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Accounting for managing change in the public sector: a case examining issues of organizational and social accountability and employee resistance

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Working paper

Accounting for managing change in the public sector: a case examining issues of organizational and social accountability and employee resistance

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Abstract

This article focuses on organizational and social accountability reforms and employee behavior in an Australian local authority. Using the institutional theory and behavioral literatures, it sought to understand how recent local government reforms in Australia influenced a local city council authority to restructure its internal practices, which in turn caused employees' motivational and morale problems. Our findings suggest that the organization implemented two management control designs: (1) accrual-based budgeting; and (2) the Balanced Scorecard type performance management system in order to appear modern, rational, and legitimate. The findings suggest that when employee behavioral issues are not addressed adequately changes to the internal practices of an organization may have far reaching impact on its employees, which in turn may foster a strong employee resistance and de-motivation. Several social, organizational and behavioral issues are generated for policy makers and practitioners.

Keywords: Public sector reform, employee behavior; Accounting change, Local Government, Australia

1. Introduction

Recently accounting studies have involved with examining the issues of resistance to organizational change. Accounting change, social accountability, and employee resistance are central to an understanding of change management in a public sector context (Townley, Cooper & Oakes, 2003; Oakes, Townley & Cooper, 1998). In recent years, budgeting and performance measures become integral parts of the various organizational and social accountability reforms in the public sector. These tools have been viewed as mechanisms to implement formal controls through predefined targets (Townley, et al., 2003; Oakes, et al., 1998; Guthrie, Olson & Humphrey, 1999; Hood, 1995).

The key issues of restructuring, performance agreements, contracting out, commercialization and privatization are very much part of this new public sector control environment. Resistance to change is an inevitable issue in any forms of change within organizations and society (Parker, 1976; McHugh & Brennan, 1994; Abernethy & Vagnoni, 2004). In recent years, like other public sector organizations, Australian local government entities have witnessed rigorous reforms (Kloot, 1999; Klott & Martin, 2000; Hoque & Moll, 2001). Using a case study approach, we attempted to address the impact of recent public sector reforms on the accounting control practices and employees of a large Australian local city council business entity. In our paper, the scope of the accounting control system has been limited to the systems of budgeting and performance management for these two were highlighted as dominant areas of organizational change in the recent public sector academic and professional accounting literature (Broadbent & Guthrie, 1992; Lapsley, 1999; Kloot & Martin, 2000; Abernathy & Vagnoni, 2004).

Why were we engaged in exploration of some of the sources of accounting control change in the local government context? Our literature review shows that considerable effort has gone into researching the effects of 'external' constituencies

on the processes of organizational change (for details, see Broadbent & Guthrie, 1992; Lapsley & Pettigrew, 1994). What the effects are for employee attitudes and motivation in the public sector remain under researched. Because of their significance for organizational effectiveness such issues thus deserve intense research attention. This is particularly so in the new public sector environment where organizational structure and operations are invariably connected to the multiple internal and external constituencies such as government, media, community, politicians and employees. Further, the current public sector accounting literature is short of in-depth case studies of the processes associated with attempted change to management accounting and control in public sector organizations worldwide. This paper is an attempt to fill such an apparent gap in the current empirical literature and to enhance our understanding of accounting practice in the context of new public sector.

The rest of the paper is organized as follows. Section two is a description of the context of Australian local government reforms. Next, we present our theoretical basis to explain the findings. Section 4 outlines the research method adopted. The research results are presented in Section 5. The paper then discusses the research findings from its theoretical point of view in Section 6. The final section concludes the paper.

2. Australian local government reform

Reform in the public sector, especially in Australia, Canada, New Zealand and the UK, emerged during the 1980s from a desire to increase efficiency and accountability in this sector and from a general dissatisfaction with the traditional public administrative paradigm (Ferlie, Ashburner, Fitzgerald & Pettigrew, 1996; Hood, 1995). There is a general consensus that public sector reforms entail: a shift from policy making to management skills, from centralized management to decentralized management, from a focus on inputs to a focus on outputs and outcomes, to increased competition, and to greater performance management (for a discussion see, Hood, 1995). Clearly, such focuses denote a shift of private sector management practices into the public sector (Curtin, 2000).

In Australia, it is generally viewed that one of the reasons for change of Australian public sector entities has been the Federal Government *National Competition Policy* (Clark & Corbett, 1999; Curtin, 2000; Dollery & Marshall, 1997; Funnell & Cooper, 1998; Funnell, 2001; Guthrie, 1999). The Independent Committee of Inquiry (1993) claimed that Australia needed this *National Competition Policy* (NCP) for two reasons. Firstly, Australia has become a single integrated market because of advances in technology and transport. This means the economic significance of State boundaries is reduced and therefore firms are able to trade interstate. The second factor identified that suggests that a NCP is essential to the economic well being of the nation is a review of the *Trade Practices Act*. This Act imposed restrictions on certain sectors of society reducing their ability to compete in the market. In line with the NCP, a series of the financial and administrative reforms have also been

introduced. The financial reform agenda includes such things as financial reporting, accrual accounting, full cost pricing, purchaser/provider agreements, and strategic asset management. The administrative reform encompasses but is not limited to structural reforms, workplace-relations reforms, the review of information systems and accountability reforms (Funnell & Cooper, 1998).

In 1994 the Council of Australian Government (COAG) agreed to NCP reforms. In 1995, along with Commonwealth, and other State and Territory governments, the Queensland Government accepted the three agreements of NCP: the Conduct Code Agreement, the Competition Principles Agreement and the Agreement to Implement National Competition Policy and Related Reforms (Queensland Government, 1996). These agreements provide a framework for the implementation of NCP (for details see the Independent Committee of Inquiry, 1993).

Importantly for this study, the Competition Principles Agreement states the principles of NCP will also apply to local governments. This agreement further stipulates that the individual State and Territory Governments should determine how NCP is to be applied at a local government level. In Queensland, the Local Government Act 1993 has been used to facilitate the implementation of NCP to local governments (Section 543).

3. Theoretical basis

In general, institutional theory suggests that organizations are both influenced by and can influence the society in which they operate (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977; Meyer & Scott, 1992). Therefore, by paying close attention to external institutions and their main influence, a researcher can better explain *why* organizations change their existing internal control practice or implement a new one.

From institutional theory point of view, the motivation for change in organizational practices might be to bring to, or maintain the legitimacy of, the respective organization. To further explain, institutional theory focuses on the social contract that exists between the organization and society. This social contract is believed to represent the expectations of society (Greenwood & Hinings, 1996). Institutional theorists suggest that organizations may change and adopt the norms of society to appear legitimate to that society (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977; Greenwood & Hinings, 1996). This infers that when societal norms and values change, the managers will work to preserve the organization's legitimacy by incorporating, or appearing to incorporate the new norms and values (Dowling & Pfeffer, 1975; Milne & Patten, 2002). Milne and Patten (2002) suggest the organization then goes to great lengths to communicate to external constituents the alignment between their norms and values with those of society. Others, on the other hand, suggest that if the organization is not viewed as legitimate its survival is thought to be at stake (Dowling & Pfeffer, 1975; Greenwood & Hinings, 1996).

Thus, according to institutional theory, organizations may change their internal practices to conform to external institutions' expectations about what practices are acceptable or legitimate. For instance, isomorphic institutions (DiMaggio & Powell, 1983) are important in the local government context, because the majority of other organizations in the local government sector might have particular private sector type accounting and control structures there might be peer pressure on other organizations in that field to also have such practices in place (Hoque & Alam, 1999). Seen in such a context, there is expected to be some form of movement towards conformance with other 'established' organizations. Failure to undertake this process leading to congruence, which is referred to as 'isomorphism,' has direct implications for an entity's survival (DiMaggio & Powell, 1983, p. 149).

Organizations may be also forced to conform to the wider institutionalized regulations (Meyer & Rowan, 1977). In this study our focus was also to understand whether the subject organization was forced to change its internal management control systems to conform to maintain an edge and to be compliant with regulations resulting from recent local government reforms in Australia.

Many scholars such as George (1983), Parker (1976) and Johnson (1992) suggest that accounting can serve two purposes in the context of a successful organizational reform: to monitor reform, and to motivate employees during periods of reform. Institutional research (e.g. Ansari & Euske, 1987; Abernethy & Chua, 1996; Hoque & Hopper, 1994) has shown that organizations can be forced to adapt to government reforms without considering their effectiveness. Seen in such a context, institutional theory is limited in its capacity to explain how behaviour can reduce the effectiveness of changes to accounting and organizational practices. For instance, how does a change in the accounting system affect the employee motivation and morale? This paper, similar to other studies (e.g. Ezzamel, 1994; Huczynski & Buchanan, 1991; Wilkinson & Willmott, 1995; Hoque, 2003) considers such issues. Corbett (1996) for example, suggests that redundancy, retrenchment and redeployment are some of the most serious consequences from the changing public sector environment. It is not surprising that when organizations change, employees can become disgruntled, especially when some employees lose their jobs; this results in increased employee stress (Pettigrew & Whipp, 1991; Senior, 1997). These are the most challenging, exhausting and emotionally charged problems any manager has to deal with (Corbett, 1996). Lapsley and Pettigrew (1994) contend that sustainable change can only occur when organizations account for and monitor key intangibles such as human resources and monitor and evaluate the change process.

In our analysis, we also focus on the impact of change on people. Thomson (1992) claims that the external demands imposed on public sector managers has forced a whole new set of pressures on their operating environment. For instance, managers are now required to adopt a more conscious managerial approach, adjust to new systems and processes, new relationships, new remuneration policies, organizational restructuring, adopt new quality systems, become

more customer focused and also to manage that change throughout all levels of the organization. There is the view that such increasing demands can significantly influence their morale and commitment (McHugh & Brennan, 1994; Siegal & Ramanauskas-Marconi, 1989; Greenberg, 1996). It is for this reason that the behavioral issues relating to employee motivation and satisfaction surrounding the changes to the subject organization have also been explored.

4. Research method

The principal style of investigation adopted was a qualitative case study (Morgan, 1983; Hopper & Powell, 1985; Yin, 1994). A qualitative case study approach is useful when one is asking 'what' 'how' or 'why' questions in investigating a phenomenon (Yin, 1994). Such a research strategy is also appropriate where organizational phenomena under study such as ours are assumed to be socially constructed systems of reality (Burrell & Morgan, 1979; Morgan, 1980; Morgan & Smircich, 1980).

Access to the organization was gained through a letter to its chief executive requesting research access to the subject organization. A preliminary discussion was held with the senior finance executive for selecting the interviewees.

The data were gathered over six months in two phases: the pilot phase lasted for 2 months and the main intensive phase lasted for over 4 months. The pilot study consisted of a series of open-ended interviews with key informants in the corporate office and the main research site about the nature of change. The pilot was deliberately open-ended to enable the subsequent interview questionnaire to embrace issues that emerged from managers. These turned out to include: the organization structure, external environmental factors - especially local government environment, competition factors, actions of community, government regulations; and the style and use of accounting in the organization - especially budgetary and performance systems, managerial performance evaluation and motivational factors.

The final stage of research methods consisted of three parts: a series of semi-structured interviews; a study of archival records and documentary materials on the organization's accounting and control practices; and the feedback of findings to managers. A total of twenty-six interviews were conducted at different functional levels, distributed as follows: Financial, accounting, cost and budgets (11); quality and performance (2); treatment services (1); reticulation services (1); environmental and business systems (1); infrastructure services (1); customer services (1); field services (1); city of governance (3); fraud prevention (1); change management (1); and corporate management (2).

The pilot study revealed that the above divisional/section heads had detailed knowledge about the organization and control processes at the business unit level, consequently the interviews were restricted to them.

Based on the theoretical framework developed, the following key questions were posed to the interviewees:

- What are the key characteristics of the organization's structural or operational change?
- What subsequent changes have occurred within the organization's budgeting and performance management systems?

- Why have the changes occurred in the subject organization?
- Were they for gaining external legitimacy or for other internal reasons such economic efficiency?
- Was there any employee resistance to the implementation of change? If so, how did management manage the resistance?
- How successful have the changes been for levelling the playing field?

The duration of the interviews varied in length from one to three hours. The interviews were conducted in the office of each of the interview participants. With interviewee permission, each of the interviews was tape-recorded. Field notes were also written during the interviews as a back up. The tapes were transcribed verbatim the following day.

In addition to interview data, various official documents and management reports were also collected to corroborate the information given by each of the interviewees including the organization structure, minutes of management meetings, memos, reports, manuals, accounting and performance reports. In addition to these organizational records, reports on Local Government and NCP implementation issues were collected from Local Authorities, the Queensland Treasury Department and government internet-sites.

Ethnographical illustrations such as direct quotes taken from the transcribed tapes were used to substantiate the research findings (Hopper and Powell, 1985). Specific quotes and passages from archival sources were also used to provide evidence and to corroborate the findings from the interview process. The adoption of multiple data sources (interviews, documentary evidence, government web-sites etc) on a particular issue helped the researchers address issues of validity and reliability of the data collected (Yin, 1994).

5. The research site

The level of our analysis is an independent business entity (GCW) of a larger Australian local city council. GCW was chosen for investigation for it was one of the largest commercialized directorate (business units) in Australia; it services a population in excess of 400,000 and it has been experiencing a significant change to its internal practices in recent years. The convenience of location of the research site to the researchers was also another motivating factor for this selection bias.

GCW was established as a directorate (or business unit) of Elsewhere City Council (ECC)¹ in June 1995 for the provision of water and wastewater to the wider ECC Community. Its assets include the ABC Dam and the XYZ Dam and five

¹ Elsewhere City Council (ECC) services over 1402 square kilometers in Queensland. As a result of a State Boundary Review 1993 the ECC amalgamated with the Nowhere Shire on 22 March 1995, to form what is now known as the ECC. There are two areas represented by Council: the political and the administrative. The political area of the Council consists of 15 elected representatives representing the wider Elsewhere Community. These representatives make up a number of different committees including the Coordination committee, the Water, Wastewater, Beaches and Foreshores committee, the Engineering Services committee, the Financial Services committee, Community Services committee, the Health and Cultural Services committee and the Planning, Development and Transport committee. The administrative area is led by the CEO and is represented by seven directorates. The CEO is directly answerable to the Council. At the time of this study, ECC employed 2350 staff within the seven directorates. These are: City Governance; Organisational Services; Planning,

wastewater facilities throughout the regional coast. GCW provides five core activities to the community including bulk water supply, water purification, reticulation of water and wastewater treatment, and wastewater disposal. As a commercial entity, GCW operates under the guidance of ECC. In December 1999, GCW employed 340 staff within its six divisions: treatment services; reticulation services; consumer services; field services; infrastructure services; and quality and performance. During the period, with an annual turnover in excess of \$130 million, GCW provided services to over 157,000 residential properties. Figure 1 shows the organization structure of GCW at October 1999. We present our findings next.

INSERT FIGURE 1 ABOUT HERE

6. National competition policy (NCP): towards the economic rationalism

Almost all the managers interviewed suggested that the NCP was a key driver of the change at GCW. Many of them claimed that the NCP increased the pace at which the organization adopted a more commercial status. One senior manager² stated:

NCP is about many things. The very essence of it to me is about bringing greater transparency to the decision making of Council and operations of Council...it is certainly about better asset management and in many respects demand management through a focus on costs.

The Federal Government as a formal coercive pressure had imposed NCP on local governments. The key personnel involved in the commercialization of GCW stipulate that consistent with the NCP, GCW report to the Queensland Competition Authority on an annual basis. The Queensland Competition Authority uses this report to monitor the implementation of the elements of NCP within local governments. In return for compliance with the NCP elements, the corporate city council received an incentive grant of \$2.7 million from the Queensland Government in 1998/1999.

In accordance with the NCP Principles, GCW is required to review their organizational structures to ensure the commercial activities of Council are separated from those that are not commercial (Local Government Act, 1993). GCW's 1998 Change Implementation Strategy suggested that this was to ensure that Council did not receive any unfair advantages over their competitors stemming from their public sector status.

Several changes have been made to the internal control practices of GCW, the most noticeable changes have been, the introduction of the purchaser/provider relationship and the introduction of a customer services department. The introduction of these changes to the GCW control practices represent a borrowing of private sector management techniques and tools to improve the organization's ability to provide a competitive service delivery to its clients.

Environment and Transport; Economic Development and Projects; Community Services; Engineering Services; and Water. Each directorate has a number of subsections or divisional units headed by a divisional manager.

² Designations or positions of the participants are not revealed throughout this paper, as promised during the interviews.

The purchaser/provider arrangement allows the purchaser to focus on the strategic issues facing the business unit and leaves the day-to-day operational issues to the providers (Interviews with senior managers). It also enables the providers to benchmark against other water authorities. The 1998 Change Implementation Strategy claims that the purchaser/provider relationship also enables business units to focus on a single point of accountability and encourages the contestability of activities. This strategy also reminds that the purchaser/provider relationship will only be effective where there are sufficient economies of scale. Interviews with managers at GCW revealed that ECC (GCW's corporate city council) plans to adopt the purchaser/provider relationship throughout all of its units; the main purpose of such plans is to achieve greater accountability through the use of service level agreements. These findings, contrary to the institutional view, suggest that one of the motivations for change was to enhance organizational efficiency and effectiveness. Elsewhere similar arguments prevail (e.g. Lawton & McKeivitt, 1995; Lowndes, 1997; Pettigrew, 1988; Pettigrew & Whipp, 1991).

It has been suggested that adaptation to economic pressures can also influence an organization's strategic priorities and processes (Dawson, 1994; Pettigrew, 1988; Scott, 1987). This is evident in our case, as interviewees at GCW took the view that the introduction of a customer-focused business strategy had changed the business unit the most in the past 2 years. For instance, one of the managers interviewed claimed that the internal business strategy had considerably changed or have been in a constant state of change over the past two years. In particular, several managers suggested that the change in business strategy was important after the amalgamation of the City of the Elsewhere and Nowhere Shire because new field crews were formed by merging the City of the Elsewhere crews and Nowhere Shires crews. Investigations revealed that prior to the merger between the crews, both crews carried out their operations in a slightly different manner and therefore the introduction of uniform work procedures was necessary to ensure a standard level of service was provided to all GCW customers.

7. Budgeting change: the new focus

The budget at GCW is prepared on an accrual basis in accordance with the legal requirements under the *Local Government Finance Standard 1994* and the *Local Government Act 1993*. GCW first implemented accrual budgeting in the 1996-1997 financial year. Prior to this period, all budgets were prepared on a cash basis, similar to other public sector entities. GCW interviewees believed that accrual budgeting helped them identify the full costs of the goods and services they provided to the clients, which was a requirement of the NCP.

Interviewees maintain that under accrual accounting GCW prepares a number of budgets including an operational budget and a number of capital works budgets. Interviewees' comments suggest the operational budget is prepared annually

for the purpose of the allocation of resources. As one manager commented, 'the annual budget is the most important mechanism for allocating the organization's resources.' This view is consistent with the longstanding view of public sector accounting (Coombs and Jenkins, 1994). An analysis of the budget shows that it describes in detail the projected expenditure of the organization's activities and the funding source of those activities on a yearly basis. As a commercialized business unit of ECC, GCW is responsible for planning the mix of internal and external resources necessary to fund their operations. Documents received from one of the managers at GCW contend that the budgeting process begins in January. This suggests that the budget is created over a six-month period prior to its implementation. Interviews with several GCW managers and other managers involved with the budget revealed that the operational budget is also refined during a quarterly budget review.

During interviews with a number of GCW managers, many discussed the importance of the move to outputs/outcomes based budgets at GCW, which occurred in 1997. Prior to this change, budgets at GCW were based purely on inputs. As one manager maintained, the primary reason for the move to outputs/outcomes based budgeting was for more effective performance measurement. This manager further went on to say that 'local government moved to output/outcome based budgeting to enable them to measure whether the desired outcomes were being achieved and this could not be done with an input focus'. Another manager made a similar comment:

Historically local government has been focused on inputs. For example, we have got too many staff or we use too many consultants. It doesn't tell you about the relationship of those inputs to outputs.

A senior corporate executive further remarked:

Often organizations focus on inputs, i.e. the costs, without focusing on the real reason for Council to exist, and that is to serve the community and to achieve outputs for the resources, financial and human, provided by the Council to achieve those outputs.

Prior to the introduction of accrual based budgeting, GCW did not have the requisite information for maintaining or planning capital works programs. Now with the mandatory preparation of accrual based budgeting the business unit has improved the amount and relevancy of information used to plan the capital works programs not only within a five year period but also over as much as 10 and 25 years. Interviewees suggest that this capital works program is prepared for a number of reasons: to complement the operational budget; to disclose the projected expenditure on new works; to justify expenditure on specific projects; and to specify how each program will be funded. In addition to the operational budget and the 5-year capital work program, GCW also prepares a 10-year and a 25-year Capital Works budget. An interviewee remarked:

The difference with Elsewhere Water and Elsewhere City Council is their infrastructure and that is why Elsewhere Water does a 10-year and 25-year budget.

According to the 1999/2001 Performance Plan, the 10 year capital works program would be used for the total management process and the 25 year capital works program will contribute to the organization's long term financial planning

and to water pricing. In formulating the Capital Works budget GCW assesses the growth rate, standards of service, quality and the renewal of assets.

8. Performance management change

Performance measurement is an increasingly a pervasive aspect of organizational life, especially in the public sector (Townley, et al., 2003; see also Hood, 1995). In our case study, GCW top management recognizes that accountability for performance is crucial if they are to operate efficiently and effectively. Business units are kept accountable through a number of performance measurement exercises. Moreover, interviews revealed that improved performance measurement systems were required when purchaser/provider arrangements were introduced to the business unit during the early stages of commercialization.

One manager further elaborated on such comments:

Say for instance GCW as a purchaser seeks services from providers within the organization that incorporate HRM, IT etc. GCW will enter a contract (Service Level Agreement) with the provider, which will specify the types of services they need and what standards they require. At the end of the specified period GCW can say how have you been performing? We are not happy with that service. It was not up to the standard that we both agreed on. We are not going to pay you the full 100%.

Another offered a similar anecdote:

What we want to do is have a system that pays for services using transfer payments. Then if we pay one unit to provide a service and it costs them \$10 million and they are only getting paid \$8 million they really have to sit down and say those prices aren't right. We either aren't efficient or we are not getting paid enough for what we are doing.

The Local Government Act 1993 stipulates that commercial units need to develop an annual performance plan for each business unit. Document analysis of GCW's performance plan revealed a comprehensive discussion of the strategies and key areas requiring strict performance measurement. What is clear in the subject organization is that despite strict compliance with external pressures for a performance plan, due to the loose requirements of the Act, GCW responded through the organizations strategies and plans. This is consistent with the widely view in the accounting literature that suggests performance strategies be linked to the organizational strategies and operating capabilities and also that there is no standard performance measurement system that can be used by all organizations (Kaplan and Norton, 1996). Managers commented this strategy-oriented performance management approach differed from previous performance measurement systems used in the organization. They went on to explain that in the past managers had relied on the cash-based budgeting report to highlight areas of concern, however the new performance management system went further than this traditional financial control tool it also considered qualitative aspects of organizational performance. For instance, one of the corporate

managers suggested that the cash basis budgeting alone was not enough to monitor the performance of GCW. As he maintained:

Historically the cash budgeting report has been the means by which the government has controlled the organization. But such a budget will not tell you a lot of things that the Council will need to ultimately achieve things. You do that through an operational or performance plan. The operational or performance plan sets out the timing of work and how things are to be achieved.

In July 1999 GCW introduced a multi-dimensional or balanced scorecard approach to performance management. To gauge performance, GCW identified 33 key performance indicators (KPIs) for its six major activities (see Table 1). Managers at the business unit use these KPI's to gauge their performance. This new KPI system combines a series of non-financial and financial performance measures. The six branches of GCW are kept accountable to the director, City Governance, the CEO and ultimately Council using the indicators. As can be seen from Table 1, each individual KPI is tailored to one of the five major activities of GCW. For instance, the percentage of lost working days or absentee is aimed at measuring the organization's ability to be a chosen employer. Similarly, the return on net operating assets has been introduced as new key performance indicators in the current period to measure the commercial sustainability of GCW. A further advantage of adopting such a tool is that it ensures that all employees understand the long-term strategy of the organization (interviews with ECC and GCW managers). For some departments at GCW, managers revealed that new pressures have arisen from the sector to benchmark against other Australian Water Authorities to ensure that the departments are providing a service at a similar standard as their private and public counterparts.

INSERT TABLE 1 ABOUT HERE

GCW has a number of performance reporting responsibilities arising from the commercialized arrangement. First, GCW is required to prepare a monthly performance report for various corporate committees and executives such as the CEO and other directors. In addition, they prepare a quarterly performance report. This report summarizes the monthly reports and also provides a comparison of actual and budgeted figures over the quarter. This allows management to get a more detailed understanding of the organization's operations and in part discharges the stakeholder accountability requirements (Interviews with managers). Finally, GCW's performance is combined in the city council annual report, providing information to stakeholders on the business unit's annual performance.

When asked about measuring employee performance, all of the managers indicated that the employees are accountable for their individual performance to their respective manager. It has been found that managers' performance is measured on an on-going basis using the targets set out in the performance management system. For example, the performance management system lists the projects that GCW has planned to undertake in the current year, the completion

date of that project, along with the budget and the person responsible for achieving that target. According to the GCW managers interviewed, deviations from the set targets must be explained in the monthly reports and the target rescheduled.

9. Impact of change on people: resistance and behavioral issues

Several behavioral issues emerged from the research as a result of the change. Interviews with many managers noted mixed reactions to the change at GCW. For instance the purchaser manager explained:

On the whole, actually I think NCP has probably increased morale if anything because we are commercially focused with more accountability and responsibility and all of those sorts of things.

Different views were expressed by two of the provider managers:

I know there has been a fair bit of angst out there. People think commercialization means contracting out – a loss of jobs.

Some people have just thought it means we are going to be competitive tendering and that they are going to lose their job. There is a lot of misinformation.

Another general view held by some of the lower line managers is that GCW employees were being unfairly targeted. For instance one of the managers commented:

In some respect employees have viewed the NCP reforms negatively. Especially since it is seen to only affect some areas of council and that it doesn't appear to be applied council wide. They think they are being targeted within the rest of council and in the long-term they see it as a threat to their jobs, that their area might be downsized or that by highlighting inefficiencies their jobs are threatened.

Yet another of managers suggested that resistance is expected from employees because of the pace and types of change the organization had undergone in recent years:

I find that when you talk about change, people are somewhat negative about it, but I think that this is because people have been through a lot of change in the past couple of years, especially from the amalgamation. I think the amalgamation was a fairly major upheaval for most people. Especially since the history of the organization has been that a decision is made and you get told you are going to do it, whereas if more staff were involved in those change processes you are likely to get a higher degree of acceptance and understanding and positive vibes.

Some managers interviewed took the view that the change processes occurring at GCW were for the benefit of the business unit and if managed properly should result in a more efficient and effective use of resources.

In the words of a corporate manager:

New systems should be viewed as positive by all staff at ECC because GCW will represent a well-managed entity, setting a benchmark for other directorates of the council to turn to aspire to. If staff rejects the systems, it is at their own peril. For instance if we are found to be running an inefficient unit it could be very easy, sometime in the future for an external party to come in say if you give us \$4 million we will operate that treatment plant for you. If this is less than the cost for providing the service internally then ECC will be able to look at all of the figures and say hey we can improve our performance if we outsource to these guys.

Although none of the managers commented on any significant employee implications from the introduction of new accounting techniques, the introduction of the purchaser/provider arrangement was met with mixed reactions. In particular, managers in charge of the providers suggest that the model had changed their perceptions about accountability. For instance, one of the managers explained: 'We are now told how to maintain our assets, not exactly how to do it but the level that is expected. Whereas before the purchaser/provider one manager used to be in charge of civil maintenance, one in charge of electrical maintenance, some one would look after construction etc. There was no real accountability. If some thing went wrong there was no one that you could actually say whose fault is this? So no one really took responsibility for what was going on. If you don't make people responsible and accountable, well things won't get done. They will be off doing something else. But if you say your job is... you are responsible for this product, if it doesn't get installed properly and implemented there will be consequences.'

Many of the managers also commented the arrangement had increased their workloads, especially the reports prepared for the purchaser to discharge service level accountability requirements. Prior to commercialization there was no need to prepare these reports, however with the separation of the roles the reports were necessary to ensure quality services continued to be delivered at the lowest possible cost. This meant that managers were now required to work outside their comfort zone because this had not been part of their job in the past. A second problem that affected the employee perception of the new arrangements was the purchaser/provider job descriptions. Due to the fact that most governments in Australia were introducing similar arrangements, management explained that they were not able to imitate 'best practice' models despite the uncertainties the new arrangement provided. This undoubtedly had implications for the stress levels of management and their employees. Some managers reported that despite the tensions these new roles provided to the individual managers, business unit managers sympathized with each other and suggested that time would provide a clearer understanding of how the business unit should be run.

Several managers further suggested that employee satisfaction problems occurred as a result of the high uncertainty that arose with the introduction of NCP. Managers stated that this has had detrimental effects on the employee satisfaction. Some managers interviewed took the view that this was simply the result of a misunderstanding about the purpose of NCP. They further stipulated that employees initially viewed NCP as the contracting out of services. Therefore they resisted the commercialization of GCW because they feared they were going to be retrenched. The most common forms of resistance reported included absenteeism or a general disinterest in their work environment. At the time, almost all managers interviewed considered the restructure to be a threat to their jobs security. According to a manager, 'everybody thought they were in the departure lounge.' Others claim that the restructuring of GCW was done in a very diplomatic fashion.

At the time of the public benefit assessment GCW employed 380 staff. At the commencement of this study this number had been reduced to approximately 340 staff. According to the GCW managers the decrease in staff levels had occurred during the restructure of the business unit. It was explained that the levels had dropped from voluntary redundancies, and not from loss of positions. Although there were no compulsory redundancies made it was explained that, redundancy packages were offered to those employees not willing to face the change. This view is illustrated by the comment of one manager:

After the amalgamation and in the initial phases of the purchaser provider we targeted areas and said okay we believe there is an abundance of people here, put in your requests if you want to go. Obviously the requests were treated on merits and they were negotiated. It was more or less we need three people in that area, put in your proposals and it was discussed amongst all of the groups. Most of the time we have been pretty lucky. We haven't had to say well you want to do it but you can't. It has sort of fallen out that the people who are going were close to retirement and took an opportunity to bring forward their retirement, or where they have voluntarily taken a remuneration package and have been able to move on. Apart from two examples most people have moved on quite happily and it has created opportunities for other people to expand their skill base.

Further, the managers at GCW interviewed suggested that unhappiness among the managers also occurred as a result of under human-resourced branches during periods of high change. For example, one manager remarked 'the work load problem I suppose that we have had is in the change over we were at bit short-handed at times.' This was further supported by comments by another manager who suggested that GCW is still trying to get the right mix of human resources in each of the departments. It was explained that this was because the purchaser/provider model had divided the responsibilities of the business unit into 'neat' and separate divisions, the result being that some divisions of the business unit were under resourced from inadequate estimates of human resource requirements in the respective division.

10. Discussion

The evidence presented in this paper suggests that external 'institutional' pressures, in the form of State and Commonwealth agreements, the Local Government Act, and the introduction of new business principles into the local government have led GCW management to change their internal practices. It seems clear that the NCP has forced the organization to adapt and change. The Local Government Act 1993 contains the elements of NCP, which prescribes that local governments assess their significant business activities for possible full cost pricing and commercialization.

In relation to accounting change, from institutional theory point of view, accrual budgeting at GCW has been introduced to comply with the external requirements set out in the Local Government Finance Standard, 1994 and the Local Government Act, 1993. These external "institutions" require all local governments to prepare their budget on accrual basis.

In relation to performance measurement practice, the findings suggest that the Local Government Act combined with corporate (ECC) pressures required the existing performance management system at GCW to be modified. In light of this, GCW moved from traditional performance management systems that relied on financial measures to a combination of

financial and non-financial measures. These performance measures are set out in a modified balanced scorecard (See Table 2) containing the following themes: customer focus, chosen employer, environmental sustainability, quality water service provision, and accountability. These systems were developed with the objective of measuring the efficiency of their operations. However, the findings also suggested that several water authorities in Australia have implemented the balanced scorecard type approach to performance measurement. Consequently, GCW also implemented similar performance management system to demonstrate conformance with other 'established' organizations. Such a behavior can be explained from the notion of isomorphic behavior (DiMaggio & Powell, 1983) that organizations may adopt certain systems, policies, and procedures by imitation and copy one another to demonstrate conformity with 'established' institutionalized practices.

In relation to people, GCW faced employee satisfaction problems from the reform or changes in local governments. Of course, significant changes at GCW reduced employee 'motivation'; some jobs disappeared and this added to increased employee stress. In our case, employee dissatisfaction was also reduced from under-resourced departments during periods of change (Costello, 1994). Consistent with Corbett (1996, p. 161) this outcome suggests that when there has been a restructuring and a 'shakeout' of surplus personnel, and redeployment is being sought, poor motivation to work throughout the organization is likely.

Essentially, the findings reported in this paper suggest several negative impacts of the change at GCW on its employees; the most strongly voiced being the decreased employee satisfaction resulting from considerable redundancies, and this added to stress, which in turn, resulted in reducing the likelihood of employees working productively. Perhaps in this case, this was due to the fact that organizational changes were made largely to gain legitimacy from external constituents with little regard for employees. In support of such speculation, the findings of the case study found that although GCW top management claims they are committed to supporting their employees, few employees were involved in the plans to change the organization and this added further to lack of employee motivation. Often enough GCW employees blame the NCP, as well as top management's actions for their resistance to change at GCW.

What lessons can be learned from this case study? In this study although institutional theory was helpful to make sense of the 'external' legitimacy aspects of the change process in the organization, however, it was insufficient to capture significant behavioral aspects of the change such as employee resistance and employee morale. We therefore suggest the 'external' legitimacy view of the adoption of new management control practices is not representative of the advantages that can be gained when organizations use new practices as part of their social and economic activities. From a theoretical point of view, institutional theory needed to be complemented by an explanation of the relationship between change and employee behavior for making sense of everyday practice. However, such a link still remains in its infancy in the current management accounting literature and thus the development of this relationship could provide an interesting avenue for future research.

In relation to public policy, the findings reported in this paper are consistent with the perception that a lot of the public sector changes brought in by the government initiatives and regulations have not been overly beneficial. We suggested that when employee behavioral issues are not addressed adequately, changes to the accounting and management practices might result in negative impact on employee productivity vis-à-vis organizational effectiveness.

Seen in such a context, this study provides a multitude of other interesting and timely avenues for future research. For example future research, similar to this study may wish to explore how other business units and city councils are responding to public sector reform pressures. Are purchaser/provider models emerging as a general technique for improving performance and satisfying external accountability requirements? Equally interesting, a comparative study of private sector and public sector water authorities may also cast some light on how reform pressures are viewed as a 'borrowing' of private sector management techniques as suggested in earlier sections of this paper. Or alternatively, future research may wish to concentrate on how public sector employees are responding to changes in the workplace, have they had to be re-skilled, are they informed on the changes, do they see them as necessary?

Figure 1: Elsewhere Water (GCW) Organizational Structure

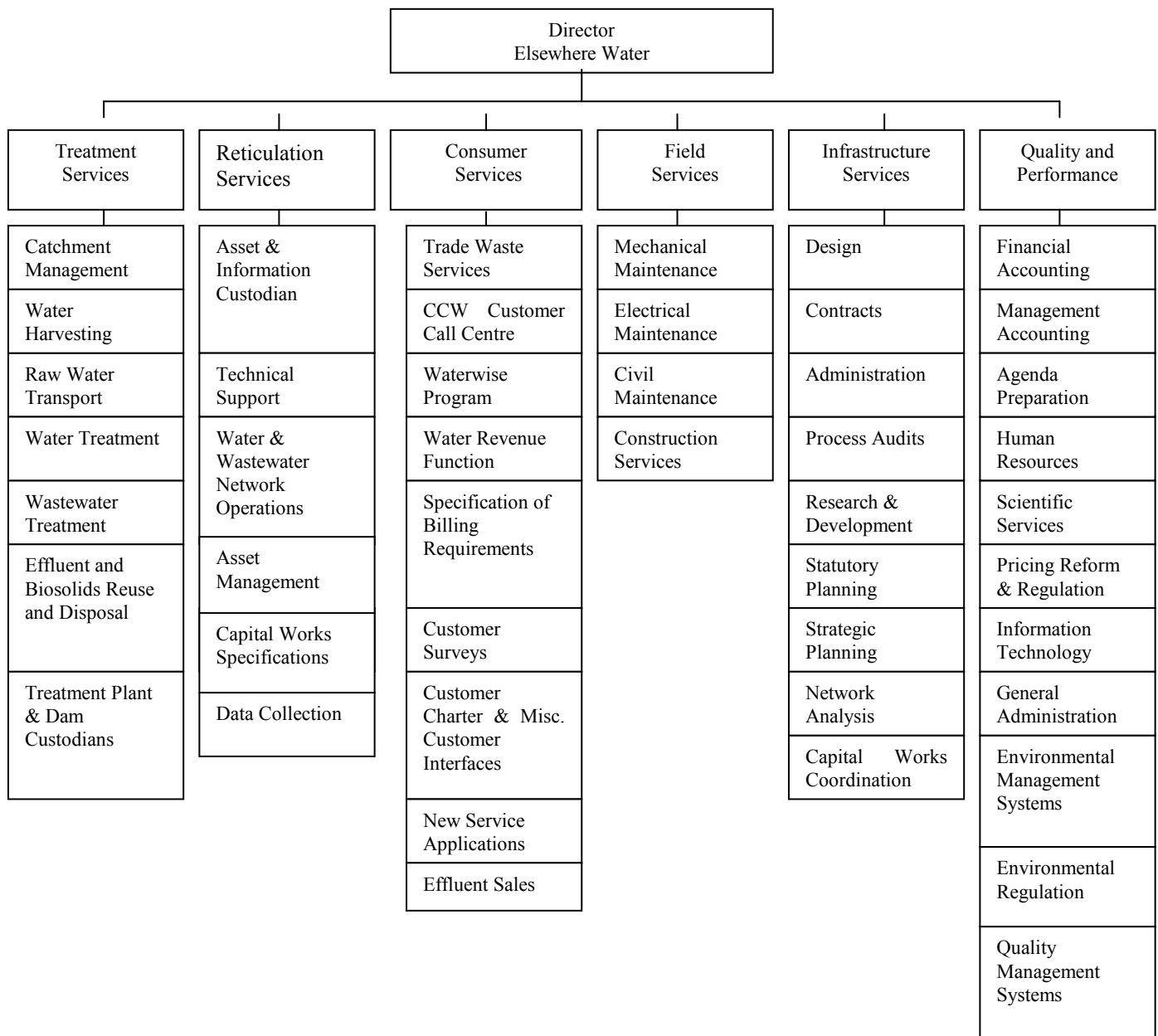


Table 1: The performance management system at GCW

Major strategic focus (activity)	Key performance indicators
Customer Focus	<ol style="list-style-type: none"> 1. % Customer Satisfaction 2. % Compliance with verbal service request response times 3. Number of water supply interruptions per 1000 properties 4. Number of planned water supply interruptions per 1000 properties 5. Number of unplanned water supply interruptions per 1000 properties 6. % of water and wastewater service interruptions within 5 hours 7. Number of customer complaints per 1000 properties 8. Number of water quality complaints per 1000 properties 9. Number of odour complaints per 1000 properties 10. % of meters installed within 14 days from date of payment
Chosen Employer	<ol style="list-style-type: none"> 11. % lost working days 12. Training expenditure versus total operating expenditure (%)
Environmental Sustainability	<ol style="list-style-type: none"> 13. % tests meeting WWTP EPA licence criteria 14. Quantity of treated water supplied per property (kL)- not seasonally adjusted 15. Number of uncontained wastewater spills 16. % of wastewater spilt per wastewater treated 17. % effluent reused
Commercial Sustainability	<ol style="list-style-type: none"> 18. Combined operating costs per property 19. % expended off revenue funded capital expenditure 20. Water and wastewater renewals expenditure as a percent of current replacement cost of system assets 21. % unaccounted water 22. Operating Profit (EBITD and abnormals) 23. Return on Turnover (Net Profit after tax/sales) 24. Return on Net Operating Assets (EBIT/Total net assets) 25. Debt-Equity ration (Total Interest bearing debt/Total equity) 26. Total Financial Distribution to Council (as a % of post tax profits)
Quality Water Service Provision	<ol style="list-style-type: none"> 27. % tests meeting NHMRC (1996) bacteria criteria 28. % tests meeting NHMRC (1996) chemical criteria 29. Water main breaks per 100 km of water main 30. Sewer chokes per 100km of wastewater main 31. Wastewater main (gravity and pressure) breaks per 100 km of main
Accountability	<ol style="list-style-type: none"> 32. % Compliance to waste water spillage procedure (ensures spoilages are properly reporting and remedied) 33. Maintenance of ISO 9000 and 14000 third party certification

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