

personally. The deans, then, submitted the combined budget for their respective faculties to the relevant committees for final approval. The amount each faculty gets will only be known once the university is informed by the funding agency. The deans are responsible for allocating the amount allocated to their faculties to respective departments.

Reduced intake as a result of the government imposing full cost fees on overseas students and substantial reductions in government funding in the 1980s have led to the university facing a severe problem of resource restrictions. This was enhanced by the decision of the government to have a more direct control over the universities finances. It had also switched and reduced research funding, merged and closed some universities. In fact, the Government had gone to the extent of introducing a premature retirement scheme to reduce staff costs.

As a result of being squeezed of funds, the university was forced to reorganize its cost structure and, in so doing to change its planning and resource allocation procedures. Cuts were made to educationally sensitive items — such as closing down a department. A more stringent budgeting process was also introduced. In some cases, departments have to put a bid for special allocations in order to fund certain programmes. Vacant posts were not replaced unless the head of department concerned could convince the dean of its urgency and needs.

Even though some resisted this development (by resigning or taking up tenureship at other institutions), by and large, there was compliance. Departments too became more aggressive in looking for additional (external) funds. Linkages with commercial institutions for sponsorships and research funding were instituted. More lecturers marketed their expertise to generate additional revenue for the university.

#### CASE B : A COMMERCIAL ORGANIZATION

The organization in question is a commercial television company. It was established in 1954 and has since managed to retain the franchise to provide broadcasting services in the region it serves. The company's main sources of income came from advertisements it aired and global change to programs it produced and sold to other franchise holders and outsiders. In turn, the company paid a levy on its advertising revenue to the regulatory agency — besides its normal corporation tax.

Over the years, the company has positioned itself as an established broadcaster and a reputable programme maker. Structurally, the company was organized based on functions. Programme production became the focus of company activities and other functions were organized with a view of supporting the programme making activities. Most of the senior managers Within the new structure, budgeting became more formalized and sophisticated. The company introduce a new policy requiring all budgets to include a

## Accounting and Organizational Change: A Synthesis

**Mohammad Adam Bakar  
Ainun Haji Abdul Majid**

### ABSTRACT

*This paper presents evidence that highlights the wider role of accounting in organizational governance and change. It posits that accounting can influence decisions at the strategic level of organizations. This is possible because accounting provides a means through which new realities and meanings are created and in so doing allow changes to take place. It becomes a legitimating institution for an organization to link actions with the set of values that the organization needs changed.*

### ABSTRAK

*Kertas ini mengenengahkan beberapa bukti yang menunjukkan perakaunan terlibat dalam pengurusan dan perubahan yang berlaku dalam sesebuah organisasi. Ini menunjukkan yang perakaunan berperanan dan boleh mempengaruhi keputusan ditahap strategik organisasi. Keadaan ini berlaku mungkin disebabkan oleh keupayaan perakaunan mewujudkan satu realiti atau kefahaman baru yang seterusnya membolehkan sesuatu perubahan dilaksanakan. Dalam konteks ini, perakaunan menjadi satu alat yang membenarkan sesebuah organisasi mengaitkan tindakan yang diambil dengan sistem nilai yang cuba diterapkan.*

### INTRODUCTION

Accounting has rarely been seen as an influential mechanism for economic management at the strategic level of a firm. Many regard it as passive and a mere set of calculative practices and procedures. As such, accounting is viewed and treated as a historical record, as a descriptor of existing economic reality, an information system, and as a commodity (Davis et al. 1982; Belkaoui 1984), and thereby, it is only implicated in the processes of managing organizations at the operational level.

Such of conceptualizations mean that accounting only exists to perform certain functions. What accounting does or supposed to do is to provide a system by which uncertainties and conflicts are transformed into set routines, allowing organizational members to perform other necessary functions so that an organization can get things done, attain its goal(s) and survive (cf. Gambling 1977; Covaleski & Dirsmith 1983; Berry et al. 1985). In other

words, accounting creates and validates the resource mobilization system, provides a justification for actions and aids management in taking managerial decisions.

These conventional views of accounting have been described as seeing accounting becoming what it should be and which “could make accounting what it was not” (Hopwood 1987). This could have led past studies in accounting to be seen as functionalist in tradition, positivist in approach, narrow in focus and technically biased in orientation (cf. Richardson 1987; Nahapiet 1988; Roberts & Scapens 1985). However, more research has since emerged that tries to highlight the more proactive and wider role of accounting in organizational governance.

This paper seeks to contribute towards this end. It represents a synthesis of two separate and unrelated case studies carried out at about the same time in the UK four years ago. It compares a public against a private institution which coincidentally were facing similar dilemma — how to overcome declining revenue and increasing competition for resources. The same methodology and approach was used in both studies. Data was gathered through interviews, participation observations and archival analysis. The analyses were done based on the principle of content analysis.

## THE CASES

### CASE A : A PUBLIC INSTITUTION

The first case study was carried out in a public institution. This is a university established in the middle of the nineteenth century. It has more than 17,000 full time students, employing more than 2,500 academic and technical staff and with over 3,000 other ancillary staff.

The university is one of the oldest in the UK. It is hierarchically structured and its administration reflects the separation of administrative and academic functions. The former is primarily concerned with the tasks of running the university as an educational establishment (including the finance function) whilst the latter serves the role of guardian for academic-related matters.

This university is an autonomous and self governing organization. Its main income sources are government grants (over 60%) and monies received through donations, research grants and student fees. On average it uses between 60% to 70% of its income on staff salaries. Resources are allocated based on the plans which must be first approved at the faculty level. However, the quantum that each faculty received depended on the amount of fund that the university has or received.

Budget was the main instrument used to achieve this end. Heads of departments present of their budgets to their respective deans for approval

certain percentage of the total costs as central administration overheads. Besides, before approval, a producer must prove that his or her would programmes attain a certain level of profitability — normally a predetermined rate of return on investments.

The initial response from programme makers was at best hostile. However, by the time the market was abuzz with talk of the Government wanting to tender out the franchise and to introduce satellite television, the receptions increased. The restructuring further enforced the implementation to an extent that, by the time the study ended in 1990, the words “profit” and “bottom line” were common discussion lingo.

Another important development was the use of accounting tools and procedures — notably budgets and the processes of budgeting, as a means to defend certain managerial actions. For instance, the company institute several cost cutting exercises. Firstly, the company managed to reduce manpower by not budgeting for replacements for those who left the company or retired. As a result, the management was able to achieve what they have not been able to do for a long time — to institute mobility amongst its highly unionized workforce. Secondly, the budget was used to break down old working practices. For instance, the company managed to reduce the workers involved in filming (from 10 to 5 for a field documentary filming) because bringing ten staff along would not make the programme profitable or would not attained the required rate of return. Thirdly, strict adherence to management guidelines in the preparation of budgets required by management has resulted in a more streamlined and cautious operations by service departments, and the Facilities Division as producers could then look to outside suppliers for alternatives. On several occasions, this actually happened. Finally, the pressure put by the management through divisional performance appraisal has led to divisions — notably Production and Facilities to look for external markets and not to rely on internal markets alone. For example, the Production Division went out to look for new partners and finally teamed up with an American company to venture into full-length feature movies that were distributed world wide.

## DISCUSSIONS

At least three broad observations can be made from the two case studies discussed above. Firstly, at the strategic level, accounting tools such as budgets and the processes of budgeting, appear to offer a means of facilitating policy decisions. In the first case, budgets and the process of budgeting have been used as the mechanism through which the university authority instituted cuts — in the name of effectiveness and efficiencies in allocating scarce resources. These accounting phenomena were being used as the “center stage” to promote an idea that decisions made were rational ones (Bailey

1977), there by insulating the organization from charges that decisions were political (Becher 1984). In the second case, the introduction of more stringent budgeting procedures and transfer prices were all made in the name of proactive decisions to face increased competition and to enhance the company's edge in a highly competitive industry.

A common feature from these observations is that accounting was used as a language for organizational discourses (Nahapiet 1988). In these cases, budgeting and transfer pricing were used to cope with socio-economic problems related to funding and resource allocation problems. Perhaps, what made that possible was that accounting has been able to provide a set of rules which, over time have been accepted by organizational members creating a conception that it is a part of the reality of how their organizations should operate (Burchell et al. 1980).

Another explanation to this ability of accounting to play such a role is that the accounting tools used might have provided a legitimate apparatus to ensure that individuals conform to the official version of reality (Berger & Luckmann 1966). This was possible because those accounting phenomena, used over time, acted as an accepted language (Belkaoui 1978) and could have become "invisible rules" (Whipp et al. 1989) which condition and enable organizational members to make sense of an ongoing problem (Burchell et al. 1980), or to symbolize new emphasis on efficiency in overcoming a difficult situation (Hopwood 1984). In short, what accounting does then is to provide a vehicle for management to make those economic actions legitimate (Richardson 1987).

Secondly, financial planning and control systems seem to be the main mode of instituting organizational control. In the first case, the university used budgets and the processes of budgeting as parameters to define the operating framework in allocating scarce resources, whilst in the latter case, the company used them to ensure that allocated resources were used effectively and efficiently. Besides, the introduction of transfer prices allows the company to rely on the laws of supply and demand to play their roles in exerting control.

There are two ways of understanding the roles of accounting from this (control) perspective. First is to view these accounting phenomena as tools to maintain a social order because they codify knowledge and provide members with the *province of meaning* that helps familiarize them with the environment in which they work (Boisot 1986). Second, they can have present a fairly logical mechanism to avoid conflicts which might arise if resources are not distributed effectively and efficiently (Berry et al. 1985) or if goals of organizational members are incongruent with those of the organizations (Geertz 1973; Otley & Berry 1980). Besides, the use of those accounting techniques, especially transfer pricing, provide the organization with tools to

achieve equitable exchanges and that limited resources are used effectively in a competitive world (cf. Ouchi 1980; Lebas & Wiegenstein 1986).

Finally, taken together, it looks like accounting is providing an impetus to enable changes in both organizations to take place. As we have seen in both cases, the university and the company must change to make them better able to face their future. The university had a problem of declining resources, whilst the company was facing a more competitive environment which eventually ended up with the company facing the same problem as the university — declining resources. All these forced the management to institute drastic changes in the structure of management and in the manner these organizations were being managed. In what way did the accounting phenomena described above facilitated those changes and how are these possible?

The answers to these questions can be presented and explained as follows. Earlier discussions have highlighted the role of accounting acting as a language which enables organizational members to understand problems faced by their organizations. Accounting provides a framework with which it makes sense of the reality around it and, in so doing, it change its behaviour by conforming to changes that the management introduced (not withstanding whether such conformance means acceptance or mere adherence to rules or order). In short, accounting enables a particular economic visibility to be constructed forming the new “reality” which organizational members give significance to and finally come to subscribe. Accounting tools are accepted as legitimate mechanisms for governance and for changing managerial routes (cf. Boland & Pondy 1983; Richardson 1987).

The process through which members come to subscribe to the new reality and, in so doing, allow changes to take place, therefore, must be possible only if accounting and accounting practices have become intertwined with managerial functioning of both organizations. Perhaps the new procedures and mechanisms introduced could have changed the nature of *products produced or services rendered*. Consequently this changes the *meanings* which members attach to specific cost assessments and, thereby, create a perceived need for change. In other words the accounting system becomes constitutive of the members options and actions (Burchell et al. 1980; Perrow 1986) and changes are made possible because members subscribe to the notion that accounting itself has to or come to be subjected to pressure to change (Hopwood 1987). Transformation takes place in the name of the *new economic knowledge* and the accounting phenomena used by these organizations moderate that process by shifting the preconditions for organizational change.

## CONCLUSIONS

This paper presents a synthesis from two case studies on how accounting was involved in the management at the more strategic level of the organization. It was motivated by a desire to understand more about how accounting is implicated in organizational life.

Three themes emerged from the analysis. Firstly, accounting seems to be the means through which management institute and implement policy decisions. Secondly, accounting tools and processes such as budgets and transfer prices appear to be a dominant mode of organizational control at this level and, finally, taken together, the management in both case studies used these accounting techniques as mechanisms to institute changes to their administrative structures and in the manner their organizations were being governed.

These findings indicate that at the strategic level of organizations, accounting in its natural form, can play constitutive roles, forming particular organizational visibility to enhance decisional significance. As a result, it not only creates the context for it to change but also a conception that changes are necessary. In so doing managerial actions and decisions are legitimized allowing the processes of change to take place. Perhaps, then, accounting must no longer be seen from a strict and narrow viewpoint that it is a technical and passive discipline, and is a mere set of specific calculative routines.

Central to this view of accounting, however, is the recognition that there is an equivocal relationship between the aims of accounting and how it is being used in practice. Accounting has to be accepted as being part of, and the means through which the organization is incorporated into the society or the environment in which it exists. In short, accounting is an artifact residing in the social rather than the narrowly organizational domain. Accounting, from such a stance, is natural and revelatory. It makes real the social order of the organization and the environment within which it operates. Only through such a perspective can organizations fully benefit from the accounting craft.

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Department of Accounting  
Faculty of Business Management  
Universiti Kebangsaan Malaysia  
43600 Bangi, Selangor  
Malaysia