatchewan Region MVR report, June 1999, September, 1999, November, 1999
[88] EX interview.
[89] Finance conference call, January 13, 2000.

"We can show this as a surplus on the report. (The Director in charge of the budget) has already given HQ a heads up, he usually does as a courtesy".

- Director comments during regional MVR Review

The goal was to provide HQ finance staff with as much time as possible to find a use for the funds (in another region, for example) so that they would not be "lapsed"[90]. Lapsed funds are returned to the Consolidated Revenue Fund, a general government fund managed by Treasury Board and are no longer associated with INAC. Overall budget expenditures for the department, therefore, decrease when funds are returned to the Consolidated Revenue Fund.

A pattern emerged connecting the behaviours of the RCMs, the region and the HQ staff. While protective of their funding levels, when funds could not be used in any one area, people worked together in order to ensure that the funding would not leave the region. If it could not be used by the region, people worked together to ensure that the funding would not leave the department.

Internal Management Accounting Reports

There were, however, further detailed reports. Again constructed regionally, complex spreadsheets outlining highly detailed budgets by activity were presented to regional managers at the quarterly Regional Management Committee meetings. The RDG, ARDG, the directors, and the Program Managers that report to the directors attended these meetings. The information provided ranged from very detailed multiple page documents reporting on the funding allocated to a single specific First Nations organization for each activity undertaken[91], to highly summarized reports on "shortfalls"[92], a term that means funding shortages. These reports were all independent of one another. That is, they were not summarized together to present a picture of the entire region's financial situation. Instead they were spreadsheets constructed for specific reporting purposes. These reports provided information to the region regarding specific activities that had been undertaken or would be undertaken. For example, planned capital projects were itemized. This information, however, did not leave the region[93]. These were internal documents developed by and used within the Saskatchewan region and it should be noted that these reports were used primarily to manage funds, not report on performance. The Director associated with each sector provided performance information in narrative form and this was sometimes accompanied by hard copy ad hoc reports.

"Good news stories"[94] were often generated or reported in this forum. The integrity of these good news stories was at times questionable. At one meeting, for example, the number of jobs created through regional economic development initiatives was reported by the Director in charge of that portfolio[95]. When pressed about the duration of the jobs created or their current status, the response was "don't ask"[96]. An interview with another director regarding this presentation elicited this response: "it's all smoke and mirrors"[97].

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[90] Director Interview
[91] Tribal Council, Regional Management Committee meeting, March 11, 2002
[92] Regional Management Committee binder, February 2002.
[93] Director comment at the Regional Management Committee meeting, February 9, 2000.
[94] During the field study the phrase "good news stories" was used extensively by regional staff (ARDG, RDG, EX, PE) as well as HQ staff (EX, PM). Field Notes.
[95] Regional Management Committee, June 2003.
[96] Director comments, Regional Management Committee, June, 2003; field notes.
[97] Director and Program Manager comments.

External Reporting

This section describes the major reports generated by the region for users outside the region, such as HQ and First Nations organizations, rather than the reports generated by the department as a whole for external users, such as parliamentary committees and the general public.

Three general financial reports were created within the regional office for external users. The first was a collection of highly summarized reports prepared by regional staff and submitted to HQ for their inclusion in the preparation of the Public Accounts for the department. These were prepared by the finance staff and signed off by the Director of Corporate Services, but were not distributed to regional managers and directors at any time during the field study[98].

The second significant report prepared for external users was the Management Variance Report (the external user being the HQ office of INAC) which has already been described.

While there was often a special reporting requirement associated with a particular initiative, such as economic development, the bulk of the expenditures were reported from the regional office to HQ at a highly summarized level, either as part of the Public Accounts (financial accounting reporting) or through the Management

[98] Field Notes

Variance Report (management accounting reporting). Information for the Departmental Performance Reports is prepared by the HQ Finance sector, using information drawn from the various sectors at the national level.

A regional report created specifically for presentation by senior Directors of the regional office to one of the organization's primary stakeholders, First Nations' organizations was the third primary reporting mechanism.

"The Charts"

First Nations groups such as bands and tribal councils are the main constituents for INAC-Saskatchewan[99]. For these and other external groups in Saskatchewan a report was prepared internally for presentation by regional senior management[100]. This report was referred to by senior management as the "Charts".

The report was comprised of 12 pages reporting on 12 items:

1. Initial Budget
2. Initial Budget Distribution

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[99] Director interviews.
[100] INAC Saskatchewan Region 2000-2001 Current Budget.

3. Comparison of Budget Payments to Tribal Councils
4. Funding Transfers
5. Summary of Capital Budgets
6. Education Capital Budget
7. Water and Sewer Capital Budget
8. Total Resource Allocation
9. Total Resource Allocation (without Treaty Land Entitlement Payments)
10. Resource Allocations for Treaty Land Entitlements
11. Approved Person Year Comparison
12. Overhead as a Percentage of Total Resources

This report consisted largely of charts (pie charts and bar charts - hence the name) illustrating financial information such as budget, funding by tribal council, funding by activity, and administration costs as a percentage of total budget. The report package also included the number of employees working at the region.

Most of the information used came from the data in the DAS system, although it was difficult or impossible to directly reconcile some of these charts to the system's information because of the data manipulation necessary to report the results in the format used in the Charts.

Some information, however, came from a subsidiary system (TPMS[101]), such as Transfer Payments by Funding Type (used in report # 4 – Funding Transfers). Other information came from the Director responsible for the budget (i.e. water and sewer information).

"Don't even try to reconcile this information to the system. The system does not report the information this way. That's why we have to go to TPMS and to Funding Services".

- Senior Finance Officer

Some information that is reported could be misleading. For example, the report included a graph illustrating the number of "approved person years". "Approved person years" refers to the funding received by the region for permanent salaried positions. The region has been reporting "approved person years" as 203 since the 1999-2000 fiscal year[102]. While this was, indeed, the number of permanent salaried positions for which the region received funding[103], the actual number of full-time employees at the region had increased incrementally during the field study from 203 to 236 by 2003[104]. Resources were provided for the additional positions through other funding arrangements and to some extent, through good management of resources. This information, however, presented along with the increases shown in the total budget received by the region, gave the impression that the organization was doing more with the same level of human resources. This was not the case.
While the information presented was not incorrect, per se, it was not an accurate account of the organization unless one understood the meaning of "approved person years".

What was notable about this report was that with the exception of the last two charts, the information reported related to spending and budget only. There were no reports

[101] Transfer Payment Management System. This is a DOS-based program designed to track funding agreements between the Government of Canada and First Nations. It is linked to DAS.
[102] INAC-Saskatchewan "Charts" 1999-2000, 2000-2001, 2001-2002, 2002-2003.
[103] INAC Budget Regime, 2000, 2001, 2003.

included anywhere in this document regarding results achieved. This important observation lays the foundation for building an explanation to account for the second observation raised earlier – that managers and directors seemed highly motivated to keep as much funding as possible within their RCMs and, as the MVR process demonstrated, the region and the department was motivated to do the same thing. The organization as a whole reported on the basis of budget and expenditures while being somewhat vague on specific results (see the Departmental Performance Report section in this chapter). The region, through the "Charts", was reporting its performance information the same way. There was incentive, therefore, for regional managers and directors to spend as much of their budget as possible in order to keep these funds within the region and thus reported to First Nations' groups in the form of the "Charts".

Performance Measures

Departmental Performance Reports

The Departmental Performance Reports for INAC were reviewed for each year of the field study, which spanned the fiscal years ending March 31, 2000 through to March 31, 2003[105]. These reports are structured to provide specific detail on departmental commitments and subsequent outcomes (i.e. whether or not a key commitment was achieved).

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[104] Saskatchewan Region Organization Chart – Update, June 26, 2002.
[105] Only the performance section related to Indian and Inuit Affairs programs was reviewed since this is the only area serviced by the Saskatchewan region. The Northern Affairs component deals with the Yukon, Northwest Territories and Nunavut geographic areas.

In the 2000 Departmental Performance Report, four strategic objectives for the Indian and Inuit Affairs program were identified:

1. Renewing partnerships
2. Strengthening Aboriginal Governance
3. Developing a new fiscal relationship (with First Nations)
4. Supporting strong communities, people and economies

Two terms are presented and defined within the document and used to assess the department's success in achieving its objectives; outcomes and outputs. Outcomes involve changes in trends in the social, cultural and economic circumstances that can be subject to significant outside influences (Treasury Board of Canada, 2000b: 16). Examples of outcomes include school completion rates and economic indicators such as employment rates. Outputs are processes and tangible products or deliverables. Despite this definition, many outputs identified in the document are not quantifiable results but are more process-oriented results. Examples of these include "continue to negotiate", "develop a strategy/policy" and "conduct research"[106].

Turning to the strategic objectives, the outcomes, outputs and details identified in the department's performance report for the 1999-2000 fiscal year are reviewed. Four outcomes were identified along with corresponding outputs for the first strategic objective, renewing partnerships. These are summarized in the following table:

[106] Department of Indian Affairs and Northern Development Report on Plans and Priorities, 1999-2000.

Table 5

Department Outcomes and Outputs

Outcomes	Outputs
1. Stronger working relationships with Aboriginal Peoples and organizations	Initiatives to strengthen effective working relationships
2. Understanding of First Nations and Inuit issues by the Canadian public	Initiatives to increase public awareness of First Nations and Inuit issues
3. Reconciliation and community healing	Reconciliation through healing initiatives and settling grievances
4. New approaches to Federal, Provincial and Territorial relations with First Nations and Inuit	Federal, Provincial, Territorial, First Nations and Inuit partnership initiatives

It can be seen that the outcomes are quite broad and the outputs appear to be process oriented rather than end-result oriented. In three of the four outcomes, the word "initiatives" is used. This implies that the achievement of outcomes is measured by effort rather than actual results. The discussion of the department's activity related to each outcome included within the report provides more detail.

For the first outcome, stronger working relationships with Aboriginal Peoples and organizations, three "key achievements" were identified:

- All schools in Canada have received public education materials

- Federal, provincial and territorial ministers responsible for aboriginal affairs and leaders of five national aboriginal organizations met for the first time in two years; and
- National and regional partnership think tanks were conducted

The detailed discussion itemizes twelve initiatives undertaken by the department related to the first, second, and fourth outcomes. Examples include supporting the Congress of Aboriginal Peoples in developing a strategic directions paper and "delivering local public education initiatives through Regional offices". What is often lacking, however, is detail regarding actual results. For example, the report states that education materials have been delivered to all schools in Canada. This is educational material delivered to elementary schools in an effort to increase levels of awareness among the Canadian population of the issues regarding aboriginal peoples (i.e. Treaty Rights, their history and culture and so on). What is lacking is information on whether or not this educational material was actually *used* in the schools. Similarly, while meetings did take place, no tangible outputs from these meetings are reported (i.e. new funding agreements, new programs, etc).

For the third outcome, some specific results are reported such as the settlement of seventeen general litigation cases out of court, and the settlement of cases related to sixty-two individuals through an alternative dispute resolution approach.

The discussion of the first strategic objective concludes with three paragraphs regarding the achievement of value for money. This section of the report states that it will take time to establish new working relationships, but that investments in building new relationships will provide a solid basis for developing sustainable and accountable First Nations and Inuit governments. There really is no reference to value for money at all.

The other three strategic objectives are described and reported on in a similar manner. There are some tangible results. For example, for the second strategic objective an outcome is identified as "negotiated settlement of outstanding grievances" with three corresponding outputs: number of negotiated claim settlements, improved specific claims process, and improved litigation management. Identified under the key achievements for the year is the settlement of nineteen specific claims. This achievement appears again in the discussion section under the title "Improved Specific Claims Process" (pg 15). It is difficult to ascertain, however, whether or not this is actually an improvement since prior year data is not included (one must access previous reports to make that determination). Nor is it possible to determine whether a specific objective or goal was actually met, since none were provided (i.e. the report does not say that the goal was to reach nineteen settlements that year and this was achieved).

This ambiguity can be found throughout the document. Another specific example is the provision of water and sewer services to on-reserve houses. The situation seems to have improved. Ninety-eight percent of on-reserve houses received water delivery in 1999-2000, up from ninety-four percent in 1994-1995. In the key achievements it is noted that water and sewer systems were provided to twenty-seven communities. It is still unclear, however, whether or not specific objectives were met (i.e. whether or not the department set out at the beginning of the fiscal year to provide water and sewer services to twenty-seven communities). For clarification, the reader can review Table 8, a statement reporting on capital projects. This statement includes a column for "planned spending" followed by a column for actual spending. In this format, it appears much like a planning and performance analysis, that is, a "budget versus actual" analysis from which the reader might ascertain the efficiency with which a particular project was completed. This, however, is not the case.

As an example of the conflicting data appearing in this report, eight capital projects are identified for the Manitoba region. Only three report a figure for planned spending. Based upon this information one might reasonably conclude that at the beginning of the fiscal year this region planned to complete three capital projects and had established cost estimates for their completion. But not all of the planned spending actually occurred and the reader is not provided with the details regarding percentages of completion of each project. Thus, it is not known if these projects were completed under budget or if they had only been partially completed. Three unplanned projects were worked on as indicated by an amount included in the actual spending column, with no dollar figure assigned to the planned spending column. Again, no additional information is provided to clarify what has occurred with these projects. The remaining two projects, it appears, were neither planned nor worked on. No dollar figures are assigned to either of the columns and no explanation is provided regarding their inclusion in the document.

The financial results that are reported in this document report on spending (eight out of ten financial tables report on either planned or actual spending or both).

The Performance Report for the year ended March 31, 2001 does not vary greatly in format or information provided from the previous year's report.

In summary, the Departmental Performance Report is a lengthy document providing a lot of information regarding the broadly described objectives and activities of the department. As with the Public Accounts, however, financial information is highly summarized. And in terms of reporting on performance, many outcomes and outputs are vague and ambiguous and in the few instances where detailed financial information is provided it is still difficult for the reader to assess performance against specific goals or objectives.

Regional Performance Measures

The goals and planned activities of the department that appear in the Report on Plans and Priorities and subsequently in the Departmental Performance Report, manifest themselves at the regional level through the use of performance contracts[107]. Managers, directors, the Associate Regional Director General and the Regional Director General, complete performance contracts each year in the region. In practice, the RDG receives the performance contract of the Associate Deputy Minister and designs his own contract so that the activities and goals identified for him are consistent with those of the Associate Deputy Minister. The ARDG receives both of these performance contracts in order to design his own plan for the year. The directors receive the performance contract of the RDG and ARGD in order to design their contracts. The managers are provided with the contracts of their supervisors, the directors. Each year the individual involved and his or her supervisor meet to discuss the contract and both sign the document.

The objectives and performance measures contained in the Report on Plans and Priorities and subsequently in the Departmental Performance Report documents are often vague, qualitative narratives as indicated in the preceding section, and this characteristic can also be found in the regional performance contracts[108].

Of the myriad performance measures, however ambiguous, outlined in the Departmental Performance Report and in the regional performance contracts, there is one performance measure not found in any official document that drives the INAC-Saskatchewan regional management more than any other: using as much of their budgets as possible without entering into a deficit[109]. The goal is to use the entire budget that has been allocated throughout the year so that surpluses are not returned to HQ and lost to the region. This is consistent with the department's objective that all funding provided be used by the department rather than any portion thereof returned to the Consolidated Revenue Fund and thereby "lost" to the department[110]. Program funds are primarily overseen by the Director of Funding Services who uses as much of these funds as possible through "cash management" and capital project acceleration[111] (to be discussed in the following section of this chapter). Operating funds are overseen by the Director of Corporate Services who brings the surplus in this funding category as close to zero as possible through "cash management" with

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[107] Performance contracts are contract-like documents that describe the key goals and objectives an individual seeks to achieve in the upcoming year.
[108] RGD, ARGD, Director of Corporate Services, Manager of Financial Services, Manager of Human Resources: 2000-2001, 2001-2002, 2002-2003.
[109] Director interview; Finance Officer interview; Administrative Assistant interview.
[110] Deputy Minister comments; year-end Directors of Corporate Services conference call, March 2002.

the Director of Funding Services or by initiating last minute purchases, usually of computer equipment[112].

> *"We have a little competition each year to see who can get closer to zero without over-spending (deficit)."*
>
> - Director

Regions who wind up with the smallest surpluses in total are recognized at a national meeting of the Directors of Corporate Services and are awarded a ceremonial "gold star"[113].

Given their use as a regional reporting document, the "Charts" also represents a performance measure for the Saskatchewan Region. Specifically, spending levels rather than specific results achieved by those spending levels act as a gauge for organizational performance.

Informal Accounting Systems

This section describes in detail the informal accounting systems mentioned earlier in this chapter. Two systems are described: "black books" and "cash management".

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[111] Director interview.
[112] Purchase Order documents for the fiscal years 1999-2000; 2000-2001; 2001-2002; 2002-2003.
[113] Year-end Director of Corporate Services meeting, 2000, 2001.

The "Black Books"

At the RCM level, it was found that informal management accounting systems were used rather than the budget management functions available in the formal accounting system. These "systems" often amounted to little more than single spreadsheets or handwritten ledgers kept in the top drawer of someone's desk. They could, however, be a complex set of up to nineteen linked spreadsheets[114]. In some instances these reports were reconciled to the formal accounting system, but in other cases they were not, resulting in wide discrepancies occurring as year-end approached (and surpluses appeared or budgets ran out!). In either case, these systems developed over the course of many years as a result of the several factors that have already been identified in a previous section of this chapter and they appear to represent the true management accounting system for the organization. One consequence (intended or not) of the growing role of these informal systems within the region was the diminished role of the finance sector.

An indication of this can be found in an analysis of the finance unit for the Saskatchewan region, noting how it has changed since the devolution of authority (and budgets) at the region. In the finance unit at INAC-Saskatchewan the Resource, Planning and Analysis (RPA) unit consisted of six full time positions during most of the 1990s[115]. The unit was headed by an FI-03[116] and consisted of two senior finance officers (FI-02 level), two junior finance officers (FI-01 level) and a clerical person

[114] Governance internal management variance report, February, 2001-2002.
[115] INAC-Sask Region Organization Chart, April 3, 1995.
[116] There are four levels in the Finance (FI) job category. At INAC-Saskatchewan, the FI-03 level is the highest. FI-04 level positions only existed at HQ during the field study.

(CR-04 level)[117]. The Accounting Operations sector, the other half of the finance unit, was also headed by an FI-03 position and consisted of nine full-time positions. Each month the RPA unit would provide the region with a financial analysis that consisted of some 11 reports that included budget versus forecast analyses (multi-year), comparative surplus/deficits (multi-year), and a statement of travel expenses compared to budget, among other such performance related reports[118]. The unit also produced year-end financial statements (a 32 page document in 1989-90)[119]. By the end of the 1990s, however, this RPA unit consisted of a single FI-02 position and no longer produced the monthly financial reports or annual year-end statements because "nobody read them"[120]. By the time the field study began in 1999 the entire finance unit (i.e. the RPA and Accounting Operations sectors) was headed by a single FI-03 position, the FI-03 position in RPA having been eliminated[121].

With the implementation of DAS and the devolution of responsibilities downward in the organization, the accounting function became decentralized. While the role of the finance unit diminished to one of compliance, monitoring, and challenging the RCMs (i.e. through the MVR process), the role assumed by the administrative assistants grew larger. Under DAS, an administrative assistant within a RCM would enter the ordering, receipt and invoice data into the system. Approval for payment was made both in the accounting system and on the physical invoice, which was subsequently filed by staff in the finance unit. This role, however, did not amount to anything more

[117] Recall that the "CR" job classification is for clerical position. CR-04 is a mid-level clerical position.
[118] INAC- Saskatchewan Financial Reports, 1991-1992.
[119] Saskatchewan Region 1989/90 Year-End Financial Statements.
[120] Director interview.
[121] INAC-Sask Region Organization Chart, October 1, 2001.

than ensuring the transaction complied with the basic principles of government expenditures.

> *"The main thing we look for is that the person authorizing the payment had the authority to do so and that the RCM had sufficient funds to cover the payment".*
>
> -Finance Officer

In addition to the accounting duties assumed as a result of the decentralization of the accounting function, the administrative assistants also became responsible for the maintenance of their respective RCM's informal budget management system[122].

Not only were the RCMs using individualized informal management accounting systems in response to regional policy (taking back funds identified as surpluses), but this behaviour is replicated by the region as a whole as evidenced by the MVR process. Rather than a covert system used exclusively by RCMs in the Saskatchewan regional office (and the regional office as a whole), the use of "off the books" management systems was discovered to be a department-wide phenomenon.

These informal, behind the scenes management systems are referred to departmentally as "black books"[123]. The use of "black books" by the regions was well known throughout the organization.

During one national meeting of the Managers of Accounting Operations, the first national meeting attended by the researcher, the Director of Financial Policies,

[122] Administrative Assistants interviews; replies to MVR requests.
[123] Field Notes from national conference calls and meetings.

Systems, & Accounting, the unit in HQ, publicly asked regions to provide their "black book estimates" of expenditures for the year[124].

> *"In other words HQ wants the real forecasts, not the ones provided by the formal system or through the MVR process."*
>
> - Senior Finance Officer - Yukon Region

Saskatchewan, it became evident early in the study, was by no means the only region employing these informal management accounting systems. Indeed, in subsequent national meetings it was discovered that two regions, Ontario and British Columbia, maintained fully functional computerized informal accounting systems[125]. In the case of the Ontario region, it was explained during a meeting attended by regional and headquarters finance staff that:

> *"Our admin staff enters the information twice; once in DAS and once in our own system".*
>
> - Director, Ontario Region

Although they were informal, they were not being hidden by the regions from HQ staff.

Interestingly, it was quickly discovered that the use of "black books" is not the exclusive territory of the regions. HQ also did not practice full disclosure of budget and expenditure information. A Senior HQ Finance staff member commented during a national budget meeting:

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[124] Managers of Accounting Operations Workshop, Canmore, September 14-16, 1999.

"This year we're not holding anything (information regarding surpluses and deficits) back".

- Senior Director, HQ - RPA[126]

Historically, senior management at HQ has not shown the full picture in terms of available funding to the regions[127]. And this is not news to the Saskatchewan regional staff. One Director commented during a Regional Management Committee meeting:

"For seven years HQ starts talking about a funding crisis in November and by year-end they're flush with cash that they're trying to off-load onto the regions".

- Director

Finance and executive staff from other regions also made this observation[128].

Although the extent of the use of "black books" beyond INAC is beyond the scope of this research, it appears to be a government-wide phenomenon.

In the literature on the Financial Information Strategy provided by Treasury Board, a document entitled "The Benefits of FIS: Helping Managers Manage" states that, before FIS, "in the absence of relevant and timely financial information, managers

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[125] Ontario used Oracle Financials and the B.C. region used AccPac and spreadsheets.
[126] National RP&A meeting; Toronto 2002.
[127] A-base Review team member comment; A-Base Review meeting, Dec 11, 2002 Ottawa
[128] Director of Corporate Services meeting, Edmonton, February 25, 2003.

may have resorted to keeping a *black book* for assistance in planning and budgeting" (italics added) (Treasury Board of Canada, 2002c).

The informal management accounting systems were not, however, the only informal system in place within the Saskatchewan region and the department as a whole. Another informal system that facilitated the management of budgets across functional areas and regions was also identified in this phase of the field study.

Informal Budget Management System – "Cash Management"

Similar to the "black books" system is another informal financial management system that is loosely organized and in use throughout the INAC-Saskatchewan regional office and the department. It differs from individualized management accounting systems in that it extends beyond the exclusive use of RCMs, the regional office or HQ. That is, regions are not necessarily withholding information from HQ or Treasury Board. Instead, there is a budget management exercise that occurs that is simply not accounted for anywhere on the government's financial systems. This exercise is referred to a "cash management".

In short, "cash management" is the act of borrowing funds intended for one purpose and using them for another purpose. These funds are later returned for use for the original purpose. Money may be borrowed from the funding provided for purpose "A" to expend on purpose "B". When funding is received at a later date designated for purpose B, it is returned for use for purpose A. One of the goals of this exercise is to ensure full usage of all budgetary dollars at the regional and national level. The primary vehicle for this activity is multi-year capital projects.

A region may, for example, be scheduled to receive $1 million per year for two years for an infrastructure project, such as building a road beginning in 2004. Suppose that a $1 million surplus in another functional area of the region, such as salaries, is identified in 2003. If this surplus cannot be used, the funds would be returned to the government pool (the Consolidated Revenue Fund) and therefore, would be lost to the region and the department. The department (and the region) report, as we have seen, with a focus on budget and expenditure levels. Returning funds to the Consolidated Revenue Fund would be reflected in these reports negatively since expenditure levels by department (or region) would decline. Rather than lapse the funding, the region may decide to begin the capital project in 2003 using the surplus from salary funding and return the funds to salaries in 2005.

The capital project then is "borrowing" $1 million from salaries to begin the project in 2003. This way, there is no budget surplus declared by the region. In 2004 the region receives the first $1 million in funds actually designated for the capital project. It uses these funds to complete the project in that year. In 2005 the region receives the second $1 million and returns it to the salaries budget (or some other budget). By this time, a use for the money could have been identified (perhaps another capital project or some other program that benefits First Nations groups or individuals).

Under this scenario, at the beginning of 2005 a region will be allocated funds to construct a road that already exists.

This practice helps explain the curious reporting on capital projects found in the Departmental Performance Reports described earlier.

This is only one example of how this is done. Capital project acceleration, "loaning" funds to other regions or to HQ sectors are other methods of "cash managing" surpluses. None of this activity is tracked anywhere on any formal departmental system, although the regions did use the budget management utility in the DAS system to facilitate tracking of potential "cash management" projects. Typically, these "loans" were tracked on a spreadsheet[129] and e-mails were kept as proof of a transaction and money owed or loaned. In theory, when one examines a multi-year capital plan for the department, one could be looking at approved funding for upcoming projects, such as building schools and water and sewer projects that may have, in fact, already been completed[130].

This is not a covert scheme undertaken by regions to "hide" money from HQ. HQ will cash manage funds for regions and vice versa[131]. In one instance even Treasury Board, the watchdog of the government, advised the department to cash manage funds[132].

It allows regions and the department as a whole to keep as much of its budgeted funding as possible.

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[129] Capital Projects/Cash Management presentation hand-outs, Regional Management Committee meeting, Regina, Saskatchewan March, 2002.
[130] EX presentation document "Capital Plan"; RMC, February, 2002, Regina.
[131] Inter-department email: HQ-RPA to regions, February, 2000.

Thus not only were the managers at the Saskatchewan regional office motivated to keep as much funding as possible, but so too were managers throughout INAC.

A Cautionary Note

Without the benefit of working within the organization being studied, a cautionary note is necessary to ensure that erroneous conclusions regarding these informal systems are not drawn. At no time during the field study did the researcher sense that covert activity was being carried out that contravened the spirit or intent of the department's mission and mandate. There was no evidence whatsoever (documentation, interview, or observation) to suggest that these informal systems were being used for any purpose other than to benefit First Nations individuals and groups in Saskatchewan. The *intent* of these systems[133] and indeed the outcome of these systems, was to ensure that First Nations' individuals and groups would benefit from as much funding as possible (rather than having funding returned to the Consolidated Revenue Fund). A document reviewed early in the field study was an independent audit of INAC-Saskatchewan's management practices conducted by the audit firm Ernst & Young and made available in the summer of 1999[134]. The audit report concluded that the organization was indeed well managed and committed to the mandate of the department as a whole. Nothing was found during the field study, which was conducted after this audit, to contradict these findings.

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[132] Treaty Land Entitlement tax loss surplus, 2000.
[133] Director interview
[134] Department of Indian Affairs and Northern Development, Corporate Services, Departmental Audit and Evaluation Branch, Project 97/19: Review of Management Practices: Saskatchewan Region, June 1999. Available at: http://www.ainc-inac.gc.ca/pr/pub/ae/re/97-19_e.pdf

Summary

To summarize thus far, while management and decision-making was devolved throughout the 1990s, INAC was using a financial system that did not provide sufficient management accounting information, and the information that was being provided regionally was not being used. The production of this information eventually ceased. Indeed, the regional unit that was responsible for providing management with financial decision-making information virtually disappeared. Once the DAS system could provide reports, an out of date chart of accounts resulted in the generation of inaccurate and insufficiently detailed information from the formal accounting system. Decision-making information, effectively management accounting information, was being generated individually at the RCM level, was often not shared throughout the organization, and varied greatly in terms of accuracy and detail. The information was used primarily as a means of managing budgets rather than achieving specific results. Indeed, budget levels *were* the results being reported. The management accounting utility in the formal accounting system was not being used in a meaningful way, except in the case of cash managing capital projects, which itself was an informal management system. The Saskatchewan region as a whole also protected any surpluses through the MVR process and it was discovered that other regional offices as well as HQ maintained "black books". The figures contained in the "black books" may have been guarded, but the process itself was well known. Budgets were managed protectively since the "results" that were widely reported were really the size of the budget used in the region. Another means by which the region and the department as a whole protected its funding was through an exercise called "cash management", another informal system not captured in the government's accounting system. As a department-wide informal system, actual figures were known, as was the process itself, although this practice was not captured in the formal accounting system. Motivating these processes was the fact that financial performance reports reflected spending and budgets rather than specific accomplishments or efficiency indicators.

Financial Information Strategy Implementation

Despite the fact that the Financial Information Strategy was announced by the federal government in 1995[135], INAC did not begin working towards its implementation until the spring of 1999. At least part of the reason for the delay was wariness among senior managers both at Headquarters and at the regions as to whether or not FIS would actually be implemented at all[136]. The first step undertaken was the commissioning of a consulting group to analyze the existing accounting system and processes and identify where gaps existed between the current systems and those necessary for the department to become FIS-compliant. The report was released in July of 1999[137]. In this report major deficiencies in the existing accounting system (DAS) were identified, including the lack of a general ledger, no asset management or amortization capabilities, and the inability of the current system to accrue liabilities. Prior to the release of the full report, regions were provided with a copy of the executive summary initially distributed at a meeting of the regional Directors of

[135] Minister of Finance Budget, February 1995.
[136] Director interview; HQ-Director comments, Managers of Accounting Operations Workshop, Canmore, September 14-16, 1999
[137] Indian and Northern Affairs: Financial Information Strategy (FIS) – Financial Systems Gap Analysis, July, 1999. Price Waterhouse Coopers.

Corporate Services in June of 1999[138]. This meeting marked the beginning of the FIS implementation from the department's perspective.

While preliminary work began over that summer, news of the initiative was not communicated throughout INAC-Saskatchewan in any formal manner[139]. From the perspective of the regional offices, INAC began its FIS implementation in earnest in the autumn of 1999 with the announcement of its implementation at the annual Managers of Accounting Operations (MAO) Workshop[140]. FIS had not been a topic of the prior year's MAO Workshop[141] nor had it been discussed in any serious way prior to that meeting[142].

During the three-day workshop in 1999, discussion of the Financial Information Strategy was limited to the morning of the first day[143]. The remainder of the workshop was spent discussing other issues related to the existing accounting processes of the organization as well as to issues related toY2K readiness. During the portion of the meeting dedicated to FIS a presentation was made by a consultant with expertise in the Oracle Financials accounting program. In the presentation, two alternative accounting systems were suggested. The first involved using Oracle for a general ledger and interfacing it with the existing DAS system. The second alternative was the implementation of the full Oracle Financials accounting system[144]. The merits of each alternative were discussed and participants were informed that a

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138 FIS Workshop, June 9 and 10, 1999, Winnipeg.
139 Finance officer interview.
140 Managers of Accounting Operations Workshop, Canmore, September 14-16, 1999.
141 Record of Decisions, Managers of Accounting Operations Workshop, Whitehorse, August 18-20, 1998.
142 Former Manager of Financial Services – INAC Saskatchewan interview.
143 Agenda, Managers of Accounting Operations Workshop, Canmore, September 14-16, 1999
144 PowerPoint presentation, "Presentation of the Chart of Accounts", Managers of Accounting Operations Workshop, Canmore, September 14, 1999

decision would be announced by the end of September 1999, to be made at the HQ level.

As it happened, a financial system was not decided upon "officially" by the September deadline. While an Oracle consulting firm had been contracted[145] and a contracted Oracle expert headed the department's FIS project[146], the department had not properly followed the Government of Canada's tendering protocols[147]. Thus, while people were aware that Oracle was the choice of the department and referred to Oracle during FIS discussions[148], the department had to formally put the contract for the provision of an accounting system out for public tender. This process took a little over six months, after which time Oracle was selected as the winning bid. Six months of potential software development (the standard Oracle Financials software had to be extensively modified to accommodate INAC's unique business activities and to build interface capabilities for integration with other government organizations' systems) and staff training time, however, were lost. The new accounting system was entitled OASIS.

As previously noted, all government departments were required to become FIS-compliant by April 1, 2001. Funding for the INAC FIS initiative, which amounted to $60 million over three years, was not secured from Treasury Board until January of 2000[149], and the amount each region might expect to receive to assist with the implementation was not communicated to the regions until March of 2000. Thus, by

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[145] Montage Consulting Group
[146] Henry Murphy
[147] FIS Conference call, November 24, 1999
[148] FI interview, FIS conference call, November 24, 1999, FIS meeting, Ottawa December 9, 1999.
[149] Communique from the Treasury Board Secretariat to the Deputy Minister of INAC, January 24, 2000. Inter-INAC Communique from HQ Finance, March 17, 2000.

the time the tendering process had been completed and funding was in place, INAC was left with little more than a year to implement the new system.

Each region appointed a Site Implementation Manager. For INAC-Saskatchewan, as with all other regions, this task fell to the Manager of Financial Services. The duties of the Site Implementation Manager revolved around communication. Specifically, the primary task was to communicate progress made by the HQ implementation team to the regional senior managers. The FIS implementation team was assembled from existing HQ senior accounting staff, two regional accounting staff and consultants. The team worked out of the HQ offices in Ottawa. The Site Implementation Managers were also to provide "regional input"[150] to the HQ team via weekly conference calls. In practice, however, the weekly conference calls amounted to little more than the provision of progress updates from the HQ FIS team[151]. The weekly conference calls became bi-weekly after the first few months and eventually ceased altogether.

Once a working version of OASIS was available in the fall of 2000, numerous training sessions were held in Ottawa, attended primarily by the regional Site Implementation Managers. HQ staff then traveled to the regions to provide training on the new system to users, mostly from the Finance (FI), Administration (AS) and Clerical (CR) groups. This training was comprised of specific functional training demonstrating the way to input data and generate reports on the new system. As such, it was directed primarily towards finance and administrative staff[152]. No training was

[150] HQ Director comments, FIS workshop, Ottawa, December 9, 1999.
[151] Field Notes.
[152] Training and Development Canada Communiqué, April 7, 2000. Financial Information Strategy Training: Second Wave.

provided specifically for the region's decision-makers on the new system itself or the practical application of the FIS initiative in terms of accessing better decision-making information.

While several presentations to senior management at INAC-Saskatchewan regarding FIS took place[153], these were brief overviews focusing on the system changes (and issues) rather than management issues. And although a manual was distributed throughout the department entitled Reports for Managers, "managers" did not use the new system at all[154]. In fact, the only stakeholder groups[155] at INAC-Saskatchewan that the FIS implementation affected in any direct way were the administrative assistants and the finance staff, and the main impact on these groups was that they had to learn to use the new software[156]. All of the processes and performance measures, both regionally and department-wide, remained the same during the implementation phase.

As part of the Financial Information Strategy, the department would be moving to full accrual accounting. In addition to OASIS-specific training, a two-day accounting training session was held in Regina for regional finance staff[157]. This session covered the fundamentals of accrual accounting and was attended by members of the FI group (finance officers) from INAC-Saskatchewan as well as other departments[158]. The session consisted of presentations followed by group and individual exercises. Topics covered included the concepts of double-entry accounting, debits and credits, accrual

[153] Regional Management Committee, June 2000 and November, 2001.
[154] OASIS Usage Report.
[155] Recall the stakeholder groups identified in the FIS literature as summarized in Table 4.
[156] Field Notes.
[157] September 7-8, 2000, Regina Inn Hotel, Regina, SK.
[158] The Department of Corrections and Health Canada.

versus cash accounting, assets and liabilities, expenses and revenues, amortization, revenue recognition, expense recognition and two financial statements (balance sheet, income statement)[159]. As members of the FI group, all participants held professional accounting designations[160]. Nevertheless, the level of information presented and the accounting knowledge required to complete the exercises was introductory. To illustrate, one exercise provided brief descriptions of accounts (i.e. cash, accounts receivable, rent expense and so on) and required participants to identify whether the normal balances for these accounts were debits or credits[161]. The participants, it seemed, were so used to government accounting that, despite being professionally accredited certified accountants, it was felt they required a refresher course on the fundamentals of basic accounting. Feedback from the training session by the participants was positive[162].

While the computer software was changing, the processes underlying the accounting and management accounting system did not. The chart of accounts remained virtually the same[163]. At the regional office, invoices were still keyed in by the administrative assistants and approved by the finance staff. And the budgeting function of the new software was similar to that in the old system – all budgets were entered by the finance staff at the beginning of the year and this did not change throughout the year, other than to move funds from one budget activity to another[164].

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[159] Accrual Accounting Workshop participant manual.
[160] Field Notes taken during the introductions roundtable.
[161] Accrual Accounting Workshop participant manual.
[162] HQ Finance staff comment
[163] The Evolution of the Present Chart of Accounts – Department of Indian Affairs and Northern Development. Prepared by Ian McIntyre, December 2002
[164] OASIS Available Funds reports drawn monthly from May, 2001 through to March 2002 and May 2002 through to March 2003.

Described as a main component of FIS, the adoption of accrual accounting had a minimal impact on the regional office[165]. The threshold for assets to be classified as capital assets was set at $10,000. INAC-Saskatchewan held no assets meeting this criterion so amortization was not an issue[166]. While Accounts Payable and Accounts Receivable would now be included in the formal accounting system (unlike DAS), these were already being tracked manually at the regional level for reporting for the Public Accounts. There were significant changes in procedures as a result of these two accounting items[167], but the underlying process (i.e. the identification and tracking of A/P and A/R) did not change.

A significant departmental decision was to continue to treat appropriations on an expenditure basis[168]. This meant that budgets would still be planned and reported on using the cash basis of accounting already in place. Accrual budgeting, it was explained, would be introduced at a later date[169], although this had still not been introduced by the end of the field study, nor during the two years following the field study[170].

There were two concerns with the new system from the region's perspective. The first was that the region no longer had the ability to "over-program". This was a concern throughout the department[171]. As mentioned, the term "over-program"

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165 Field Notes.
166 INAC and INAC-Saskatchewan spend millions of dollars annually on capital projects such as schools and roads. These, however, become assets of the First Nations' bands, not those of the department.
167 Field Notes; OASIS manuals: Accounts Receivable, Accounts Payable Modules.
168 FIS Training Strategy (Draft), Oracle Cluster Group, February 7, 2000.
169 FIS Training Strategy (Draft), Oracle Cluster Group, February 7, 2000, page 1.
170 Finance Officer interview, July 2005.
171 RPA OASIS Working Group communication document: November 7, 2002.

simply means the ability to enter commitments into the system that exceeds funding. In other words it is the ability to budget a deficit.

The OASIS system was essentially an off-the-shelf Oracle Financials program. While modifications had been made to the program, such as those mentioned for interfacing with other government accounting systems, the ability to enter "soft commitments" was not part of the original software and was not added by HQ. In order to enter a commitment into the system, a purchase order had to be generated. The budget management utility that was part of the DAS system was no longer available to users with the new OASIS system. HQ effectively took away the one formal management accounting system the regions had. It was not the RCM users who complained, however,

> *"It wasn't the administrative assistants that were complaining, it was the directors because this was how they managed their "cash management" systems. OASIS didn't have soft commitment capabilities so they couldn't exceed funding at any time throughout the year".*
>
> - Finance Officer

Without the ability to enter soft commitments, directors could not project deficits early in the fiscal year as a planning tool for the use of surplus funds as they became identified. The new system would not allow overall deficits. Without this function, they could no longer use the formal accounting system to cash manage their budgets.

The second concern related to reporting. Regions were not satisfied with the reporting functions that were available through the Oracle Financials software and no special reporting utility (to give users the ability to mine data and produce any type of report they liked) was provided, although discussions regarding various reporting software options were held[172].

As with the DAS implementation, the focus was on getting the system up and running in order to carry on normal daily business. Given the late start by the department, time was of the essence. As a result, reporting took a back seat and the reports made available to managers and other users were considered inadequate[173]. Consequently, a complaint voiced by both senior regional (all regions) and HQ management was that there were insufficient data to make decisions[174]. This may be attributed to the fact that the Financial Policies, Systems, & Accounting sector at HQ (FPSAD) was entirely in control of the implementation and appeared to undertake the project with little or no consultation with the HQ RPA sector[175].

The HQ FPSAD staff, for example, announced the introduction of greater budget capacity in the new accounting system for regional planning and control. Despite this clearly being a budgeting and planning function (and thus within the realm of the budgeting sector of HQ finance, HQ-RPA), the HQ budgeting sector was not consulted on the change in system constraints. This resulted in a heated public confrontation between members of each sector at a national meeting[176].

The phenomenon of "stovepipes" (i.e. sector independence) described earlier continued throughout the FIS initiative, as this confrontation suggests. This

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172 FIS Conference Calls
173 Comments from multiple directors during interviews.
174 A-Base Review Scoping and Objective Setting Meeting, June 17-18, 2002.
175 HQ Finance officer interview.
176 The announcement and confrontation took place at the 2003 Year-End Workshop, Ottawa, January, 2003.

conclusion was further reinforced by comments from a senior HQ staff member at another national meeting who stated that the HQ Lands and Trust sector had its own reporting tools that it would continue to use regardless of FIS or the A-Base review (to be discussed later)[177].

The focus on the system's implementation and the lack of reporting appears to have made INAC-Saskatchewan's FIS-compliancy initiative little more than an exercise in changing one "cheque writing system for another"[178], according to one senior finance staff member. Indeed, for a system that is supposedly a management information tool, it is curious that only one regional director in Saskatchewan (out of 11) has a user id and password to access it. And at that, this single director only accessed the system once in a twelve-month period[179]. Perhaps this comes as no surprise given the lack of soft commitment ability in the new system. There has been no incentive for directors and managers to abandon their "black books", and they haven't done so[180].

The chart of accounts and the OASIS system are, however, sufficient for producing cheques and maintaining receivables and payables. And it is an effective system for the production of the Public Accounts. The Public Accounts, however, is a summary level document and is not used by directors and managers at the INAC-Saskatchewan office for decision making[181].

As one regional director stated:

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[177] HQ Director comments, A-Base Review meeting, Ottawa, December 11, 2002.
[178] Finance officer interview.
[179] OASIS Usage Report.
[180] Director interview; Field Notes.

"The Public Accounts are not of interest to me at all – I'm more interested in the results that matter at the ground level" (such as school attendance rates, standard of living and so on).

- Director

Nevertheless, the government-wide implementation of the FIS initiative was declared a success by the president of Treasury Board. At INAC, at least internally, the term "success" was limited to mean that financial statements using accrual accounting were completed for the 2001-2002 fiscal year[182], as required. A public statement issued by the Treasury Board president, however, indicated that success meant the full implementation of the Financial Information Strategy and was a clear sign of the government's commitment to " improving the management and stewardship of resources"[183]. This statement was issued April 2, 2001.

In summary, as with the DAS system before it, the new OASIS accounting system implementation was a rushed affair undertaken primarily by a specially assembled team working out of the national office. While regions were given the opportunity to provide input into the process, discussions regarding decision-makers' needs were not frequent and the conference calls essentially amounted to no more than technical progress reports from the HQ-based team. Eventually, these calls became less frequent. Training was provided primarily to users of the system focusing on the technical aspect of the system rather than a managerial one. Reporting, again, was an issue for the regions. And curiously, the budget management function that was available in the DAS system was not available in the new system. Rather than offering a new management system under the Financial Information Strategy in order

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[181] Finance Officer interview.
[182] HQ Communication, July 2002.
[183] Treasury Board Communication letter dated April 2, 2001.

to provide better decision-making information, the informal systems used at the RCM and regional level became further entrenched and, indeed, served as the only system for detailed budget management.

Post-Financial Information Strategy

Conspicuously absent from the Financial Implementation Strategy implementation at INAC-Saskatchewan were any meaningful changes in either organizational structure or management practices. The organizational structure at INAC-Saskatchewan remained virtually the same as before the implementation[184]. The only exception was the creation of a new sector entitled Economic Development, created as a result of new funding received from HQ for economic development projects undertaken by First Nations' groups and individuals. The two permanent cross-functional committees remained in place; the Executive Steering Committee and the Regional Management Committee.

Budgeting

The budgeting process, both at the regional level and the national level remained the same[185]. As mentioned, the budgeting process was not altered as part of the FIS implementation at the Department of Indian Affairs and Northern Development.

[184] INAC-Saskatchewan Organization Chart, July 2002.
[185] HQ Management Regime, 2003; INAC-Saskatchewan Funding Services Regime, 2003; INAC-Saskatchewan Corporate Services Management Regime, 2003.

Budgeting continued to be carried out on an expenditure basis and no changes, therefore, were expected or found in the budgeting process.

OASIS

The lengthy, highly detailed procedural manuals that accompanied the DAS system were replaced with lengthy, highly detailed procedural manuals for the new OASIS system. At the RCM level, informal procedural sheets and desk books were updated with OASIS instructions. Again, these were either photocopies from manuals or hand-written instructions. By the 2002-2003 fiscal year, the new processes had become highly routinized at the RCM level through repetition[186]. With the new system in place, annual year-end meetings were scheduled by HQ Finance staff and held in Ottawa. The purpose of these meetings was to instruct regional finance staff members on the new procedures regarding the year-end processes at INAC. During the meeting held in February of 2003, however, it was decided that this was no longer necessary. The regional staff, it was decided, were already sufficiently trained and the processes were sufficiently understood and in place[187]. The regions, it appeared, had little difficulty adapting to the new system, accounting changes, or the new processes.

The accounting information produced by OASIS was not as useful to INAC-Saskatchewan stakeholders as it might have been. The shortcomings began with the chart of accounts[188]. As previously mentioned the chart of accounts had evolved in an ad hoc fashion since the late 1970s, but had essentially remained the same since its inception despite significant changes in the department during its use. It has been

[186] Field Notes; AS Interviews.
[187] Year-End Workshop Field Notes, February, 2003.
[188] Finance officer interview

described as "saddled with budgeting and reporting problems" and contributes to the fact that "black books remain the manager's accounting tool of choice"[189].

Those most affected by the OASIS implementation and, thus the FIS initiative, were the administrative services and finance staff. They were the individuals actually using the new system and were also the ones who received virtually all of the training. From senior management's perspective, OASIS and FIS had little or no effect[190].

Interviews conducted with regional administrative assistants and program managers in the spring of 2003 elicited some comments regarding the OASIS system. A representative sample includes:

> *"OASIS is not user-friendly and managers do not understand OASIS coding".*

> *"OASIS is somewhat cumbersome"*

> *"I'm not comfortable running reports although I do go in and check the system (OASIS) once in a while".*

> *"OASIS reports are so cumbersome – I don't need all that data. Its easier to track everything on a spreadsheet".*

The Management Variance Report

The MVR process did not change after the FIS implementation[191]. It remained the formal management accounting report for both the region and for HQ. The steps involved remained the same, as did the original forms used internally by INAC-

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[189] FPSAD document: The Evolution of the Present Chart of Accounts, December, 2002.
[190] Director Interviews.
[191] Management Variance Report Schedule, INAC-Saskatchewan 2002, 2003.

Saskatchewan for the RCM reports, and the forms used by all the regions to report to HQ[192]. While the formal MVR process in Saskatchewan remained, the carrying out of the internal review changed, indicating a reduced reliance on this mechanism for planning and control. During the first three years of the field study a formal meeting was held to review the MVR with senior management, as previously described. Attendees included the Associate Regional Director General (ARDG), the Director of Corporate Services, the Director of Funding Services and the senior finance officer. These meetings were conducted as a normal course of business prior to the field study, as well[193]. During the final year of the study, however, these meetings were no longer being held. Instead, the MVR along with the region's letter to HQ was simply sent to the ARDG via inter-office mail for the provision of a signature. On occasion, the MVR would be signed by an individual acting on behalf of the ARDG. The signed letter and MVR would then be returned to the finance sector of Corporate Services for submission to HQ. Information contained in the MVR that would be of significance to the senior staff was communicated verbally through senior management meetings or informally between a Director and the ARDG[194].

Internal Management Accounting Reports

The management reports generated internally prior to the FIS-implementation remained the primary source of decision-making information for the region. No new formal reports generated from the OASIS system were introduced at the Regional

[192] Management Variance Report instructions, 2002, 2003.
[193] Finance Officer and Director interview
[194] Director interview.

Management Committee meetings subsequent to the FIS implementation[195]. The same budget presentation forms and instructions were used as in previous years[196].

External Reporting

After the FIS implementation, the three general reports produced by the region prior to FIS remained the primary reports constructed for external users. HQ, however, introduced two additional reports for regions to complete and submit – the Mid-Year Review and the A-Base Review (to be discussed in a following section of this chapter).

The region continued to produce the necessary reports for submission to HQ for the preparation of the Public Accounts. The reports were the same as has been used prior to the FIS implementation[197].

The Management Variance Report continued to be produced, as has been described.

The region's financial report produced for presentation to First Nations groups, "the Charts", also continued after the FIS implementation, with no discernable changes in format or content[198]. The region continued to report budget and spending levels in these reports.

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[195] Regional Management Committee meeting, March 2002; June 2003.
[196] Funding Services Management Regime, 2003; Corporate Services Management Regime, 2003.
[197] Public Accounts Plates and Instructions, 2002, 2003.
[198] INAC Saskatchewan Region 2002-2003 Current Budget.

As of 2001, the federal government committed to report its financial results in the format of financial statements[199]. These statements included a Statement of Financial Position (balance sheet), a Statement of Operations (income statement) and a Statement of Cash Flow. Each department was required to report in this format[200]. From the perspective of the regional office staff, however, the production of these financial statements had very little impact since they were constructed by staff in the HQ Finance sector.[201]. The role of the finance staff at the regional office was only to provide clarification of the data contained in the OASIS system[202].

As mentioned, two additional management accounting reports were introduced in the department during the field study: the Mid-Year Review and the A-Base Review. They were not informal from the regions' perspective in that they were HQ initiatives. Nevertheless they were also not reports arising from the new formal accounting system. The reports were created on spreadsheets using data gathered from the OASIS system as well as other sources within the regions (i.e. sub-systems and, indeed, "black books")[203]. A brief description of each follows.

Mid-Year Review

The Mid-Year Review was a new reporting process that began in 2001 as an initiative from the Minister's office and was not designed to replace the MVR[204]. The goal of

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[199] Treasury Board Accounting Standard 1.2.
[200] Treasury Board Accounting Standard 1.2, subsection 3.
[201] Field Notes.
[202] Field Notes.
[203] Field Notes; Mid-Year Review instructions; A-Base team communications (emails).
[204] Conference Call Summary, Oct 19, 2001 from the Director of Finance, HQ.

the exercise was to determine the degree of financial "flexibility" within each region[205]. Flexibility refers to budget surpluses and deficits. That is, it was intended to "nail down" surpluses and deficits reported on the MVR as being either concrete or as having "wiggle-room"[206]. In order to make this determination, regions were compelled to report on their year-to-date expenditures, their commitments (actual money owed) and their soft commitments (anticipated money owed). Given that entering soft commitment into the formal accounting system (OASIS) was no longer possible, "black books" *had* to be used to complete this report.

These figures were reported in a detailed manner by program activity (i.e. housing, band support funding and so on). Additionally, the region would report on the anticipated budget for each activity using the "theoretical budget methodology" and the "traditional budget methodology"[207]. The theoretical budget methodology referred to the budget allocated through the budget regime process using funding formulas. The traditional budget methodology referred to the actual budget assigned by the region for the activity. The assignment of budgets to activities often differed as regions had the flexibility to move funding around (devolution of authority) and the theoretical formulas were often out of date[208]. In the summary page, funding transfers from the theoretical to the traditional budget were presented, but it is not possible for the reader to determine from which activity additional funds were drawn.

The summary page reports on "flexibility" by activity. Unlike the MVR, it does draw attention to YTD expenditures and firm commitments for expenditures versus only

[205] Department-wide communication, Oct 11, 2001.
[206] Director interview
[207] INAC-Saskatchewan mid-year review 2001-2002.
[208] HQ FI comments; EX comments.

planned expenditures (the so-called soft commitments). Expenditures that have already been incurred and firm commitments, such as contracts, are not subject to change. Planned expenditures, however, are.

In addition to the summary page, further documentation had to be provided by the regions. This documentation contained more detailed information on each activity using the same reporting format as the summary page (budget methods, soft commitments, and so on). Finally, a narrative was provided to explain variances, shortfalls and surpluses and to provide any other information that might be useful to the decision-making process with respect to the management of resources. While this reporting tool was intended to be a one-time exercise, it became permanent although it was never used as a planning or decision-making instrument at the regional level[209].

The report was created almost exclusively by the finance sector staff[210], although the Director of Funding Services and some of the administrative assistants contributed. The impact, therefore, was confined, for the most part, to one sector of the regional organization.

A-Base Review

With the appointment of a new Deputy Minister in August of 2002[211], INAC began a massive initiative entitled the "A-Base Review". The term "A-Base" refers to the core, recurring funding base received by the department each year. The new Deputy Minister assembled an A-Base Review team consisting of five senior staff members,

[209] Director interview
[210] Field Notes.
[211] Alain Jolicoeur

two from outside INAC and three from the HQ ranks. A "champion" from each region was appointed to coordinate the A-Base Review activities at the regional level. The A-Base team in Ottawa worked independently from the HQ accounting and budget sectors (FPSAD and RPA)[212]. The purpose of the review, as cited in official departmental documents, was to draw a clear relationship between existing resources and results, streamline the "authorities"[213] for the department, and support the department's move to a more "dynamic/flexible" management model[214]. One underlying reason behind the exercise of developing a new reporting tool was that the new Deputy Minister could not explain through the existing system (OASIS and MVR report) what the department was actually doing with its funds at a sufficient level of detail to justify ongoing funding from Treasury Board[215].

As one senior member of the A-Base Review team wrote, information using the current chart of accounts does not give a "clear view as to what is actually happening"[216]:

> *"While I would expect regions to use the chart of accounts as the basis of their submission I am expecting that this information will need to be modified to reflect the reality of the department's operations."*
>
> -Senior A-Base Review team member

[212] HQ Finance Officer comments.
[213] Recall that authorities are the formal approvals for the use of funds for specific purposes
[214] A-Base Review presentation at the HR National Meeting, April 7, 2003.
[215] Deputy Minister's comments; A-Base Review meeting, Ottawa Dec 2002
[216] Communication document to INAC-Saskatchewan, November 20, 2002.

A complementary objective of the project was to "create a validating story"[217]. Indeed, one of the central questions posed to the regional Directors of Corporate Services and Funding Services during an A-Base Review workshop was: "what story do we want to tell"?[218] Thus while it was described as a "management accounting tool"[219], it also was created to be a reporting tool to justify funding levels to Treasury Board staff.

For broader usage, five "key result areas" were established under which the department's business activities could be reported[220]. These strategic goals are the same as those found in the 2002-2003 Departmental Performance Report[221].

At the detailed level, regions were requested to complete another set of spreadsheets separate from the MVR, Mid-Year Review or any financial reporting originating from the accounting system. Like the MVR and Mid-Year Review, reporting was done by business activity (like Activity-Based Costing). Business activities would then be assigned a key result area to which they contributed. The A-Base Review differed from other reports in two significant ways. First, the expenditures associated with each activity were broken down into six categories: salary, other operating expenses, capital expenses, grants, contributions, and other transfer payments[222]. Activities had never been reported this way before[223]. Salaries, for example, were reported as overhead rather than being assigned to specific activities. Secondly, benchmarks or

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[217] Executive Director, A-Base Review team comments, December 11, 2002.
[218] Executive Director, A-Base Review team, December 11, 2002.
[219] Communication document to INAC-Saskatchewan, November 20, 2002.
[220] Building the INAC Results Framework document, May 2003.
[221] The government, the people, the Land, the Economy, and the Operations.
[222] It was form of Activity-Based Costing.
[223] A-Base Review team member comment.

"service standards"[224] were to be reported. While there was a variance component (i.e. budget to actual), no data existed for this since regions did not budget by activity this way. Similarly, while actual expenditures were to be compared to "service standards", no service standards existed at the regional or HQ level in this format.

Reporting the region's results in this format was a labour-intensive exercise. Raw data was retrieved from the accounting system and restated into the new reports, which were created with Excel spreadsheets (An Excel template was provided by the A-Base Review team). As with the Mid-Year Review, staff in the finance sector produced the report with the assistance of the Director of Funding Services and an administrative assistant[225].

A comment made by an administrative assistant at the time of the A-Base Review reflected the increased workload resulting from the A-Base Review and Mid-Year Review exercises:

> *"HQ! Do they think we have nothing else to do, but accommodate them?"*
> - Administrative Assistant

An interesting feature of the summary sheet for A-Base Review reporting was the first three columns to be completed by the region. They were entitled "OASIS" (what the accounting system reported), "Adjustment", and "Actual Expenditures". The inference is that the official accounting system was not actually capturing all of the expenditures in the proper activities. That is, the formal accounting for the

[224] A-Base Review Data Collection Framework 2001-2002.

department was not correct. The reports created through this process were never used for decision-making by senior management in the region[226] and were never presented to directors or managers. The process of the A-Base Review and the task of completing the required forms fell almost exclusively to the finance sector staff and the administrative assistants[227].

Despite the comprehensiveness of the A-Base Review (historical data spanning twenty years was examined), a major gap in information identified was regional management methods. As the team leader reported to INAC-Saskatchewan's management committee:

> *"The A-Base Review team could not determine anywhere how regions actually managed their budgets and activities[228]".*
>
> Executive Director – A-Base Review Team

These two new reporting tools, the Mid-Year Review and the A-Base Review were not part of the FIS initiative. While both provided a large amount of information that could be used not only at the HQ level but at the regional level as well, neither was actually used for decision-making at the region in spite of the large amount of work required to construct them. And neither of the reports was actually generated by the new OASIS accounting system. They had to be constructed manually drawing

[225] Field Notes.
[226] Director interview; RMC meeting, May 2003.
[227] Field Notes.
[228] A-Base Review Presentation at the Saskatchewan Region's Regional Management Committee meeting, June 12, 2003.

information from numerous OASIS reports and from discussions with senior managers[229].

By the end of the field study in the summer of 2003, the same informal management accounting systems that were used at the beginning of the study in 1999 ("black books") were still being used, as was the practice of "cash management"[230].

Performance Measures

Departmental Performance Reports

A review of the post-FIS Departmental Performance Reports revealed that little had changed as a result of the FIS implementation. The same key commitments reported in the preceding year remained (Treasury Board of Canada, 2002d). They included the same tangible outputs (such as spending on First Nations business start-ups) and less tangible outputs (such as building relationships through meetings). The 2002 report, however, is a greatly expanded report, nearly double the size of the previous year's, mostly due to the inclusion of the government's risk management framework description[231]. With respect to performance measures, however, the same vagueness and ambiguity dominates the document. Again turning to the capital projects financial table as an example of the reporting available, one single water and sewer capital project was planned for the Manitoba region for the fiscal year 2001-2002 (Treasury Board of Canada, 2002d: 86). The document reports, however, that monies

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[229] Field Notes.
[230] Field Notes, email correspondence from regional and HQ directors.
[231] The government risk management framework is a decision-making tool introduced by Treasury Board in order to promote the consideration of risk associated with each possible decision available to a manager for any given situation. It appears to be a stand-alone initiative as there is no mention of it in FIS documentation or of FIS in the risk management framework literature.

were spent on four such projects in that province during the year, three of which, of course, were not reported as having been planned. Again, detail is lacking.

There is no mention of the department's implementation of the Financial Information Strategy anywhere in the ninety-two-page document[232]. The Results for Canadians document and the Modern Comptrollership initiative are mentioned together in a single paragraph under the heading "Service Improvement Initiative", although no details are provided (Treasury Board of Canada, 2002d:70).

For the fiscal year ended March 31, 2003, the original strategic objectives could be found along with five (now familiar) strategic goals[233]. The use of outcomes and outputs remained. Outputs continued to be vague in many cases, including items such as "meetings" and "information sharing" (Treasury Board of Canada, 2003).

It may be that for some activities related to achieving the broader strategic goals of the department, specific performance measures are not realistic.

For example, one program manager from Saskatchewan noted:

> *"You can't measure what we do by specific results. We can spend years building a working relationship with our counterparts (in the provincial government or First Nations organizations) trying to hammer out agreements. If the leadership (at these other organizations) changes, sometimes we're back*

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[232] The researcher performed both a manual and electronic search of the document.
[233] There were now five pillars: The Government, The People, The Land, The Economy, and The Operations.

to square one and have to start the process all over again. It isn't realistic to measure our performance by the number of agreements reached".

- Program Manager

As with the year before, Modern Comptrollership is mentioned in this report and more detail is provided than in the previous year. The document reports on initiatives that had been implemented throughout the year, including guides on risk management, e-learning, a capital management regime and the "highlight of the year", an integrated risk management framework. Again, there is no mention of the Financial Information Strategy[234]. As with the previous three reports, the minimal financial information provided overwhelmingly reported on spending rather than results (seven out of the nine financial tables provided in the 2001/2002 document reported on either planned or actual spending or both[235]).

In summary, the Financial Information Strategy had been mentioned in only one of the four Departmental Performance Reports reviewed for this study. In the report for the fiscal year ended March 31, 2001 mention is made of the implementation of an Oracle system, which is cited as an initiative leading to the improvement of the department's procurement process (Treasury Board of Canada, 2001d: 38). Conspicuously absent is reference to improved decision making information that is so often mentioned in the FIS rhetoric.

Regional Performance Measures

[234] Both manual and electronic document searches were again conducted.
[235] The other two financial tables reported on contingent liabilities (table 10) and non-respendable revenues (table 4). There was also a qualitative report on transfer payment programs (table 7).

No new performance measures were introduced regionally either during or after the implementation of FIS[236]. As described in the External Reporting section, "the Charts" continued to be produced and presented to First Nations' organizations unaltered by the FIS initiative. Spending levels, therefore, remained a priority in terms of results that were being reported and, as such, continued to be a performance measure for the region.

As found in the first year of the field study, the dominant performance measurement was achieving a balanced budget. Regions continued to be praised for having as low a surplus of funds as possible without incurring a deficit. Indeed, the "gold star" had evolved to taking on the physical form of a star-shaped coat hanger painted gold and presented to the top three regions, of which Saskatchewan was one[237].

The pursuit of the "zero balance" is difficult on some managers. One commented in 2003:

> *"There's too much emphasis on year-end spending, in particular big ticket items, to reduce any budget excess to zero".*
>
> - Program Manager

And from another manager in 2003:

[236] Field Notes; Funding Services Management Regime, 2003; Corporate Services Management Regime, 2003.
[237] Director of Corporate Services meeting, Spring 2003.

"I put together a three-year plan for minor capital last year. I may as well have thrown it out the window. Come February I get a pile of money to spend by year-end".

- Program Manager

Informal Accounting Systems

By 2003 the department appeared to be making a concerted effort to eliminate the use of "black books" by the regions[238]. Indeed, a key performance objective of the senior director of the Financial Policies, Systems, & Accounting Directorate was to eliminate their use throughout the department[239]

The FIS implementation, however, did not result in providing managers with access to the decision-making information they required. The unrepresentative chart of accounts, coupled with the system's lack of over-budgeting capabilities, soft commitment functionality, and detailed reporting did little to persuade managers to abandon their use of black book systems.

In Saskatchewan, two additional "off the record" budget management tools were developed and implemented for operating budgets following the FIS implementation.

[238] Comments from Director, Financial Policies, Systems and Accounting: Director of Corporate Services Meeting, Edmonton, February 25, 2003.
[239] Performance Contract: Director, Financial Policies, Systems and Accounting

The first was a collection of linked spreadsheets that were summarized to present projected operating surpluses for the region[240]. This projection included accommodations for anticipated surpluses from RCMs and salaries, although none had been identified in the OASIS system or the MVR. This report also tracked cash managed funds.

This new document was created in 2001. The report tracked the various surpluses and deficits of the region, resulting in a "pool" of funds[241]. RCM requests for additional funding were tracked on this document. The document, therefore, summarized the region's actual surplus and the region's adjusted surplus should each RCM's additional funds request be granted.

Senior management decided upon funding requests based on this document. Since the budget management function in OASIS did not provide detailed information or soft commitments, this document represented the summary of the "actual" (or as close to actual as senior management knew) financial position of the organization. It is, of course, a "black book" summary. The use of this report was fully embedded in the regular organizational routines by 2003. It was prepared by the senior finance officer and provided to the Director of Corporate Services weekly until year-end approached at which time it was produced daily.

The second "report" was nothing more than a single spreadsheet that tracked potential and actual surpluses from the RCMs as year-end approached[242]. The purpose of this

240 Projected O&M Budget (Vote 5) for the Fiscal Year Ended March 31, 2004.
241 Operating Pool document, 2001, 2002, 2003.
242 Projected O&M Surplus, Fiscal Year ended March 31, 2002.

report was to try to bring the potential operating surplus to as close to zero as possible without exceeding the allocation[243].

Although it never came to fruition, the North-West Budget Centre of INAC-Saskatchewan (a satellite office) began seriously considering implementing its own accounting system to run alongside the OASIS system[244]. It was felt that a system such as AccPac would allow them to track budget and expenditures in a more meaningful way.

Nationally, the "black books" remained in regional offices, as well. During a national meeting of senior regional managers, access to the HQ Oracle database was requested by the Ontario region so they could draw out their expenditure information directly and load it into their Oracle-based black book system[245].

Summary

As we have seen in Chapter Two, New Public Management has been employed as a means of improving government operations. The Government of Canada has participated in this global public sector management phenomenon, attempting to employ many of the main components of it: the devolution of authority, the adoption of performance measures and accrual accounting, the use of alternative delivery methods and attempting to change the mindset of public sector managers to embrace a

243 Field Notes.
244 Discussions with the Director on several occasions throughout the Spring of 2003.
245 Director of Corporate Services meeting, Edmonton, February 25, 2003.

more entrepreneurial approach to their work. A large, sweeping initiative encapsulating many of these reforms is the Financial Information Strategy. Despite the changes, the main highly summarized reporting mechanism, the Public Accounts, remained in place. It is now supplemented with accrual-based financial statements as a result of FIS, but these too are highly summarized.

The unit of analysis, the Saskatchewan regional office of the Department of Indian Affairs and Northern Development has been affected by these changes by participating in the implementation of a new accounting system, producing new reports, being exposed to literature, presentations and training on the Financial Information Strategy and by devolving managerial authority downward in the organization. The department itself is one of the oldest departments of the Canadian public service and it has remained a stable bureaucratically structured department for a very long time. The Saskatchewan regional office has maintained its traditional bureaucratic structure and its stable operating environment throughout the imposition of a variety of managerial and New Public Management initiatives. The budget and accounting processes, job descriptions, and reporting are still highly formalized and structured.

Reporting for the department and the regional office through the Report on Plans and Priorities, the Departmental Performance Report and the Public Accounts is highly summarized and appears not to have the impact at the regional level one might expect. Instead, a local report is produced and used for those external stakeholders most closely associated with the regional office's activities (the "Charts").

Burdened with a financial system lacking in reporting capabilities, an out of date chart of accounts, the devolution of authority, and insufficient budget management expertise, managers developed informal management accounting systems, a phenomenon that occurred at all regional offices and at Headquarters as well. Why the informal system maintained by Headquarters remained or emerged can not be determined based on the data collected for this research. In addition to these systems, the regional office, the main office, and the central agency, Treasury Board, used an informal financial management system. Terminology associated with the informal systems such as "cash management", "black books", and "overprogramming" accompanied these informal systems and was embedded in the language of organizational actors.

While the implementation of the Financial Information Strategy took place, two additional management accounting tools were introduced to the region, the Mid-Year Review and the A-Base Review. The former provided an additional report for a new deputy minister who determined that existing reporting mechanisms were insufficient for decision-making. The latter was also a report initiated for (another) new Deputy Minister for the same reasons, but it represented a change in how management accounting ought to be constructed, with activity-based costing as the underlying principle. The region, and indeed the department as a whole, was "successful" at implementing the Financial Information Strategy according to the president of Treasury Board. The informal management accounting and financial management systems, however, remained routinized and firmly in place throughout the organization.

Processes once established can become routinized to the point where their original purpose may no longer be valid, such as the production of regional financial statements that nobody reads or that have no formal reporting purpose at all, such as the detailed spreadsheets accompanying the MVR. Nevertheless, new processes are adopted with relative ease by the regional staff. The history of multiple budgeting processes used by department (line-item budgeting, performance budgeting, program budgeting and zero-based budgeting), the FIS implementation and the Mid-Year Review and A-Base Review initiatives attest to this. It appears, however, that the effect on the organization of the externally driven changes such as FIS, the Mid-Year Review and the A-Base Review was absorbed primarily by the finance sector. This unit played a diminished role in the regional organization due to decentralization and devolution, so it had the capacity to take on these additional requirements almost in isolation, thereby buffering their effects on the rest of the organization. The impact of these initiatives on senior management in the region was found to have been negligible.

There is a large degree of regimentation of processes in the department. Formal legislation, the *Indian Act* and the *Financial Administration Act* guide its operational and financial activities, respectively. Accounting procedures are well, perhaps excessively, documented. Even informal procedures related to specific RCMs and positions are documented in the form of desk books. It appears, however, that some processes are more easily abandoned, such as those related to the DAS system, than others, such as the informal systems.

Quantified performance measures are virtually non-existent for the department beyond actual spending amounts. The performance measures used in the formal departmental reports are vague and process rather than results based. At the regional level, as at the departmental level, results are generally reported in terms of budget and expenditures levels. As a result, the region and RCMs within the region are highly protective of the funding they receive.

The dominating pattern that emerges from the data, however, is the informal processes present at the region. The "black books", "cash management", the informal communications with HQ regarding budget information and surpluses and the horizontal communication lines between sectors at the regional and HQ level are examples of the informal processes that exist at the region and at the department as a whole. While informal, these processes are also highly routinized and in many cases fully documented. Unlike the formal processes, however, the organization appears less willing to abandon them.

Because of the informal systems and vague reporting outsiders, as external members of the A-Base Review discovered, would find it difficult to determine what exactly happens at the regional level.

This phenomenon extended into one of the characteristics of this organization that became obvious to the researcher at the beginning of the field study: the use of public service-specific language. In particular, terminology was used that was foreign to the researcher as an outsider (at the beginning of the study) some of which appears in this chapter. Over-programming, "cash management", stovepipes, flexibility, shortfalls, and "black books" are examples. In some cases, a word or phrase used in this public sector context simply required definition, which has been provided where necessary in this chapter. In other instances it was found that the use of language acted as a sort of camouflage. An example is the term "overprogramming" which appears to be used to avoid stating outright that an organization is planning a deficit which, of course, is forbidden.

While a phrase or word was well understood by employees within the organization of INAC-Saskatchewan (or throughout the department), its true meaning would be difficult for those outside the organization to discern. The term "environmental assessment", for example, appears on the official agenda of the Regional Management Committee meetings held during the spring and represents an activity carried out by all participants at the meeting[246]. In actuality, an environmental assessment is a golf game.

[246] Regional Management Committee agenda, June 1999; May 2003.

CHAPTER 5

ANALYSIS

In this chapter, a process of explanation building is employed to develop an understanding of management accounting change. Drawing upon institution theory, loose coupling, professions, and the results of the field study, a new conceptual framework for management accounting change is developed and an explanation for the findings of the field study is offered. Additional contributions of this research include advancing our understanding of loose coupling, identifying a non-traditional professional group's role as an institutional force, and documenting the emergence of a new role for the finance unit of an organization as a result of the devolution of authority and conflicting institutional forces.

The chapter begins with a brief review of theory relevant to the explanation-building process. This is followed by an analysis of the data and, drawing upon this data and theory, the construction of a new conceptual framework for management accounting change. This section is organized in a manner that reflects the explanation building process employed for the analysis. The framework developed through the analytical process is then employed to offer an explanation for the results of the field study.

The research question described in Chapter One is then revisited and answered based on the analysis. This section is followed by a discussion of the potential limitations of the conceptual framework and the consideration of a rival explanation for the findings presented in this chapter.

Finally, the case studies reviewed in Chapter Two are discussed, drawing upon the newly developed view of institution theory encapsulated in the conceptual framework.

Theoretical Framework

The analysis that follows draws on the two theoretical perspectives of institution theory described in Chapter Two: Old Institutional Economics and New Institutional Sociology. It is accepted that institutions operate at various levels from the "world system to sub-units of organizations" (Scott, 1995:34). For the purpose of this analysis, three broad levels of institutions are recognized (Dillard et al., 2004) which are labeled macro-, meso- and micro-institutional levels. Macro institutions are broad societal belief systems. Meso-institutions are those belief systems specific to an organizational field (DiMaggio and Powell, 1983) while micro-institutions are those belief systems specific to a particular organization (Burns, 2000).

The macro institutions are those wider belief systems that affect the behaviour of organizational actors within an organizational field. This level of institutions comprises those institutions described by Veblen as the "settled habits of thought common to the generality of men" (Veblen, 1961: 239) that define proper and expected conduct (Parsons, 1940) and shape people's daily lives (North, 1991). For this analysis, changing expectations in the broader society regarding the role and behaviour of government organizations (i.e. a blurring of the lines demarcating public and private sector practices – see Box et al., 2001) resulted in the emergence of new values and beliefs that would exert influence and pressure on government organizations and the organizational field of the public sector.

The second or meso-level of institutions is the organizational field, defined by DiMaggio and Powell as the aggregation of organizations that constitute a recognized area of institutional life (DiMaggio and Powell, 1983). The organizational field for the Department of Indian Affairs and Northern Development (INAC) would be comprised of other Canadian federal government departments, but also, increasingly, public sector organizations at other levels of government (provincial and municipal) and in other countries. This development may be attributed to an increased permeability of organizational boundaries (Oliver, 1993) as witnessed by the gaining momentum of the New Public Management phenomenon (Hood, 1991; Hood, 1995; Denhardt and Denhardt, 2000; Hood and Peters, 2004).

Micro-institutions are those settled habits of thought specific to the department of which the Saskatchewan Regional Office (INAC-Saskatchewan) is a part.

The intent of this research, however, is not to describe the static state of an organization at a single moment in time. The intent was to study management accounting *change* at the organizational level. In order to incorporate the change process into the theoretical analysis, the Burns and Scapens conceptual framework for management accounting change can be employed. As the reader will recall, the Burns and Scapens conceptual framework for management accounting change provides a model for exploring management accounting change at the organizational level.

Figure 5

A Conceptual Framework for Management Accounting Change

Aston University

Illustration removed for copyright restrictions

John Burns and Robert W. Scapens (2000)

Institutional principles are encoded in the form of rules and routines (arrow a) and these rules and routines are enacted by organizational actors (arrow b). Rules and routines may change through repeated behaviour, intentionally or unintentionally (arrow c), while the institutionalization of these rules and routines occurs once they become the taken-for-granted way of doing things (arrow d). The institutional realm in this model represents micro- or organization level institutions (Burns and Scapens, 2000; Burns, 2000).

Through the integration of the Burns and Scapens framework into the analysis institutionalization is recognized as a continuous process (Barley and Tolbert, 1997; see also Quattrone and Hopper, 2001) that is recursive in nature (Burns and Scapens, 2000; Dillard et al., 2004).

It is also recognized, however, that extra-organization levels of institutions exist (Dillard et al., 2004; Scott, 1995) and these also influence organizational behaviour (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991). Professionalization, the role of professional groups in influencing organizational behaviour, is one way external influences can infiltrate organizations. The Burns and Scapens framework does not (and was not intended to) consider the external influences on organizational activities. The external environment does influence organizations, however, and when external and internal demands conflict with one another, loose coupling can occur (Orton and Weick, 1990).

Drawing on Old Institutional Economics, the Burns and Scapens framework in particular, New Institutional Sociology, professionalization, and loose coupling, the empirical data collected during the field study were analyzed.

Empirical Analysis

We begin the empirical analysis by reviewing the data related to the implementation of DAS and the devolution of authority in the organization that occurred prior to the implementation of the Financial Information Strategy. There were two specific undertakings which together represented a discrete change. They can be described as the first wave of New Public Management reform at the department: automation (the DAS implementation) and devolution (entrepreneurialism). The new rules included accounting procedures for the new computerized system, organizational rules for the decentralization of accounting functions to the administrative staff, and new rules for budget management and funding transfers across budget lines[247] by individual managers. Routines developed that would include the processes by which the new rules were carried out, such as the MVR process which would now include reports from individual Responsibility Centres.

Early in the field study, however, it was found that there were, in effect, two management accounting systems operating at INAC-Saskatchewan. The formal system encompassed DAS, the Management Variance Report (MVR), and the production of the Public Accounts at the regional level. Their associated rules and routines were documented during the field study. A second management accounting system, the informal system comprised of "black books" and "cash management" that was used at the regional office, was also documented and it, too, had associated rules and routines that were embedded in the organization and had developed over time (becoming institutionalized). Each of these systems was supported by a corresponding set of activities[248].

The informal system was used to manage the organization on a day-to-day basis. For example, budget planning and monitoring was done through the informal system.

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[247] i.e. from one program to another or from program funding to travel funding, etc.
[248] For this study, activities can be thought of as the enactment of rules and routines.

The formal system's budget planning utility was generally set to a zero variance as described in Chapter Four. The formal system, other than using DAS as a cheque-writing tool and in some cases for reconciliation purposes, related more to external requirements than internal ones. The budget management utility was not used by regional managers for planning purposes (i.e. decision-making) and the MVR was never distributed to regional managers for their use. Instead, information drawn from the informal system served their purposes. The two sets of systems and related activities performed by organizational actors, therefore, can be characterized as legitimating (seeking external approval) and technical (meeting organizational requirements) activities (Meyer and Rowan, 1977). The ceremonial use of a formal accounting system for management decision-making through the entering of forecasts in the budget utility and the MVR process was undertaken in order to maintain institutionally prescribed appearances (Carruthers, 1995). The informal system served the main goal of the organization, which was maximizing spending levels.

Two conceptual frameworks reviewed for this study (Barley and Tolbert, 1997; Burns and Scapens, 2000) utilize a realm of action from which activities emanate that influence and are influenced by institutions. Since neither framework distinguishes between legitimating and technical activities, and the rules and routines or scripts associated with each, they do not appear to have the capacity to represent or reflect the empirical data of this study. They fail to capture the two sets of activities being performed in organizations that maintain open and closed systems, or the institutionalization process associated with each.

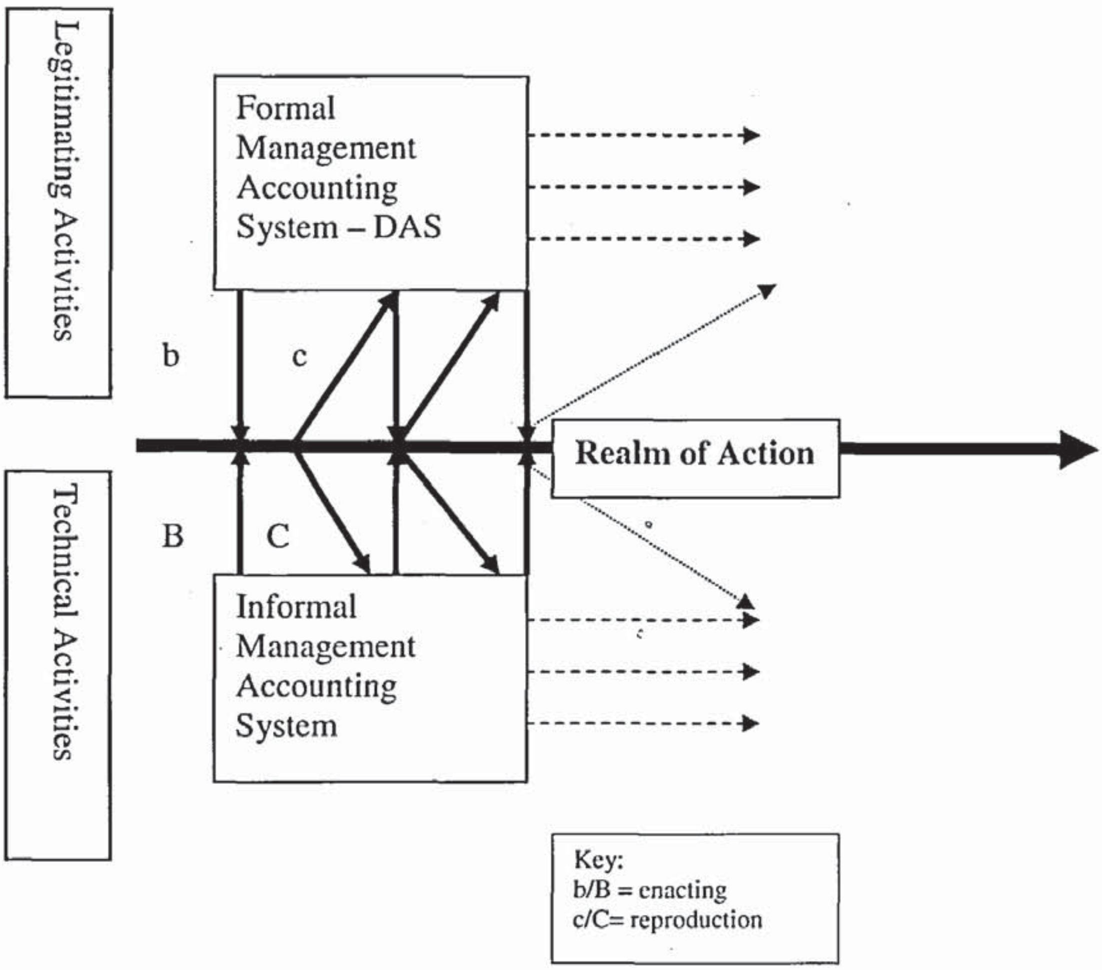
Having identified this shortcoming, a reconstruction of an institution theory-based conceptual framework can be undertaken drawing on existing theory and the empirical evidence. Through an iterative, theory building process (Yin, 1994; Eisenhardt, 1989) existing theory can be developed and a conceptual framework can be created with improved empirical validity as compared to the Barley and Tolbert and Burns and Scapens models. The following section describes this process and presents the new conceptual framework for management accounting change.

A Conceptual Framework for Management Accounting Change in Public Sector Organizations

For an empirically valid conceptual framework; two sets of activities emanating from the realm of action must be recognized to accommodate the formal system (legitimating activity) and the informal system (technical activity). Using the Burns and Scapens framework as a beginning point, this can be illustrated by incorporating two sets of rules and routines influencing and being influenced by the actions of organizational actors. The following illustration incorporates this change:

Figure 6

A Conceptualization of Loose Coupling



This conceptualization develops the original Burns and Scapens framework by incorporating the phenomenon of open and closed systems (Thompson, 1967) and loose coupling (Meyer and Rowan, 1977; Orton and Weick, 1990).

The existence of an open, adaptive system explains the observation that public sector organizations, despite being highly bureaucratic and inflexible in many cases, have an ability to adapt to newly elected governments (Peters and Savoie, 1998; Robbins, 1987). The existence of an underlying closed system helps explain the observation that old weaknesses and problems can remain in public sector organizations despite reforms (Hood, 1991) and how the internal systems associated with the bureaucratic organizational form persist (Bradley and Parker, 2001). The presence of both open and closed systems helps explain how senior managers can give the appearance of change when change has not actually taken place (Peters and Savoie, 1998:3).

Beginning with the legitimating activities (and ignoring the role of the institutional realm for the time being), new rules can be introduced into an organization from which new routines emerge. Rules related to the DAS (and later the FIS implementation) are examples of this. Both represent initiatives that were imposed upon INAC-Saskatchewan and were encoded by broader institutional principles. Specifically, these initiatives embodied the principles behind New Public Management reforms that included entrepreneurialism and decentralization and, in the case of FIS, performance measures and accrual accounting. For this partial model, the process begins by the enactment of the new rules by organizational actors (arrow b). Repeated behaviour and the reproduction of routines are illustrated by arrow c. Burns and Scapens point out that the enactment of rules involves conscious choice and is not likely to meet with resistance, provided that the new rules do not challenge existing meanings and values. Focusing on the DAS implementation, new rules involved the means by which accounting information was managed (i.e. data input into a computerized system) and new routines emerged, such as those associated with managing electronic information. These routines were generally consistent with the rules. Where deviation occurred (such as the submission of excessive reports with the MVR), it was unintentional, caused by a lack of understanding or ability since there was no overt resistance to implementing DAS. From the regional office's perspective, the superficial use of DAS as a budget management system and the production of the MVR reports were legitimating activities since they represented compliance with external pressures (coercive) rather than activities related to meeting the technical requirements of the organization. Direct pressure to use the DAS system came from the department's national office (HQ). Indirectly, external pressures originated from Treasury Board, the government of the day, the general public, special interest groups such as First Nations' organizations, and other public sector organizations. These were the external pressures affecting the department as a whole.

While no overt resistance to the DAS implementation occurred, resistance nevertheless took place. Rather than using the system as it was intended, it was, as it related to management accounting information and decision-making, used in a ceremonial manner. The field study showed that informal management accounting processes emerged and evolved and that these comprised the true management accounting system used for decision-making. As such, the activities associated with the informal system can be characterized as technical activities since they supported the main goal of the organization's managers which, as has been shown, was to keep spending levels as high as possible. Also emanating from the realm of action, therefore, were technical activities, which were guided by their own set of rules and routines. The rules were documented in the "desk books" and the routines associated with these were observed by the researcher and disclosed in interviews, primarily with the Administrative Assistants. The informal management accounting system that emerged following the DAS implementation and the devolution of authority, and the rules and routines associated with these activities, can be represented in the bottom half of the framework.

Drawing upon the literature on loose coupling presented in Chapter Two, the following observations can be made. With respect to causation, Orton and Weick identify three themes: causal indeterminacy, fragmentation of the external environment and fragmentation of the internal environment (Orton and Weick, 1990). Each of these themes is now considered in relation to the empirical evidence.

There was an ambiguous decision-making environment with few means-ends connections as evidenced by the performance measures (or lack thereof) found in the Departmental Performance Reports. There is also evidence of using information to create meaning out of previous decisions, "creating stories", which is described as a practice that creates ambiguity in the decision-making environment (March, 1987). Thus causal indeterminacy can be counted as one reason for loose coupling.

The department and the regional office were also subjected to incompatible expectations (external environment fragmentation). On the one hand organizational actors were being pushed to become more efficient and effective as outlined in the Public Service 2000 and Results for Canadians documents (Privy Council Office, 1990; Treasury Board of Canada, 2000a). Yet the primary external stakeholders for the organization, First Nations groups and individuals, focused on spending levels. Irrespective of modern performance measures, First Nations groups and individuals apparently continued to equate performance with inputs. The organization responded to this by attempting to spend as much of its budget as possible and by producing the "Charts", which emphasized spending levels for reporting purposes. This demand on the organization can be viewed as being in conflict with the overall government goal of achieving better levels of efficiency (Treasury Board of Canada, 1997). The conflict between meeting the demands of a wide variety of stakeholders and achieving efficiency has been identified in the literature as one of the challenges facing public sector organizations (Rainey, 1991; see also Meyer and Scott, 1992).

Internally, the "stovepipe" phenomenon is a form of internal environment fragmentation as sectors within a region communicated more directly with their counterparts at national Headquarters than through the hierarchy that comprised the organizational and formal authority structure.

Turning to typology, the type of loose coupling is that which occurs between hierarchical levels. Informal management accounting systems allowed managers at lower levels to conduct activities that were outside of the view of managers at higher levels in the organization. At INAC-Saskatchewan there was loose coupling between Responsibility Centres and senior regional management. For the department, there was loose coupling between the regions and Headquarters. On a broader scale, there also appeared to be loose coupling between the department and the central agency (Treasury Board)[249]. The communication processes, characterized by the term "stovepipe" mentioned above, exacerbate hierarchical loose coupling.

The direct effect of loose coupling in this organization was increased behavioural discretion among semi-independently operating managers (Weick, 1976). The "black books" and informal budget management system obscured sub-unit activity (whether

[249] This conclusion is borne out by the comments cited in Chapter Four regarding the A-Base review where the department as a whole underwent a process to develop a "story" for Treasury Board.

the sub-units were Responsibility Centres, regions, or departments, it appears) from managerial monitoring.

Thus far the evidence has demonstrated the existence of loose coupling at INAC-Saskatchewan. Its cause, nature, and direct effects have been explained based upon the existing literature and the data from the field study. As the conceptual framework for this study continues to develop in this analysis, the notion of loose coupling will be revisited in order to further the understanding of how loosely coupled systems come to be supported in an organization.

Before returning to the conceptual framework, two concerns need to be addressed. The first is the notion of "rules" relating to technical activities. The second relates to the existence of activities that are both legitimating and technical.

Rules have been described as formal directives outlining the way things should be done. It has been suggested that rules would comprise the formal management accounting system and exist in the formal manuals (Burns and Scapens, 2000:7) used to guide the actions of the system's users. There is a question as to whether or not the instructions contained in the "desk books" for the maintenance of the informal system can be considered rules, given the above definition. The evidence suggests that these instructions did function as rules for organizational actors. The "desk books" maintained by administrative staff served, for all intents and purposes, as manuals containing rules that specified how things should be done. The "things" in this case were the maintenance and use of the informal management accounting system. And as has been pointed out, not all rules are specified in the organization's formal procedural manuals (Burns and Scapens, 2000:13). In the case of INAC-Saskatchewan it is argued here that rules do exist that are independent of the formal rules of the department. An example was the declaration of surpluses by the Responsibility Centres. The unwritten rule at INAC-Saskatchewan was for Responsibility Centre Managers to report surpluses that could not possibly be used to regional senior management before they were reported in the formal accounting system. Thus, this is a specification of how things should be done. Routines emerged as to how this was actually done, which included the maintenance of the informal management accounting system, email communications, private discussions, and so on.

The second concern involves instances where activities serve both legitimating and technical purposes. The inputting of accounting information into DAS, for example, served both. First, it satisfied the legitimating activity of employing a modern (for its time) accounting system that used the latest technology. It also, however, served the technical activity of producing cheques for clients and vendors. Conceptually, the framework adopts Thompson's theory of open and closed systems within an organizational location, as discussed in Chapter Two (Thompson, 1967). The legitimating activities reflect the adaptive open system whereas the technical activities reflect the technical closed system. The framework is also supported conceptually by the concept of loose coupling that recognizes both legitimating and technical activities, preserving both rationality (closed systems) and indeterminacy (open systems) in the same location (Orton and Weick, 1990). In order to address the concern regarding a single activity supporting both purposes, the boxes in the framework that represent activities that are guided by rules and routines should be viewed as analytical concepts rather than independent empirical variables. A rule or routine does not always fall within either a legitimating *or* a technical activity classification. Some activities will serve both internal and external demands and would therefore be viewed as existing in both activity boxes. It is suggested, however, that some activities can be undertaken to serve exclusively one activity or the other. Thus we can observe separate activities supporting separate objectives and a single activity supporting multiple objectives. This being said, this issue will be revisited in a subsequent section of this chapter (Limitations).

Returning to the developing framework, the second wave of public sector reform, the Financial Information Strategy, is considered.

Touted as the "biggest change in Government accounting and financial reporting since Confederation"[250], this sweeping initiative promised numerous benefits (see Chapter Four – Table 3) for multiple stakeholders (see Chapter Four – Table 4).

The most significant impact of FIS from the perspective of INAC-Saskatchewan, however, appears to have been the implementation of the new accounting system. Regional staff adopted new rules, processes and ultimately routines as a result of the new system. Management was provided with a user manual designed for decision-making utilizing the new system, and regional administrative and finance staff received training on the new system and as well as on accrual accounting. Moreover, the intent of FIS was to invoke an improvement in managerial decision-making through the improved provision and use of financial and non-financial decision-

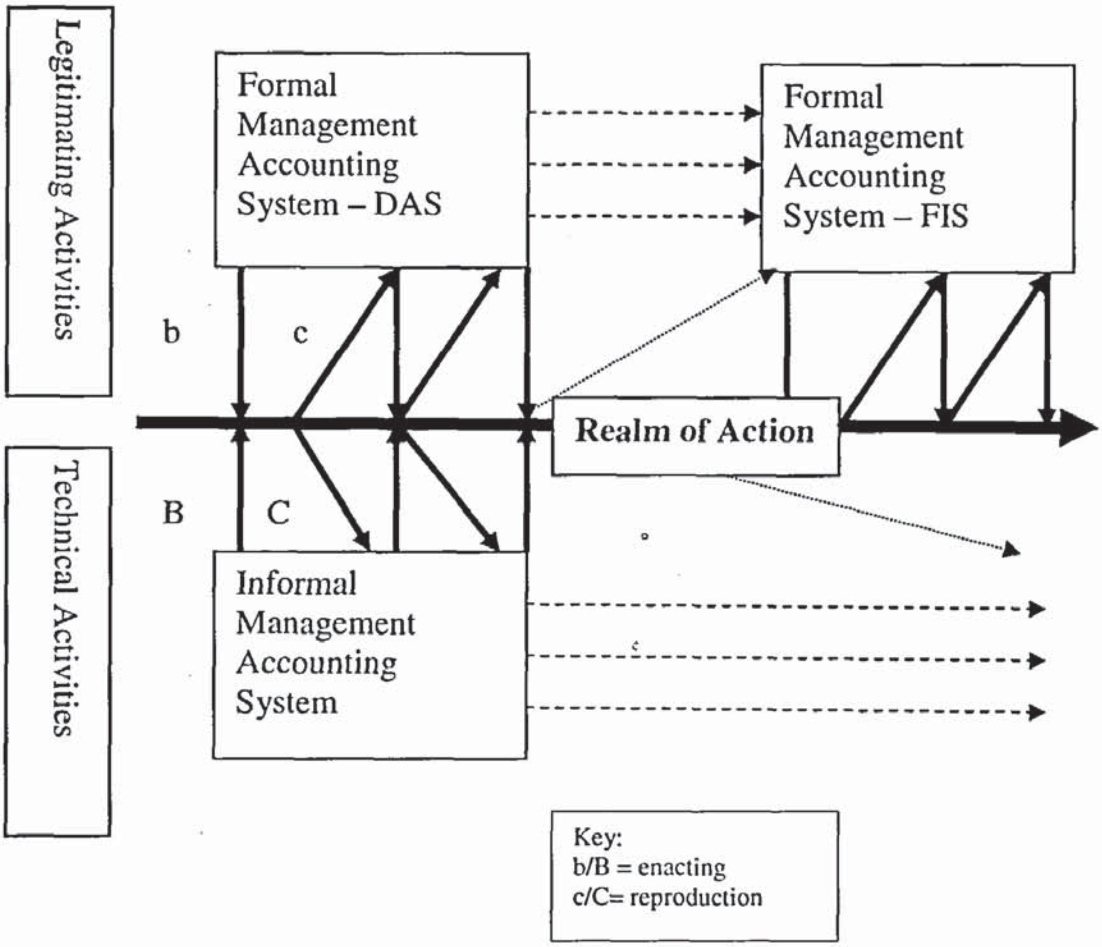
[250] Treasury Board Communication letter dated April 2, 2001.

making information. Although the study revealed the implementation to be hurried and the effect on day-to-day decision-making nominal, it was nevertheless a significant undertaking that eventually was declared a success both for INAC and the government as a whole.

The new rules and routines accompanying the FIS initiative and the discrete change in the accounting system and policies are recognized in the developing framework with the installation of a new activity box. The adoption of the Financial Information Strategy is characterized as a legitimating activity because it was an externally driven initiative that, as the study revealed, was adopted ceremonially by the organization. The evidence shows that the new accounting system was not used in the decision-making process of organizational managers and that the FIS initiative did not lead to the abandonment of the informal management accounting system. The informal system continued and indeed evolved to include new internal reports such as the new Projected O&M Budget Report that was developed in 2001. No discrete changes in the rules and routines guiding the technical activities were found. The original box representing the activities of the closed system should therefore remain. While rules and routines evolved, the informal, internal system as a whole was largely unaffected by the FIS initiative. The framework is further developed to reflect the FIS implementation as illustrated in Figure 7.

Figure 7

A Conceptualization of Organizational Stability and Change



The lack of significant change to the informal management accounting system is consistent with one of the organizational outcomes of loose coupling identified by Orton and Weick: persistence (Orton and Weick, 1990). Loose coupling facilitates stability and resistance to change (Orton and Weick, 1990:213), which we see in the area of technical activities. Thus Figure 7 reflects the adoption of FIS-related rules and routines while the organization maintains the existing rules and routines, subject to evolutionary change, that guide technical activities.

The strategic response to the FIS initiative by INAC-Saskatchewan, therefore, could be categorized as avoidance (Oliver, 1991). Organizational actors did not bow to institutional demands by accepting the new approach to decision-making described in the rhetoric of FIS. Nor did they abandon the informal systems. Rather, it could be said that symbolic acceptance of new institutional norms and values took place. Indeed, there was no overt resistance to adopting the OASIS financial system or accrual accounting. Conscious obedience occurred with respect to undertaking the technical changes that were required for the OASIS implementation and to be seen doing so (ceremonial pretense), but not with respect to the underlying norms and values encoded in the Financial Information Strategy. Conspicuously absent from the strategic response of avoidance, however, were attempts to conceal avoidance. After all, it would be difficult to conceal an informal management accounting system when participation in that system included other regions, the national office, and Treasury Board. This leads one to posit the existence of an influential force permeating the entire public service, exerting influence on the actions of its organizational members regardless of where they are located. This prospect is considered in a later section.

As a change process, FIS was a top-down initiative that was managed and formal. Given the continuation of the informal system as the main decision-making and management tool, however, the "success" of its implementation can be characterized as a normative claim of change (Burns and Vaivio, 2001) rather than a real one. It did not constitute a real change in the sense that the new system was being used in a technical-rational way (see Ansari and Euske, 1987).

The role of institutions in the management accounting change process at INAC-Saskatchewan is now considered.

It has been argued that rules and routines are encoded with institutional principles (Burns and Scapens, 2000). In recognizing two sets of activities guided and constrained by rules and routines, the role of institutions with respect to each of these activity sets must be considered.

Legitimating activities are undertaken to maintain institutionally prescribed appearances (Carruthers, 1995) and are necessary to connect an organization's activities with the goals of wider (i.e. beyond the organization itself) values and normative structures (Parsons, 1940; Scott, 1995). The rules and routines guiding legitimating actions, therefore, are encoded with institutional principles that emanate from *outside* the organization, and exert influence upon it. An institutional force influencing organizational structure and activity emanates from the organizational field (DiMaggio and Powell, 1983). The organizational field has been identified for this research as the meso-level of institutions and it is the influence of meso-institutions that provokes mimetic, coercive and normative isomorphism.

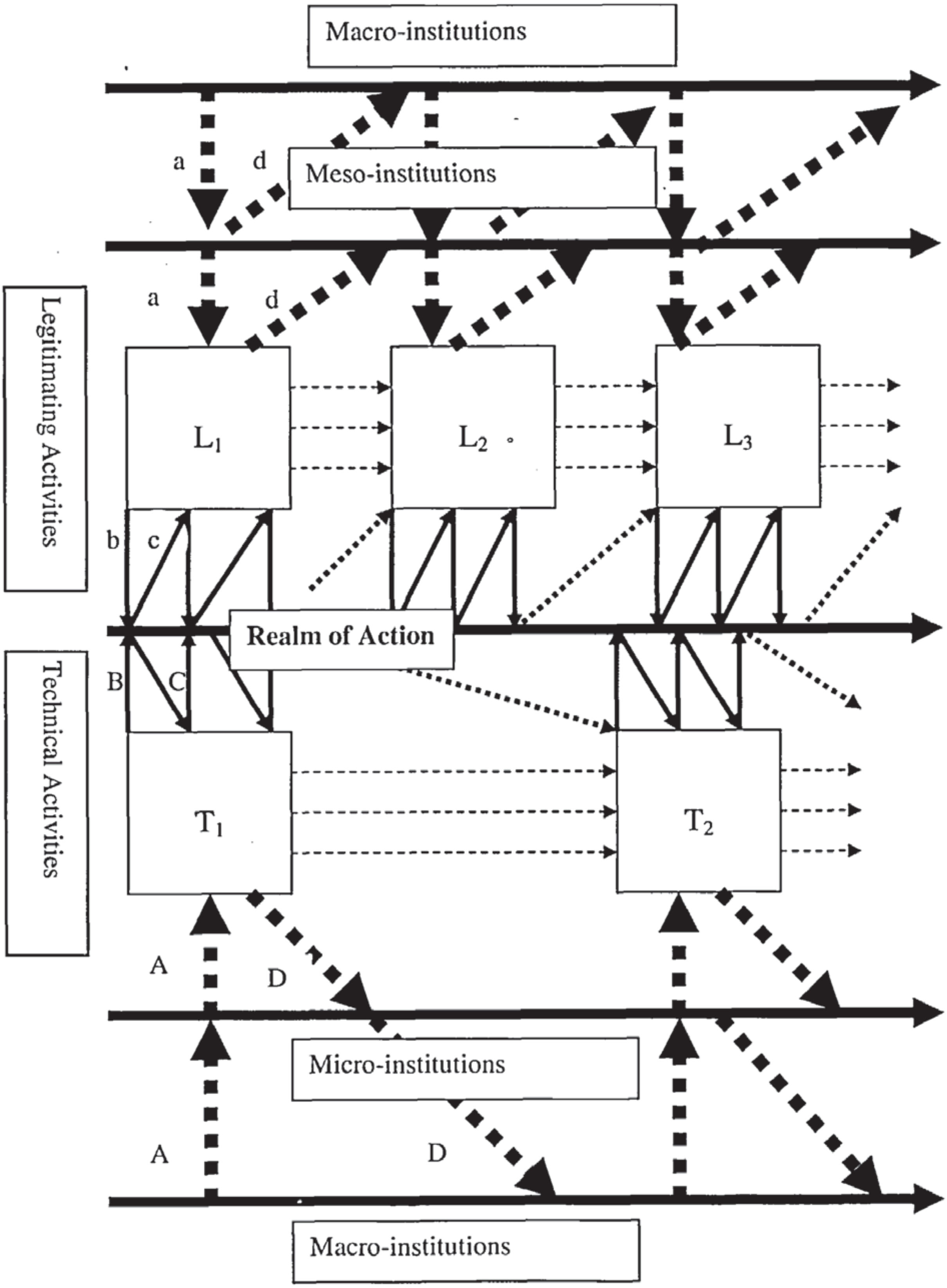
Technical activities have a functional purpose and make a positive contribution to the overall results of the organization (Thompson, 1967), however those results might be measured. In the case of INAC-Saskatchewan (and the department as a whole), results were measured in terms of spending levels. If technical activities are comprised of rules and routines, and rules and routines are encoded with institutional principles, then technical activities must be supported by underlying institutional principles. The rules and routines guiding technical work activity must be encoded with norms and values embraced by the organization itself (closed system). The institutions supporting technical activities are the organizational-level institutions identified in the Burns and Scapens framework, the micro-institutions. Organizations, therefore, are subjected to two institutional influences guiding organizational activity: internal institutions (micro-institutions) and external institutions (meso-institutions). As Figure 7 illustrates, the differing organizational response to these influences has been associated in the literature with institutions' seemingly contradictory role of providing both stability and change (Siti-Nabiha and Scapens, 2005), of having the ability to facilitate or prevent change (Boland, 1979).

Organizations and their respective organizational fields, however, do not operate in a vacuum and are influenced by the broader institutions that comprise the social construction of reality or cognitive view of institutions (Berger and Luckmann, 1966). Both meso- and micro-institutions, therefore, can be thought of as composed of the broader macro-institutions that guide, shape and constrain setting-specific behavioural regularities.

With meso-institutional principles encoded in the rules and routines guiding legitimating activities; and micro-institutional principles encoded in the rules and routines guiding technical activities; and each drawing upon the broader, "overarching" (Dillard et al., 2004:512) societal values (macro-institutions), a new conceptual framework for management accounting change can be constructed based on evidence collected in this study, institution theory, and loose coupling. This new framework, a major contribution of this research, is presented as Figure 8.

Figure 8

A New Conceptual Framework for Management Accounting Change



Key:
L = Rules and Routines related to legitimating activities
T = Rules and routines related to technical activities
A/a = encoding
B/b = enacting
C/c= reproduction
D/d = institutionalization

The institutionalization process and the enactment and re-enactment of rules and routines described in the original Burns and Scapens framework is kept. Referring to the upper portion of the model that comprises the legitimating activities (as labeled on the left-hand side of the framework), the process begins with the encoding of macro-institutional principles into the more setting-specific institutional principles of the organizational field, the meso-institutions. Rules and routines are encoded with the institutional principles prevailing in the organizational field, which are setting-specific settled habits of thought drawn from the broader institutional realm. This is illustrated by arrow "a". The process of enactment and reproduction by organizational actors is depicted by arrows "b" and "c". Separate "activities" boxes comprised of rules and routines illustrate discrete changes (labeled "L" for the legitimating activities), while evolutionary changes through the continuous enactment and reproduction of rules and routines by organizational actors (arrows "b" and "c") are also accommodated. Finally, the recursive nature of institutionalization is illustrated through arrow "d". The influence of existing rules and routines on discrete changes is captured through the dashed arrows (see Burns and Scapens, 2000).

As this and other studies (see, for example, Carpenter and Feroz, 1992) have shown, however, organizations can operate with both open and closed systems supporting technical and legitimating activities, which are described in the literature as loosely coupled. Moving to the bottom half of Figure 8, arrows "B" and "C" represent the enactment and reproduction of those rules and routines that guide technical activities. Rules and routines are encoded with institutional principles. There must, as previously mentioned, be an institutional influence on these activities.

This framework incorporates the previous assertion that the rules and routines that support technical activities are encoded with micro-institutional principles. This institutional level also draws upon the broader macro-institutional level as has been previously discussed. This process is illustrated by considering arrow "A" as representing the macro-institutional principles from which organization-specific institutionalized norms and values arise. It is these organization-specific values, norms and habits that manifest in the organization's technical goals and encode the organization's rules and routines that relate to achieving those goals, the technical activities. Where the organization's goals are aligned with those of the organizational field, there would be no discernible difference between technical and legitimating activities (tightly coupled organizations). Micro- and meso-institutional influence would evoke the same organizational behaviour, and there would be no discernible difference between the norms, values and habits specific to the organization and those held by the wider organizational field.

Where there is incongruity between the micro- and meso-levels of institutions, however, resistance will occur which can lead to loose coupling and these two institutional levels can be viewed as competing, rather than complementary. This is a new view of the institutional influence on organizational activities as it departs from the hierarchical view that currently exists in the literature (Scott, 1995; Dillard et al., 2004). Yet it is not inconsistent with the literature on loose coupling which recognizes contradictory technical and institutional pressures (Orton and Weick, 1990). It is argued here, however, that the technical activities are encoded with institutional principles. The contradiction therefore occurs between the underlying values and norms comprising conflicting institutions.

The presence of loosely coupled systems has been presented in this study as a means by which organizations balance the conflicting demands of internal, technical requirements and the external demands of the broader operating environment. The conceptual framework developed here, however, implies that loose coupling occurs as a result of conflicting institutional influences bearing down upon the organization. Loose coupling exists where there are competing institutional pressures on organizational actors. Technical activities do not simply exist in order to achieve organizational goals, but are also a result of (and supported by) norms, values, and habits embedded within the organization. As such, technical activities are subject to the same processes of institutionalization whereby rules and routines relating to them may become disconnected from their historical purpose. When this occurs, they can no longer be considered activities carried out as a rational response to technical requirements. Employing institution theory in this way presents a different view of the causation of loose coupling, which might be further developed through additional empirical research. This institutional perspective on loose coupling is another contribution to theory of this thesis.

The notion of discrete changes in rules and routines can also be applied to technical activities. This type of change is represented in the framework with activities boxes (labeled "T" for the technical activities) in the same manner as the legitimating activities portion of the framework. Open, adaptive systems are responsive to environmental changes. Closed, technical systems, however, may not respond as readily to environmental pressures. The inference captured in Figure 8 by the boxes representing discrete change is that legitimating activities are more easily adapted or changed than technical activities. Thus, discrete change in legitimating activities is shown to occur more frequently than discrete change in technical activities. In this scenario technical activities are more enduring and exhibit a greater degree of institutionalization. Incorporating different rates of change within a single organization is consistent with the argument that behavioural patterns and organizational practices are not equally institutionalized (Tolbert and Zucker, 1996).

The understanding of the influence of the organizational field has been developed in the New Institutional Sociology literature. In order to explain organizational homogeneity, three isomorphic processes have been identified: coercive, mimetic and normative (DiMaggio and Powell, 1983). Each of these is described as an influential factor that can exert pressure upon organizations in order to affect conformity with the wider societal expectations embodied in an organizational field (coercive and normative pressure), or guide organizational behaviour in order to gain legitimacy, particularly in times of uncertainty (mimetic responses). Organizations within a field become structurally similar as a result of these processes.

The conceptual framework captures this phenomenon as the encoding of institutional principles emanating from the meso-institutional level into rules and routines, which may serve legitimating or technical purposes, or both. Meso-institutional principles may become embedded at the micro-institutional level and thereby become accepted organizational values and norms (as was the case in the Abernethy and Chua, 1996 study, for example). This process occurs through the enactment and reproduction of rules and routines and the recursive process depicted by arrow "D". On the other hand, for activities serving only legitimating purposes, the recursive process is buffered through loose coupling.

The new framework broadens the view of institutional influence, however, by seeing past the organizational field. In this new conceptualization, meso- and micro-institutions are influenced by broader societal institutions, which can exert normative and coercive influences on the institutional principles at the meso- and micro-levels.

In contrast to an organization responding to influences from the organizational field, early adopter organizations may develop leading edge practices drawing from beyond the organizational field. These practices are then diffused throughout the organizational field (see Tolbert and Zucker, 1983). The framework captures this phenomenon as the encoding of institutional principles emanating from the macro-institutional level through the micro-institutional level into rules and routines associated with this innovative practice (arrow "A"). Through the recursive process these practices gradually become accepted by the wider organizational field and become institutionalized therein (arrow "d). Late adopter organizations are then subject to isomorphic processes from the organizational field (meso-institutional level).

The data from this study support this conceptualization of different rates of change and institutionalization, with legitimating activities being more adaptable to change than technical activities. Figure 8 fairly represents the behaviours found at INAC-Saskatchewan regarding technical and legitimating activities and the relative stability and permanence of each. Studies of other organizations may produce different results. The relative stability and permanence of technical and legitimating activities in an innovative, early adopter organization may result in the representation of discrete change occurring in the reverse! Discrete change in technical activities may occur more frequently than change in legitimating activities in those organizations that are leaders in their industry because they are more responsive to emerging trends occurring outside the organizational field. Nevertheless, the conceptualization of multiple institutional influences and the institutionalization process as illustrated in Figure 8 remains.

This new framework develops the original Burns and Scapens framework by recognizing broader institutional influences on organizations, and by incorporating the notions of open and closed systems, and loose coupling. It incorporates the organization's environment and context while enhancing the level of detail of the change process within the organization.

Using the new conceptual framework for management accounting change, we can now build an explanation for the results of the INAC-Saskatchewan field study.

Explanation Building: the results of the INAC-Saskatchewan Field Study

The phenomenon of New Public Management evolved from the change in the views held by a growing majority of people of how government should operate (Kettl, 1997), and by the need to address resource issues (Osborne and Gaebler, 1992). Public sector reform may have been initiated by fiscal crisis, perceived service level deficiencies or a combination of the two. An emerging sentiment was the need to provide more services in an increasingly complex society using a minimum of resources. Norms present in the organizational field began to change as individual organizations (early adopters) began applying management principles more closely associated with those dominating other organizational fields such as the private sector. New Zealand's reforms are a notable example of this occurrence (Halligan, 1997). As early adopters, the micro-institutions evolved rapidly in response to the changes at the macro-institutional level. New Zealand's public sector organizations underwent discrete or revolutionary changes as an attempt was made to align organizational and macro-institutional values through coercive pressure (legislation). As acceptance or the perceived success of these reforms grew within the organizational field, New Public Management as a phenomenon emerged.

For late adopters, coercive, mimetic and normative influences from the organizational field came into play and guided or provoked organizational structural and behavioural changes. Where organization-level institutional change lags macro- and meso-institutional change, however, an organization's response to these influences may result in the ceremonial adoption of new structures and practices with mitigation between legitimating and technical activities managed through loose coupling.

For INAC-Saskatchewan, loose coupling has been documented. It has been demonstrated that while the new accounting system associated with the Financial Information Strategy was implemented and used, it was not used in the way it was intended. Its adoption, therefore, has been characterized as ceremonial. The informal management system comprised of "black books" and "cash management" continued to be the primary management accounting tool for the organization. The activities associated with the informal system have been characterized as technical activities. Since these technical activities are guided by the rules and routines associated with them, examining the underlying institutional principles encoded in them can provide insight into the change process at INAC-Saskatchewan.

One, if not the, primary underlying objective of organizational managers at INAC-Saskatchewan was to spend as much of the funding provided to them as possible without exceeding their total allocation. This objective was overt in the case of the annual Directors of Corporate Services meeting where awards were given to those regions that accomplished this, and in the case of INAC-Saskatchewan itself through the friendly competition between the Director of Corporate Services and the Director of Funding Services. As mentioned, the main reporting mechanism for the region to its external stakeholders was a collection of charts that overwhelmingly reported regional activity in terms of spending rather than specific results. It was also evidenced by the behaviour of the Responsibility Centre managers who maintained individualized "black books" and failed to report surpluses to senior regional managers until it was absolutely necessary to do so. The region as a whole also behaved this way, managing surpluses through "cash management", as did the entire department.

Ambiguity in external reporting existed throughout the period of the field study. The Public Accounts were highly summarized and reported on spending rather than specific results, serving as a compliance rather than performance report. The Departmental Performance Report was also ambiguous and lacking in specific results measured against specific goals and objectives. Thus the main indicator of organizational activity both for the region and the department was spending levels rather than specific performance measures, despite government reforms consistent with those characterized as New Public Management reforms.

Specific results were difficult to measure. The Department Performance Reports used a reporting framework differentiating between outcomes (which were subject to significant outside influences) and outputs (which related to processes more than specific achievements). Regional staff members simply stated that many of their activities could not be measured. Thus, spending levels continued to figure prominently in the psyche of organizational actors which led to and supported the informal practices that were used to protect funding levels and evidenced by the continued reporting on a spending-level basis by the regional office and the department. Put another way, in the minds of organizational actors, evaluating performance through spending levels was an institutionalized taken-for-granted practice and activities related to maximizing those levels were carried out without question.

The devolution of authority appears to have simply moved this behaviour down the hierarchical structure at INAC-Saskatchewan to lower level managers, thereby spreading the practice of protecting budget levels throughout the organization. This may have led to further embedding of the use of informal systems within the organization's norms and values.

From the perspective of INAC-Saskatchewan, new reports (i.e. the Mid-Year Review or Activity-Based Costing) were completed by regional staff (mostly by those in the finance unit). But individual behaviour as it related to the use of management accounting information for decision-making remained unchanged, supported by underlying institutional principles.

There was tension between the pressures exerted upon the organization externally (to adopt private sector practices, for example - see Box et al., 2001) and the constraining principles that existed within the organization (for example, the belief that performance could not effectively be measured or that more spending meant better services for client). Drawing upon the revised conceptual framework, the meso- and micro-institutional levels were misaligned (conflicting institutional pressures).

New Institutional Sociology informs our understanding of the organization's response to the implementation of the Financial Information Strategy. INAC-Saskatchewan's adoption of this initiative was a result of coercive isomorphism. The organization really did not have a choice but to implement the new system and receive training. From a broader perspective, the department and the Canadian public service as a whole may have engaged in mimetic isomorphism as New Public Management reforms gained legitimacy in the organizational field comprised of public sector organizations in other countries. That determination is beyond the scope of this research. The organization's ability to quickly implement the new system and report its activities in new ways (i.e. using Activity-Based Costing for the A-Base Review) speak to its responsiveness to external influences and pressures, which contrasts with the conventional view of a bureaucratic organization. The organization is able to adapt quickly because it maintains two management accounting systems. The formal system satisfies external demands (legitimating activities) while the informal system satisfies technical demands (technical activities).

While the organization's adaptability can be explained as a necessary response to external demands in order to maintain legitimacy and therefore survival, the persistence of the informal system and the associated technical activities, and the institutions supporting these activities, have yet to be sufficiently explained in this analysis. In order to build such an explanation, New Institutional Sociology and in particular, the role of professional groups in influencing organizational behaviour can be brought into the analysis.

Individual behaviour is guided by normative influences which have been described as "internalized standards of conduct" (Scott and Christensen, 1995: xv). Professionalization has been used to describe a normative influence on individuals belonging to the same professional group that results in similar behaviour being exhibited regardless of the organizations in which they work. Thus, the presence of similar professionals in many organizations provides an explanation for organizational homogeneity. The norms and values embedded in and reinforced by professional groups guide and constrain individuals by establishing expected behaviours. This represents an institutional pressure exerted upon organizations from outside the organization itself (i.e. exerted by independent professional groups). If the normative influence of professionalization results in organizational homogeneity, this suggests that it will either have a significant influence on micro-institutions as exercised through the recursive process of institutionalization, or will result in loose coupling.

In previous case studies the role professional groups play in the adoption of New Public Management reforms has been an important factor. Physicians, educators, social workers, and police officers are examples of professional groups whose underlying institutional principles have played a role in either resisting or supporting accounting change. Unlike the organizations studied in those cases, however, there was no dominant professional group at INAC-Saskatchewan. Organizational actors were described, rather, as "career public servants".

One explanation for the continuance of the informal accounting system is that there was a dominant normative influence that structured and guided behaviour that emanated from the internal institutions of the organization. The desire to minimize and hide surpluses is embedded within the organization. The informal system that facilitates this practice is a manifestation of the underlying values that support this objective. The data suggest that a normative influence exists and that it transcends the regional office and even the department as a whole. The latter observation is curious, since in INAC-Saskatchewan's case, HQ is simultaneously supporting and enforcing FIS (overtly) and implicitly supporting (and actively participating in the use of) the informal system as an acceptable norm.

Scott notes that institutions are transported by "carriers" and identifies three types: cultural, social structural and routines (Scott, 1995). Cultural carriers may be organization-specific, but may also be transorganizational. They consist of patterned behaviour and rule systems as interpretive schemes that inform and constrain behaviour and are reinforced and changed by behaviour (Scott, 1995:53). Patterned behaviour and rule systems (either formal or tacit) might be used to describe the social structure of professional groups. One possibility for explaining the transcendence of the practices found at INAC across the organization – i.e. identifying the carrier of micro-institutions - is normative pressure exerted by professionalization (DiMaggio and Powell, 1983:152). Since INAC does not have a dominant traditional professional group influencing organizational activity and patterned behaviour was detected across roles (finance, administrative, and managerial), it might be supposed that the public service itself exhibits the characteristics of a professional group. This might explain the presence of the informal system outside of the regional office (i.e. at other regional offices, HQ and Treasury Board) and why there was no attempt to conceal the organization's avoidance of adopting FIS and using OASIS in a technical-rational way.

This possibility is now considered.

Professionalization is normally associated with what the general public acknowledges to be professional groups, such as physicians, accountants, and lawyers. In order to assess the validity of categorizing public service employees as a professional group we can look for attributes similar to those shared by recognized professional groups. Wilensky identifies four structural attributes that occupations must pass through in order to become professions: the creation of a full-time occupation, establishing a training school, the formation of professional associations, and the formation of a code of ethics (Wilensky, 1964). Hall adds five attitudinal attributes to assist with the assessment of occupations as professions: the use of the professional organization as a major reference or "professional community affiliation" (see also Shafer et al., 2002), belief in public service, belief in self-regulation, a sense of calling to the field, and autonomy (Hall, 1968).

With respect to Wilensky's structural attributes, the majority of positions in the Canadian federal public service are full-time and while no full-time, bricks and mortar training school exists, per se, much of the training provided to employees is done in-house or through partnering with educational institutions that develop public sector based management education[251]. In addition to this on-going training, there are specialized training programs for managers entering the public service (Management Training Program, the Career Advancement Program, and the Accelerated Associate Deputy Minister Program). There is, therefore, control over training (see Goode, 1957).

The majority of public servants belong to a large and powerful union (the Public Service Alliance of Canada) dedicated to the public sector (i.e. none of its membership works outside of the public sector), which serves as both a union and a professional association. In addition to this, members of the financial administration job category in the Canadian public service belong to a professional organization outside of their professional accounting associations (the Association of Public Service Financial Administrators). As has been pointed out, professional affiliation can extend beyond the traditional professional groups (Oliver, 1997). Finally, there is a standardized and well-communicated code of ethics for the public service. A discussion of the attitudinal attributes follows.

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[251] Banff School of Management, Royal Roads University.

In addition to the union and financial administrator's association, there is other evidence of professional affiliation. In Canada, one day per year is dedicated to honouring the work of public servants (Public Servant Day), during which events are held across the country. There are public service awards for long-time service and a public service magazine that celebrates what it means to be a public servant.

There is a social obligation, as well. While there is no pro bono service provided such as with the accounting and legal professions, each staff member of the Canadian public service is encouraged to volunteer in the community as evidenced by their entitlement to one paid day off per year to perform volunteer services outside of their normal professional duties. The department as a whole is an active supporter of the United Way program, holding fundraisers and so on.

With respect to the third and fifth attitudinal attributes, public servants might not be self-regulating and autonomous in the same way as the medical profession[252]. Nevertheless they are protected from public scrutiny through legislation (the minister, an elected official faces the public, the bureaucrat generally does not). The frequent change in ministers also contributes to some extent to the semi-autonomous nature of the public service. And in a sense, public servants are self-regulated in that they rely on legislation and directives to guide their work and many of these have been developed within the public service itself. Treasury Board, the central agency responsible for developing the government's operating procedures, including accounting policies, is, after all, a public sector organization whose employees belong to the same unions and associations as public service employees in other departments.

[252] The medical profession is self-regulated through the Canadian Medical Association

There is evidence of professional dedication through continuous learning initiatives, active internal recruitment, and long-time service awards. The use of language that is only partially understood by outsiders is another attribute of a professional group (Goode, 1957). The use of language may be one way that this group protects its jurisdiction (Abbott, 1988).

Having satisfied the criteria for consideration as a professional group, a possible explanation for how institutional principles are "carried" and reaffirmed at INAC-Saskatchewan is that the norms, values and expected behaviours that support the informal system are transmitted through the normative influence of the profession.

This constitutes the next contribution of this research. Our understanding of the nature of professionalization has been expanded to include the role of career public servants. And the normative pressure influencing organizational behaviour as a result of professionalization has been shown to exist *within* an organization. This is a departure from the view that professionalization is an external influence on organizational activity and contributes to our understanding of professional control (Abernethy and Stoelwinder, 1995). Thus rather than a professional accountant joining the organization and influencing its structure and activities through the diffusion of the values, norms and expected behaviours drawn from the accounting profession, the professional accountant's norms, values and behaviour are affected by the normative influence of the public service through professionalization. Recall that when INAC adopted accrual accounting, the organization's accountants required training on the fundamentals of accounting.

An additional contribution of this research is a modest addition to the existing empirical work on New Public Management initiatives. Specifically, this field study documents the evolving role of finance/accounting professionals within an organization undergoing a significant New Public Management reform initiative.

As described in Chapter Four, the finance unit at INAC-Saskatchewan was downsized considerably as a result of the devolution of authority and the decentralization of accounting responsibilities from accounting professionals to Administrative Assistants. The decentralization of the accounting function is linked to the devolution of authority, as Responsibility Centre managers began managing their own budgets and the accounting for their funds was relocated into their respective organizational units (the RCM). Prior to the devolution of authority, the finance unit handled all of the accounting and budgeting functions and produced the necessary financial reports for external users as well as financial statements and reports for internal users (a practice that became institutionalized). Subsequent to the devolution and decentralization events, the role of the unit changed from "doing accounting" to auditing, monitoring and challenging the Responsibility Centres.

At the same time, however, demands from Headquarters for accounting information changed and increased. The Financial Information Strategy, the A-Base Review (and the activity-based reporting that accompanied it) and the Mid-Year Review are all examples of new management accounting reporting initiatives. Yet none of these affected the decision-makers within the organization. Instead, the reports associated with these initiatives were compiled and submitted to HQ almost independently by the finance unit.

In describing open and closed systems, Thompson views one of the roles of management as that of mitigation, balancing the demands of the external and internal environment (Thompson, 1967). The administrative function is described as a balancing act between open and closed systems and indeed, it is the administrative staff themselves who can act as a buffer or absorption group as an organization attempts to manage competing demands (Broadbent and Laughlin, 1998). Figuring prominently in New Public Management reforms is accounting information or more specifically, accounting and performance measurement information. This study shows that in the case of INAC-Saskatchewan, the finance unit took on the role of mitigation, buffering the internal environment (Responsibility Centre managers and senior management at INAC-Saskatchewan) from the external environment (the demands placed upon the organization from INAC Headquarters).

This study contributes to the New Public Management literature by providing an empirical study that demonstrates, that given the financial information component of many New Public Management reforms, the role of the finance/accounting units and professionals within the organization can become that of a buffer or absorption group. The accounting function, therefore, can change from the traditional role of resource management, financial reporting, and comptrollership, to that of an organizational buffer, with accountants playing a key role in the organization's ability to mitigate between the open and closed systems in an organization.

The findings of this case study can now be summarized.

At INAC-Saskatchewan, two management accounting systems were found to be in place at the beginning of the study: one formal and one informal. The informal system evolved from the devolution of authority and deficiencies in a newly implemented system. It was found to be supported, however, by underlying institutionalized beliefs and values, which included the belief that maximizing spending levels rather than optimizing performance measured through outputs, was the goal of the organization.

Using a newly developed conceptual framework for management accounting change, the initial wave of New Public Management reforms (entrepreneurialism and automation) was supported by meso-institutional principles while the emergence of the informal system was supported by micro-institutional principles. The conflict between meso- and micro-institutional principles was managed through loose coupling, the financial aspect of which was managed by the finance unit in the regional office.

The organization exhibited its adaptability with respect to management accounting change by implementing the formal Financial Information Strategy system and again by complying with the new reporting requirements of subsequent initiatives. The informal management accounting system, however, appeared to be more firmly embedded in the organization and although it continued to evolve, it was not affected directly by the FIS implementation in any significant way. It can be concluded that the micro-institutional principles dominate organizational behaviour, which explains the persistence of the informal system. Meso-institutional forces (at least with respect to management accounting change) were not sufficiently influential to challenge the use of the informal system by organizational actors or alter organizational behaviour in any meaningful way. An example of this is the documented ceremonial adoption of New Public Management practices. It has been argued that the vehicle or carrier of micro-institutional principles at INAC-Saskatchewan and INAC as a whole has been the normative influence of professionalization and the study has provided a new conceptualization of this phenomenon.

Research Question

The research question generated for this study was: How does management accounting change occur in a public sector organization?

Three perspectives of change identified by Burns and Vaivio (2001) were introduced in Chapter Two: the epistemological nature of change, the logic of change, and the management of change. The epistemological nature of change perspective urges the researcher to examine whether normative claims of change can be reconciled with empirical evidence (i.e. has change really occurred and what constitutes change?). Although defining change can be problematic (Quattrone and Hopper, 2001), changes in observable behavioural regularities can be documented (Barley and Tolbert, 1997) thereby guiding the researcher through his or her assessment of an organizational change event. Nevertheless, changes in routines and accounting systems may or may not represent real organizational change – that is, a change in accounting policies and systems does not necessarily translate into the change in the decision-making process or the behaviour of organizational actors that was intended.

The second perspective considers change as a managed and formal organizational event that is premeditated and carried out in a rational manner. Conversely, the diametrically opposite logic is that change is not consciously planned and occurs informally as a result of external influences or crisis.

The management of change perspective assumes that management accounting change can be actively managed and that change can be either a top-down, centrally driven initiative or a bottom-up process germinating at a local level and then infiltrating the rest of the organization.

Two change processes were documented in this study. The first was the formal change initiatives of the organization such as the DAS implementation, the devolution of authority, and the Financial Information Strategy. The second change process was the emergence of the informal management accounting system and the development of the "black books" and the "cash management" processes.

The study shows that both "real" and ceremonial change occurred in this organization. The distinction is that ceremonial change, the adoption of the new formal accounting system, did result in a change in rules and routines, but did not fundamentally change the way in which organizational actors behaved. Rather than changing what they did, it simply changed (albeit incrementally) how they did it. The Financial Information Strategy was a top-down, rational, and managed change initiative. At the same time, however, the informal management system appears to be a bottom-up initiative evolving in response to a variety of influences (changing responsibilities due to the devolution of authority, the lack of reporting in the DAS system initially, the role of technology and the underlying performance measures that were important to the managers – spending levels). This change can be characterized as "real" in that the informal system produced information that was used in decision-making and therefore affected organizational behaviour. With respect to the issue regarding the normative claim of change (the successful implementation of the Financial Information Strategy), the empirical evidence does not support that assertion. Change occurred, but not the discrete type of change anticipated from the FIS initiative. Instead, real change occurred in an evolutionary manner.

Interestingly, the bottom-up change did not appear to have started in a single locale and then spread throughout the department as a whole. Instead, the informal "black books" appear to have evolved independently, both at INAC-Saskatchewan and throughout the department. One can conclude, therefore, that some influential force was present throughout the organization that invoked an unmanaged change phenomenon in multiple locales independently. Prior to the FIS implementation the "black book" management accounting systems became widespread and embedded throughout the organization, as did the informal budget management system, "cash management". Each embodied the same process - an off-the-books management accounting system that drove and affected organizational behaviour. It is argued here that the influential force behind the informal system is the taken-for-grant beliefs and values comprising the institutions at the micro-level. They are embedded in the public service professional group and carried throughout the organization through the process of professionalization.

Formal management accounting change at INAC-Saskatchewan was adopted in a ceremonial way when the underlying institutional principles encoded in the change initiative were in conflict with the micro-institutional principles that dominated organizational behaviour. Because the organization had loosely coupled systems, it could respond to formal change rapidly without impacting the informal system, which is what occurred with the FIS initiative. A sublime form of resistance occurred, however, in that the new system in this study was not used as intended.

Management accounting systems encoded with micro-institutional principles, however, are more resistant to change. Real change in management accounting systems therefore requires a change at the micro-institutional level of the organization or a change in hierarchy of institutional dominance (i.e. from micro- to meso-levels).

The answer to the research question is that ceremonial management accounting change can occur rapidly in a public sector organization, even one that is highly bureaucratic in structure. Meaningful management accounting change, however, appears to occur in a more evolutionary way and is more resistant to extra-organizational pressures. The difference between the two types of management accounting change relates to the degree to which the institutional norms and values underlying the change are congruent with micro-institutional principles.

Limitations

The framework depicts discrete changes in rules and routines by representing an existing set as a box (i.e. L_1) and representing the change with a new box (i.e. L_2). The dashed arrows show that new rules and routines have been influenced by preceding rules and routines, but the inference, as it appears in the framework, is that all existing rules and routines are abandoned in favour of the new ones. This was not the case in this study. The model accurately depicts the continuation and evolution of the rules and routines associated with technical activities, but the changes in formal rules and routines, although significant, did not entail a wholesale change. Some rules and routines, such as some of those associated with the Management Variance Report and the Public Accounts remained in place while others changed. Change, even significant change, is perhaps better understood in terms of degrees of change from one set of rules and routines to another.

This is symptomatic of what some might consider an underlying challenge that the new framework inherits from the original Burns and Scapens framework. The new framework, like the original, could be described as overly mechanistic and abstract. The above discussion of discrete change is an example of the mechanistic properties of the framework. Describing change as "drift" and non-linear is an alternative way to conceptualize the management accounting change process.

The linearity of the model, as in the original Burns and Scapens framework, appears to suggest that institutions and organizational practices are moving and evolving through time in a progressive manner. The arrow depicting the institutional realm in the original framework represents the cumulative process of change through time. By depicting multiple levels of institutions in the same manner it is implied that the cumulative process of change at each of these institutional levels is synchronous. This may not always be the case since the rules and routines guiding technical activities found in this study were more enduring than those guiding legitimating activities. The framework accurately depicts the asynchronous changes in legitimating and technical activities, but struggles to accommodate asynchronous changes between institutional levels.

As discussed earlier in this chapter, organizational activities may be carried out for both legitimating and technical reasons. The reader might find the representation of each activity set to be overly mechanistic. And it is challenging for researchers to conceptualize activities that are both legitimating and technical in nature with this framework.

The framework demarcates the two activities as if they were mutually exclusive. The data show that this is not always the case as some activities served both purposes. The user, therefore, is cautioned about assuming that rules and routines must guide either legitimating or technical activities.

Similarly, this research adopts the view of the dichotomy of organization and environment and therefore the need to satisfy both technical and legitimating demands, whether they conflict with one another or not. This organization-environment dichotomy is a critical assumption underlying this analysis, but is not shared by all researchers (Perrow, 1985; Scott, 1991; see also Oakes et al., 1998).

Nevertheless, this framework was useful in conceptualizing and developing an institutional perspective on management accounting change (formal and informal) and for developing an understanding of organizational activities as they relate to the management accounting function. Practitioners and New Public Management proponents might benefit from considering this new institutional perspective and the view developed of professionalization in the public service when contemplating, planning and executing management accounting change in public sector organizations. Similarly, it might be useful for organizational leadership to understand that internal and external institutions can conflict with one another. The literature on institution theory might provide insight into this conflict and how the change process might be better managed and understood. Finally, scholars working with institution theory might find this framework a useful conceptualization of multiple levels of institutional influence on organizational activity, which can lead to further development of institution theory.

Rival Explanation

A significant rival explanation for the existence of an informal management accounting system and the ceremonial adoption of the Financial Information Strategy is a lack of understanding. Organizational actors may have simply misunderstood the new accounting system and policies and, in the absence of sufficient monitoring mechanisms, were able to revert to existing informal systems for managing their work. The informal systems might still have been created out of necessity due to the lack of reporting of the DAS system. When reporting improved, managers may have found that their existing informal systems produced the information they required more easily (and they were used to the look of them). They may have found the OASIS system and the Financial Information Strategy itself too complex to use in the daily decision-making process or, again, that their own reports were more appealing and useful. Thus, there was no intended covert activity or refusal of the official management accounting system (or strategic response to managing externally driven change through maintaining loosely coupled systems). Instead, externally driven change initiatives may have simply been too complex for the organization and/or poorly understood by organizational actors.

If this were the case, then there would be no evidence of conflicting institutional pressures. Rather, the deviation between rules and actual routines might simply be an evolutionary, unintended change that became institutionalized over time (Burns and Scapens, 2000). The existing conceptual framework would not require the modifications developed in this analysis[253] as the deviation from rules could be explained by the unintended evolution of rules and routines that was described in the original Burns and Scapens conceptual framework.

This explanation was rejected on the grounds that the new systems (DAS and OASIS/FIS) were incorporated into the activities of the organization and functioned as intended. The deviation found was that they were not *used* as intended for planning and decision-making. It did not appear as though the systems were too complex for the organization or that there was a lack of training and documentation for their use.

[253] Although the original framework would still suffer the shortcoming of excluding external influences on organizational behaviour.

Even if that were the case, it would not explain the presence of the informal systems in other regional offices or the participation in the informal process by the HQ office. That the informal systems were the result of and were supported by public service-wide institutions better explains their presence throughout the organization and beyond (recall the "cash management" process between INAC and Treasury Board and recognition of the "black book" practice throughout the Canadian public service in Treasury Board documents).

Case Study Review

A brief review of the case studies presented in Chapter Two is now provided in order to apply the perspective and conceptual framework developed in this study to the existing literature on New Public Management reform.

The Covaleski et al. study of the case-mix accounting and DRG implementation in hospitals found that legitimating activities can penetrate internal operating practices of the organization (technical activities) where internal interests are being met (Covaleski et al., 1993). This process can be conceptualized through the framework as a discrete change occurring in the top portion of the framework since these initiatives were described as externally driven changes required in order to conform with external institutional expectations. As such they can be classified initially as legitimating activities. The penetration of the DRG and case-mix accounting systems into the technical operations of the organization was facilitated by the hospital administrators whose vested interests were being served by their implementation. From the perspective of organizational actors, therefore, actions were being guided by both meso- and micro-institutional principles. The alignment of these two levels of institutions reduced the level of resistance that might otherwise have occurred had these two levels been in conflict. Internal and external interests were being met.

Similarly, in the national policing reform study by Collier, alignment of the micro- and meso-institutional levels also occurred, described as coinciding interests (Collier, 2001). The devolution of financial management could be seen as a response to broader institutional expectations, likely linked to the New Public Management phenomenon. The study also describes the culture of policing, which can be viewed as micro-level institutions encoding those activities deemed important and legitimate in the eyes of policing professionals. Because of the alignment of these two institutional influences upon the organization, legitimating and technical activities were linked, a process facilitated by the accounting system.

The South Africa policing reform study, however, found that differing ideologies and values could not be reconciled resulting in the failure of reform (Collier, 2004). These results could be described using the conceptual framework of this study as conflicting institutional levels (conflict within the meso- and micro-institutional levels).

The Covaleski and Dirsmith study of the University of Wisconsin described two budgeting processes (Covaleski and Dirsmith, 1988). The first was the formal budgeting process of the state government while the second was developed by the university in an effort to improve funding levels. Both processes were infused with power and politics. Both parties drew upon the institutionalized belief that budgeting was a rational and legitimate process. This case illustrates how values and beliefs from the maco-institutional level about rationality infuse the institutional principles at the micro- and meso-levels.

The adoption of GAAP by the state of New York for legitimacy purposes (Carpenter and Feroz, 1992) provides an example of the influence from the meso-institutional level on organizational activity. The degree to which GAAP would penetrate the technical activities would depend, according to the conceptual framework, upon the alignment of the underlying institutions at the meso- and micro-level. In their subsequent study of state governments (Carpenter and Feroz, 2001), the micro- and meso-level institutions were not aligned since the adoption of GAAP (a legitimating activity) did not affect the budgeting practices (a technical activity).

The Abernethy and Chua study of a large Australian hospital demonstrated that there were numerous external influences on the organization (Abernethy and Chua, 1996). This is another example of the macro-institutional level of values and beliefs influencing meso- and micro-level institutions. Furthermore, change was driven internally by a change in the leadership that provided strategic direction to the hospital (board of directors). This might be interpreted as an effort to change the prevailing institutionalized values and norms at the micro-institutional level. The effectiveness of managed change from this perspective and understanding the process of micro-institutional change is an interesting area for future research.

The Modell study demonstrated that organizational activity does not have to serve either legitimacy or technical purposes exclusively (Modell, 2001). Certain activities can serve both which is considered, albeit in an abstract way, in the conceptual framework where meso- and micro-institutions align and activities are encoded with institutional principles present at both levels.

The Ansari and Euske study of the Office of the Assistant Secretary of Defense provides some interesting findings that are relevant to this study (Ansari and Euske, 1987). Their study found that some accounting systems were used in order to provide a symbolic representation of rational behaviour. This symbolic use of accounting systems can be described as a legitimating activity encoded with meso-level institutional principles. There were also alternative accounting systems which could be classified as serving technical purposes and therefore encoded with micro-level institutions. The authors also argued that the symbolic use of accounting information by organizational actors was viewed as a rational act. This unconventional view of rationality is supported by micro-institutional principles and hints at the inherent tensions between the institutionalized values and beliefs of the public sector and those held in other sectors (i.e. the private sector).

Pettersen attributed the common perception of New Public Management reforms by organizations in the Nordic hospital sector to the domination of professional norms and values of nurses and doctors (Pettersen, 2004). Pettersen's finding supports the assertion made in this research that, at the organizational level, the dominant professional group's values and norms affect the institutionalized beliefs and taken-for-granted assumptions at the micro-institutional level. Where a certain specific professional group dominates more than one organization we might expect to find similar organizational responses to management accounting change initiatives. The findings of this thesis are in agreement and suggest that micro-institutionalized principles that are influenced by and carried through the dominant professional group of public servants will be similar across Canadian public service organizations (where no other professional group dominates). Organizational response, therefore, would also be similar. This understanding might be useful for the implementation of future government-wide management accounting change initiatives and in those cases where meso-institutional and micro-institutional principles can be aligned, enhance their chances for success.

Broadbent and Laughlin identified absorption groups facilitating the adoption of externally-driven change initiatives while the organization attempted to maintain its core activities (Broadbent and Laughlin, 1998). In the INAC-Saskatchewan study, the finance sector of the organization assumed the role of an absorption group. As with the administrative staff in the Broadbent and Laughlin study, the finance sector balanced the demands of the organization (technical or core activities) and the externally demanded activities. Each set of activities was guided by rules and routines encoded with different institutional principles. The conceptual framework accurately depicts the findings of the Broadbent and Laughlin study by conceptualizing competing influences on organizational activities.

Llewellyn's study of the devolution of budgets in the social services highlights the effects of conflicting institutional principles (Llewellyn, 1998). Specifically, tension between the norms and values embodied by the social work profession were in conflict with the norms and values regarding financial management practices which were supported by another professional group (accountants). This is an account of the tension between meso- and micro-level institutions within an organization.

Lapsley and Pallot describe four change processes in a study of accounting change at four local governments: structural, procedural, participatory, and marketization (Lapsley and Pallot, 2000). Structural change involved fundamental organizational change involving service delivery methods, organizational structure, values and roles. This approach is an attempt to actively change the micro-level institutions within an organization and is similar to the approach taken in the hospital that was the subject of the Abernethy and Chua study. The objective, it would seem, would be to alter the micro-level institutional principles in order to align them with those held at the meso-institutional level.

Procedural change involved changes in processes. This might result in the ceremonial adoption of new processes by the organization where conflict exists between internal and external values and norms. Loose coupling would be a strategic response to managing these conflicting demands.

Participatory change involved seeking input from organizational actors. In this approach, the values and beliefs specific to the organization (micro-level) would permeate and influence the change process. In effect this would amount to a reconciliation or negotiation process undertaken in an attempt to arrive at new processes that could support the technical activities of the organization while also serving legitimating purposes.

Marketization is an approach involving contracting out (which is self-explanatory) and the adoption of private sector values. In the latter instance, organizational change may be more difficult as the underlying principles of private sector management can conflict with the underlying principles of public sector management.

The contribution of the INAC-Saskatchewan study to this body of research is the development of a conceptual framework that recognizes multiple levels of institutional influence on organizations. Each of the case studies reviewed has been reinterpreted using this framework, thereby enhancing the understanding of the role of institutions within public sector organizations. This study shows that management accounting change resulting from New Public Management reforms can, indeed, be illusory and that the ceremonial adoption of New Public Management reforms is caused by conflicting institutions. This conflict can be managed by the affected organization through the maintenance of loosely coupled systems. In the case of INAC-Saskatchewan this task was largely undertaken by the finance unit within the organization. Finally, it is argued that micro-institutions in public sector organizations can influence those organizations through a process of professionalization, and that the public service itself represents a professional group.

CHAPTER 6

CONCLUSION

Review

This thesis reports on a four-year field study conducted at a regional office of a large federal government department in Canada. During the time of the study a sweeping accounting reform was implemented called the Financial Information Strategy (FIS). Three phases related to this reform were documented and analyzed: pre-FIS, the FIS implementation, and post-FIS.

The focus of this research has been to document and explain how management accounting change occurs in a public sector organization. The topic is a timely one as the New Public Management approach to public sector management enters "middle age" (Hood and Peters, 2004). This research issue is of interest since the effectiveness of New Public Management reforms has been questioned. This study is of importance because it provides a highly detailed account of the use of accounting information for decision-making in a government organization and addresses the research question of how management accounting change can occur within the public sector. The results, therefore, have implications for the planning of future public sector reforms and for evaluating the effectiveness of current reforms.

This study drew upon Old Institutional Economics, New Institutional Sociology, loose coupling and the sociology of professions in order to interpret the data and build an explanation for the results. Existing conceptual frameworks based on institution theory were examined and developed as the explanation-building process progressed.

As a result, this research advances institution theory, furthers our understanding of loose coupling and the role of professions in the public sector, and contributes to the growing body of literature on New Public Management.

The study found that at INAC-Saskatchewan, two management accounting systems were in use prior to the implementation of the Financial Information Strategy. One was the formal system required by the department. The other was an informal system, which was the system actually used in the decision-making process in the organization. Having documented two concurrently running accounting systems, it was determined that the organization's systems were loosely coupled.

The implementation of the Financial Information Strategy at the department had shortcomings, particularly as it related to the time allocated to the implementation process. Nevertheless, the organization was able to implement the new system and adopt new practices without any apparent difficulty. While the organization changed one formal system for another, the informal system remained in place. Thus the organization exhibited both stability (with respect to the informal system) and adaptability (with respect to changing its formal system and processes).

Drawing on institution theory, the persistence of the informal system was explained by identifying a normative influence emanating from the organizational or micro-institutional level. The adoption of FIS was explained as a response to external influences emanating from the organizational field or meso-institutional level. The organization's responsiveness to external demands as witnessed by the rapid change of formal accounting systems was facilitated by loosely coupled systems. While both micro- and meso-level institutions embody broader, worldwide macro-institutions, it was found that organizational actors could face conflicting institutional pressures at the more setting specific organizational level. Based on the New Institutional Sociology literature (and the concept of normative isomorphism in particular) and the sociology of professions, professionalization was found to be a useful explanation for how organization-wide (and perhaps public sector-wide) values, norms and beliefs are transmitted and reinforced. In order for this to occur, the dominant group within the general population of the organization must belong to the same professional group. It has been argued here that in this organization virtually all of the employees belonged to the same professional group. They were bound together through the shared values, networking structures, education and training, and language of the public service. This newly identified professional group was a source of normative influence on organizational behaviour and the underlying norms, values and beliefs held by the group were found to be in conflict with the principles of New Public Management and the Financial Information Strategy in particular.

This study found that the Financial Information Strategy was ceremonially adopted by the organization while the technical activities that comprised the informal system continued to remain embedded in the organization and were virtually unaffected by the FIS changes.

Contribution to Theory and Literature

This research found that conflicting institutions can explain concurrent stability and change in organizations. Also, professionalization in the public sector can be a dominant normative force that undermines change initiatives when the principles associated with these initiatives are in conflict with underlying organization-level institutions. Loosely coupled systems can be employed in order to buffer conflicting institutional forces and arise, therefore, out of different institutional pressures being exerted upon organizational actors. In the case of New Public Management reforms, accounting professionals can play an integral role in the buffering process.

Drawing upon the theory reviewed in Chapter Two and empirical patterns emerging from the analysis, a new conceptual framework for management accounting change was constructed, a major contribution of this research to existing theory. This new framework draws upon similar conceptualizations of institutions and organizational change found in the current literature but significantly advances our understanding of the role of institutions in organizational activity. The effects of institutional influences from outside the organization are added to the original Burns and Scapens conceptual framework for management accounting change (Burns and Scapens, 2000). Moreover, the concepts of open and closed systems within an organization and loose coupling are also incorporated into the original framework. These modifications improve the Burns and Scapens framework by addressing the shortcoming of excluding of the effects on organizational activity of institutional forces emanating from outside the organization. This new framework also recognizes that separate accounting activities can be performed within the same organization in order to satisfy both internal and external demands, and that the institutionalization process can apply to each of these activity sets. Furthermore, the new framework improves upon other conceptualizations of institutions found in the literature (Barley and Tolbert, 1997; Dillard et al., 2004) by providing a more detailed view of organizational activity and by recognizing different rates of institutionalization. This framework also provides insight into the phenomenon of early and late adopter organizations and the institution theory perspective furthers the understanding of the forces that affect the activities of each of these organizational types.

This new framework extends the view of institution theory as it relates to the study of organizations. It conceptualizes multiple levels of institutions (Scott, 1995) but rather than viewing these levels as hierarchical, it introduces the notion of conflicting institutional forces and the tension between organizational institutions (micro-institutions) and the organizational field (meso-institutions). This view provides new insights into the management accounting change process by taking into account the underlying norms, values and beliefs that guide current practices and those that underlie the change. This study shows that the degree to which institutional forces are congruent or compatible affects how an organization manages internal and external demands. Management accounting information and processes are embedded with and guided by institutions. The conceptual framework developed here provides a robust tool for analyzing management accounting change processes and organizational behaviour. Drawing on institution theory, a deeper understanding of the forces that affect the management accounting system(s) within organizations has been developed.

This research also furthers the understanding of loose coupling by demonstrating that loose coupling occurs either through evolution or as a strategic response when there is incongruity between two institutional forces. Rather than the result of incompatible organizational and societal goals, loose coupling as an organizational phenomenon is the result of conflicting institutional forces. This finding suggests that the current strategies for reducing or removing loose coupling need to be revisited. If loose coupling is the result of conflicting institutionalized beliefs, enhanced leadership and focused control and monitoring as a strategic response may not be sufficient to foster a real change in behaviour. The view presented here is not that loose coupling occurs because of the incongruity of specific goals, but rather that it occurs because of the incongruity between the underlying institutions from which organizational goals emerge and those of the broader constituency. The implication of this finding is that the act of changing organizational goals, structures, and performance measures is insufficient as a strategy to change organizational behaviour unless the change initiative is either compatible with or alters the institutionalized processes and beliefs that exist within the organization.

This finding is especially important for public sector management reform where practices drawn from the private sector are being employed in public sector organizations. The literature demonstrates that many reform initiatives have met with resistance and/or failure. The conceptual framework developed here and its contribution to our understanding of loose coupling suggests that resistance and failure may not simply be the result of poor implementation, monitoring, or planning. Rather, many of these initiatives may have been destined to fail from the outset since they did not attempt to foster change at the fundamental level of institutionalized norms, values, and beliefs that reside in the specific setting of the public sector.

During the explanation building process of this research, two further contributions were made: a new view was presented of the normative influence of professionalization and the unintended consequences of New Public Management reform with respect to public sector accounting professionals.

Professionalization has been described as a normative influence from a group of professionals that affects organizational structure and activity (Powell and DiMaggio, 1991). The norms, values and beliefs of a professional group, like accountants, are diffused into the organization's belief system through the influence of employees who belong to that professional group. As such, the concept of professionalization has been employed to explain organizational homogeneity.

This study found that micro-institutions embedded the rules and routines associated with technical activities. Through the process of developing an understanding of how these micro-institutional norms, values and beliefs were transmitted and sustained in the psyches of organizational actors, it was demonstrated that employees of this organization were all part of an identifiable professional group and this group was the source of the normative influence affecting organizational behaviour. The view of professionalization, generally thought of in the New Institutional Sociology literature as an external influence causing organizational homogeneity, has been expanded in this study by the finding that normative influence can emanate from *within* the organization. The power of this influence will most certainly vary from one organizational setting to the next. In this study, however, it was demonstrated to exist in such a way that it dominated organizational behaviour and acted as a force that would *resist* external influences. Professionalization, therefore, does not always result in organizational homogeneity and can actually prevent it. This view of the influence of professionalization is another contribution of this research.

A final contribution of this study is that it adds to the literature on public sector accounting by documenting a case of the changed role of accounting professionals in a public sector organization as an unintended consequence of New Public Management reform. The study described an evolutionary change process occurring within the finance sector of the organization. It was found that as a result of the devolution of spending authority and the increasing demands for performance information from outsiders, the finance unit's activities evolved from those of a traditional financial reporting unit, to those of a buffering (or absorption) group that mitigated between the internal demands of organizational managers (i.e. developing the new internal budget management report that tracked "cash management" activities) and the external demands for financial performance information (such as submitting the Mid-Year Review report). This study documents the unintended consequence of New Public Management reform as a social intervention. With many of these reforms centred upon performance measures and management accounting information, accounting professionals within the public sector could be expected to play a significant role in their implementation. Instead, this study shows that this group actually facilitated loose coupling and played an integral role in mitigating between internal and external demands for financial performance information.

This final contribution is important for two reasons. First, it serves as a caution to New Public Management proponents implementing management accounting change. At INAC-Saskatchewan, the implementation of the Financial Information Strategy in the region (and the department) was, for the most part, assigned to accounting professionals. This study shows that where conflicting institutional pressure is present this group, rather than facilitating the accounting change, may act as a buffer between internal and external demands. As such, caution must be exercised when assigning responsibility for the financial aspects of New Public Management reforms. Furthermore, the evolution of the role of accounting professionals throughout the reform process must not be left unchecked.

Secondly, this finding provides an example of how the normative influence of internalized professionalization can override the normative influence of traditional professional groups such as accountants. It is not questioned here whether or not the norms, values and beliefs of the accounting profession have influenced organizational activity and structure at INAC-Saskatchewan. This study finds, however, that this influence was not sufficient to encourage behaviour that is contrary to the established norms, value, and beliefs embedded in this public service organization.

Future Research

Two related research streams would further the contributions to theory and literature developed here. The conceptual framework and other findings of this study could be applied to other cases involving public sector reforms. The validity of the conclusions presented here would be greatly enhanced if supported by findings from other studies.

A second stream of research that would advance the understanding of public sector organizations is the study of the micro-institutions that exist within them. This study reports on an external reform being imposed upon the organization. This approach is no different than the approach taken for many public sector reforms, as the case studies reviewed in Chapter Two indicate. In the case of INAC-Saskatchewan and many of the case studies reviewed here, reforms were met with either overt or subtle resistance. The outcome of these reforms was at worst failure and at best, less than optimal results.

The implication of the theory developed in this study for New Public Management reform is that there may be an inherent conflict between the underlying values and norms that are institutionalized in the public sector and the underlying principles of New Public Management. Where this is the case, public sector organizations can respond to New Public Management reforms by employing loose coupling to act as a buffer between the conflicting institutional forces. Reform will be illusory when this occurs.

In order to further our understanding of this potential outcome, additional research should be conducted in the area of public sector institutions. In particular it would be useful to further our understanding of the norms, values and "way of thought" that encode public sector organizational activity and how these institutions change and develop over time. There may be an inherent wisdom in these institutionalized beliefs that proponents of New Public Management reform might be missing. This is an interesting and useful research issue to explore in order to help improve the performance of our public sector organizations.

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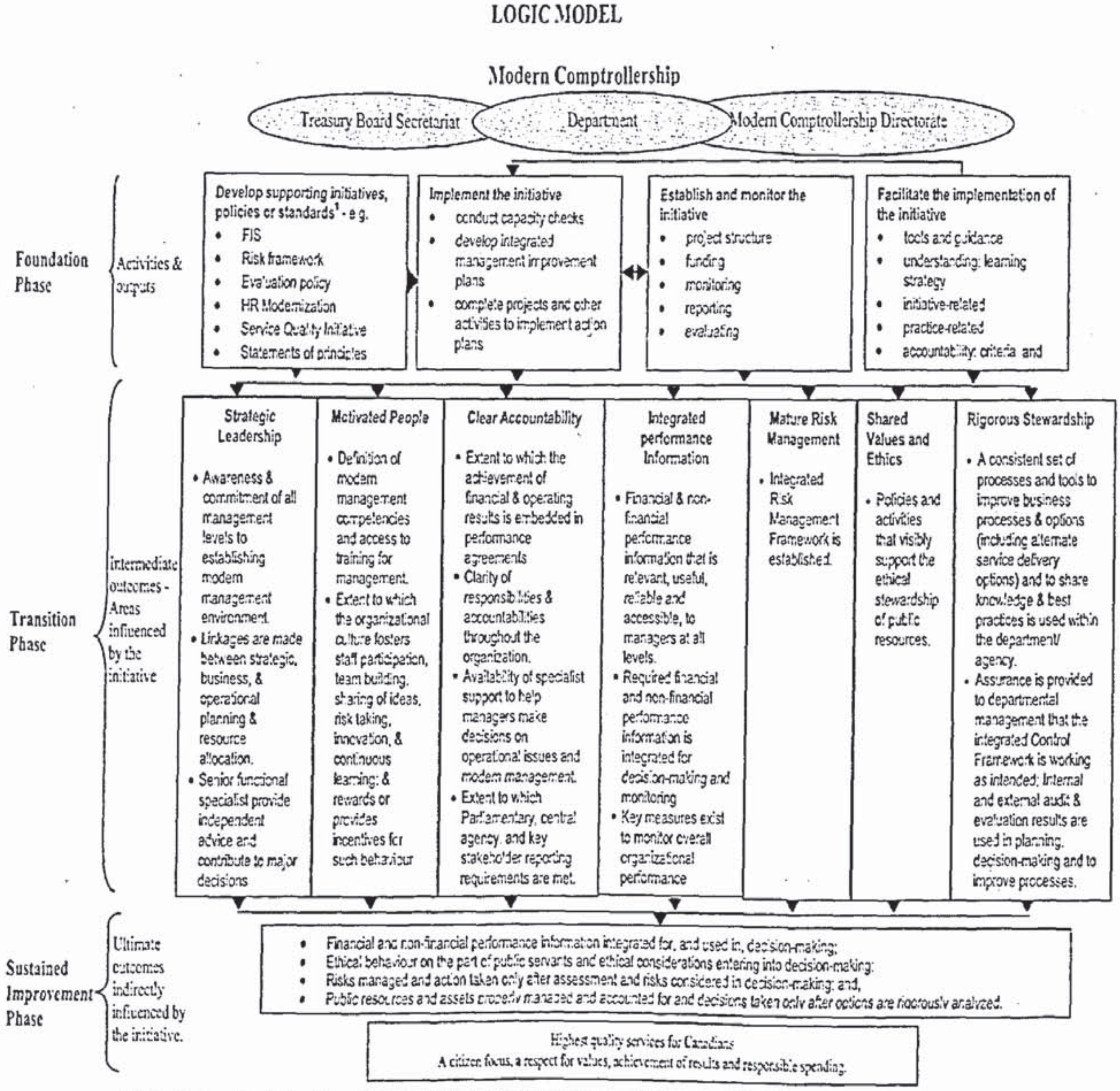
Appendix 1

Modern Comptrollership Logic Model



1. Policies, initiatives and standards would be used by departments to devise and implement action plans relating to one or more of the pillars and enablers of Modern Comptrollership.

Figure 1

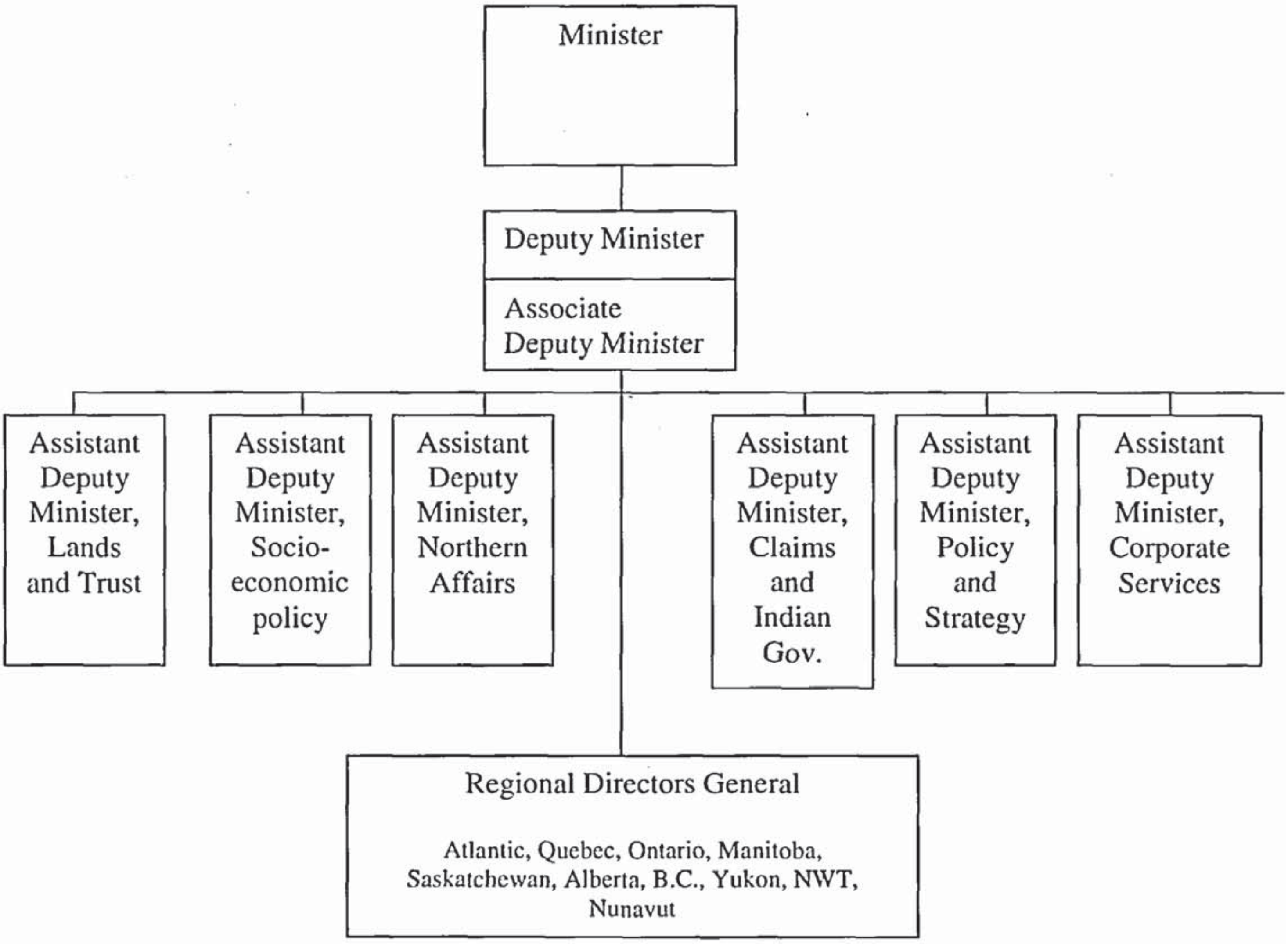
Appendix 2

Financial Information Strategy

Financial Information Strategy (FIS)

Appendix 3

Department of Indian Affairs and Northern Development
Organization and Business Lines (partial)



Appendix 4

Organization Chart – INAC-Saskatchewan (partial)