

Public Sector Accounting and Financial Reporting Reforms: Public Entities Perspectives, Sri Lanka

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Abstract

The theme addressed in this paper, Accounting and Financial Reporting Reforms viz. Business-like Accounting Practices in the Public Sector and their Failure has been widely discussed in both developed and developing countries. Scholars have been debating over the appropriateness of cash vs. accrual-based accounting practices, the extremes in the continuum of accounting practices in the public sector. Taking Institutional Theory as the theoretical lens, the author argues that both the non-appearance of the logic of appropriateness of business-like accounting practices and flaws in the implementation process have been the reasons for their failure. The paper argues the need for a more pragmatic approach to identifying the right accounting reforms and their implementation.

Key Words: Business-like Accounting Practices, Reforms, Public Sector, Continuum of Practices of Accounting, Institutional Theory, Logic of Appropriateness

Introduction

Though in recent times, countries, both developed and developing, have witnessed the introduction of accounting reforms in the public sector there have been tensions leading to failure in implementing them. Despite reforms being introduced under New Public Financial Management (NPFM) initiatives within the broader framework of New Public Management (NPM) many an issue associated with public sector accounting and financial reporting (PSAFR) remain unsolved. A case in point is the replacement of *cash-based accounting* with *accrual-based accounting*, i.e., an aspect of business-like accounting practices (BLAPs), in different settings including Sri Lanka which have not achieved the anticipated goals. This prompted scholars to examine public sector accounting concepts, principles, and practices anew as is evident in the recent literature (Christiaens, 2004). This paper is an attempt to explore the introduction and implementation aspects of BLAPs and their failure in the Sri Lankan context for which Institutional Theory will be used as the theoretical lens of the investigation.

Initiated in the latter part of the 1970s, NPM involves introducing private sector-based management practices in the public sector (Buhr, 2012; Hood, 1995; Tolofari, 2005; Yamamoto, 2003; Whitcombe, 2008) which set the background for NPFM to evolve (Buhr, 2012; Kamase, 2012; Soverchia, 2012; Guthrie, 2008; Lapsley, 2008; Ryan, 2008; Carlin, 2005; Hood, 1995). NPFM includes incorporation of private sector financial management practices such as accrual accounting, performance budgeting, medium-term expenditure frameworks and accounting standards in the public sector. This study mainly concentrates on the incorporation of BLAPs, i.e., accrual-based accounting practices, the mainstay in the private sector in the public sector (Al-husaini and Gowda, 2008; Guthrie, 2008; Helden, 2005; Carpenter & Feroz, 2001). Thus, dissemination of BLAPs spread across both developed and developing countries far and wide (Soverchia, 2012; Al Husaini and Gowda, 2008; Oulasvirta, 2010; Buhr, 2012). However, although BLAPs were in use for reasonable periods of time they were hard to get rooted in many settings owing to the contradictions and issues that emerged. This was observed in the Sri Lankan public sector as well, which requires the early attention of administrators and policy makers.

The present study deploys Institutional Theory in analyzing as to why the recent PSAFR reforms in the public sector in Sri Lanka have been a failure. It is hoped that being a body of knowledge that focuses on the deeper and resilient aspects of social structure involving concepts such as *legitimacy*, *isomorphism*, and *rational myths*; Institutional Theory would serve as an

appropriate tool for understanding the observed *non-institutionalization* of accounting reforms in the public sector. The institutionalization process refers to the activities which create an organized pattern of action for members of an institution. (These are dealt with comprehensively under propositions and concept-indicator model.) Here, institutionalization (of BLAPs) is considered a process which involves the creation of social reality (i.e., PSAFR reforms) in the public sector. The social reality thus created gives rise to an *organizational field* which, according to Di Maggio and Powel (1983), constitutes a set of organizations that, in the aggregate, forms a recognized area of institutional life comprising key suppliers, resource and product consumers, and other organizations that produce similar services and regulatory agencies. Shared rules and meanings govern organizational fields. In essence, it constitutes a social arena which positions the locus of the institutionalization process shaping organizations (Scott, 2014). It is evident that PSAFR reforms form the core of this study and as a result turns out to be the organizational field the center of the inquiry.

Although the history of governments dates back to millennia, public sector accounting research is confined to the past three decades or so. According to Chua (1996) and Guthrie (1998), the public sector comprises Government Business Enterprises (GBEs) engaged in business activities and Public Entities (PEs) devoted to providing services to the general public. It had been the tradition that GBEs and PEs have resorted to *accrual-based* and *cash-based* accounting practices respectively where the former recognizes transactions and events as and when they take place whereas the latter recognizes them at the point cash is received or paid.

However, the choice and application of cash-based accounting practices in the PEs have been criticized for some reasons. Cash-based practices do not provide information about the total expenditure of the government for a given period. Further, they do not comply with public resource management and control requirements owing to the inadequacy of information on effective and efficient utilization of resources. Moreover, they do not indicate the link between consumption of resources and output. Finally, they contend that PEs are functioning without progressive development in the field of public financial management (Soverchia, 2012; Tickell, 2010; Al Husaini and Gowda, 2008; Guthrie, 1998).

In the meanwhile, some countries such as United Kingdom, Australia, and New Zealand had already attempted to introduce PSAFR reforms in the form of BLAPs in their PEs. However, the choice and application of BLAPs in these countries had also been criticized for some reasons. The International Federation of Accountants (IFAC), the apex body, had not carried out a thorough assessment of PEs and as a result, failed to develop a conceptual framework governing PSAFR. This resulted in PSAFR reforms being based on the Private Sector General Purpose Financial Reporting Framework, which is claimed to be irrelevant for user needs in the PEs and hence inappropriate for PSAFR (Jacobs, 2012). Finally, the expediency of BLAPs for decision-making by politicians and other stakeholders seems to be in doubt since they do not find such information to be adequately useful, relevant and understandable (Soverchia, 2012; Grossi and Soverchia, 2011; Oulasvirta, 2010; Wynne, 2003).

In contrast, some argue that cash-based accounting practices are more suitable for governmental activities owing to their heterogeneous nature in transferring funds, etc. (Barton, 2009&2011). As a result, Australia, for example, has reintroduced cash-based accounting practices to (or “intending to”) completing accrual information and thereby satisfies the need for both resource management and fiscal policy. To quote another example, Nepal has reverted to cash-based accounting, having made a reasonable effort to continue with accrual-based accounting practices. Thus, it is evident that neither cash-based nor accrual-based accounting practices meet the desired objectives of PSAFR.

The Continuum of Accounting Practices (CAP) consists of the spectrum of all possible alternative accounting practices that are available for an organization. Cash-based and accrual-based accounting practices are positioned at the extremes of this spectrum with a myriad of possibilities, modified accounting practices, positioning themselves in between. Accrual-based accounting practices have been a relatively new addition to PEs while cash-based accounting practices have been customarily used over long periods of time.

It is widely debated why neither of the two extremes of CAP does not meet the accounting and financial reporting requirements of PEs fairly and squarely. Having considered the factors above, one could advance three reasons to explain the observed phenomenon. They are *inappropriateness of the accounting system to PEs*, *shortcomings in the implementation process*, and *the impact of associated environmental influences*. The present study proposes the concept of CAP, the institutionalization framework (Figure 1), and an in-depth evaluation of constituent factors of PSAFR reforms to (or “intending to”) explaining and suggesting courses of action be taken to resolve the prevailing issues.

Hence, the authors initially question as to what point(s) on the spectrum of CAP would best fit if the two extremes do not fit into the social domain (i.e. PEs). This is about the choice of the accounting system. The authors argue that the best fit depends on the logic of appropriateness of the accounting system to the PEs. Next, the authors argue that even though the choice of the system is right, the reforms may fail in the absence of an effective implementation process.

The latter argument is substantiated since scholars in public sector accounting have criticized the implementation process of PSAFR reforms in many settings. They argue that the way BLAPs are adopted cause them to perform differently owing to country-specific factors, and thus the outcome of PSAFR reforms is not consistent across cases. Further, they point out that after the initial euphoria the reforms do not always yield the expected results. Moreover, according to scholars, the reforms have not identified and followed a consistent pattern resulting in a misleading transfer of commercial accounting practices to the public sector. Finally, they question whether all countries have adopted the identical implementation process and state that this is answered inadequately and that studies already undertaken are very reticent about it (Buhr, 2012; Soverchia, 2012; Grossi and Soverchia, 2011; Lapsley, 1999; Guthrie, 1998; Olson, 1998; Bogt, 2000).

Therefore, it can be affirmed that the choice of the appropriate system and the implementation process are the common conditions which have a considerable impact on the success or failure of reforms. As a result, the authors argue that the success or failure of PSAFR reforms depends on the logic of appropriateness, the parameter of acceptable behaviour of elements of an organization, of the social reality and the implementation through the institutionalization process.

Moreover, it is claimed that the factors associated with PSAFR reforms (i.e., the constituents) are the vital ingredient for developing a promising negotiation among the related parties. However, recent literature indicates that even if most of the associated factors are favorable, still PSAFR reforms are likely to fail (Harun & Eggleton, 2012; Barton, 2011; Grossi & Soverchia, 2011; Arnaboldi & Lapsley, 2009; Christensen, 2007; Connolly & Hyndman, 2006; Carlin, 2005). This gives rise to the third argument as to whether there may be other factors which might have a significant bearing on PSAFR reforms in addition to what has already been considered.

Therefore, from the arguments developed so far, the main research question to be answered in this study is:

Why have PSAFR reforms failed?

In answering this question, the authors deploy Institutional Theory and propose an institutionalization process (Figure 1) for PSAFR reforms. According to Institutional Theory, organizations tend to adopt specific systems, structures, and procedures that are valued in their social and cultural environments (Kamase, 2012). It is to be noted that the institutional perspective is adopted for research in the disciplines of economics, political science, sociology, business studies and accounting (Johansson, 2002). Further, the recent review by Jacobs (2012) asserts that half the research in PSAFR is based on Institutional Theory. According to Bjorck (2004), it is one of the commonly used theories in organizational analysis and is considered suitable for exploring institutional practices.

The current study attempts to understand and explain the logic of appropriateness of choice and the implementation process of BLAPs introduced under NPFM. The choice of appropriate accounting practices depends on the human analytical ability to decide which of the possibilities on the CAP would be more suitable for the PEs, whereas the choice of the implementation process depends on the human ability to decide which of the aspects of the institutionalization framework would be more appropriate in implementing the chosen accounting practices.

The contributions emanating from this study are many-fold. It provides a comprehensive description of constituents of PSAFR reforms. After that, it tries to answer the important questions of the variations in the levels of institutionalization of PSAFR reforms and how such variation might affect the degree of similarity among sets of organizations. Next, this study uncovers the phenomenological status of structural arrangements in the institutionalization process, and, finally, it attempts to address the issues in PSAFR reforms and thereby propose a pragmatic approach in choosing the appropriate accounting practices and implementation process.

The rest of the paper is organized as follows: The next section presents the theoretical background which discusses in detail the PSAFR reforms, the effectiveness of PSAFR reforms, the Institutional Theory, and the knowledge gaps in PSAFR reforms. This will be followed by the proposed theory, the concept indicator model, along with the propositions. The paper concludes with a discussion of the theoretical and managerial implications.

Literature Review

The literature review is broadly organized into two major areas: PSAFR reforms and Institutional Theory. First, this section focuses on PSAFR reforms.

The Failure of PSAFR Reforms as a global phenomenon with special reference to developing countries

The debate on the implementation of BLAPs in government entities has existed since the inception of NPM (Kamase, 2012). For instance, the Nepal central government has been using accrual-based accounting practices since the late 1980s, for which the thrust came from international agencies and the involvement of professional accounting (Mellempvik, 2011). However, this turned out to be a failure, and the authorities took the necessary steps to replace accrual-based accounting with an improved version (modified) of cash-based accounting (Mellempvik, 2011).

Christiaens (2004) argues that the Flemish in the early part of PSAFR reforms had not sufficiently recognized the transition difficulties and incorporation of a first balance sheet. Christiaens believed that it was due to the non-existence of a guiding framework for capital

assets. As a result, Christiaens pointed out that the absence of a separate accounting framework for capital assets on the preparation of the first balance sheet caused the country a lot of confusion in the implementation of BLAPs.

With the liberalization of the economy and developing closer links with the Western economies, Vietnam changed its system of accounting to a mixture of principle-based conceptual accounting pattern taken from the West and the rule-based formal accounting elements retained from the old Soviet-style system. Vietnam's Accounting Association became a member of IFAC in 1996, and as a result, they happened to harmonize its accounting system by adopting IFRS with the rest of the world. However, this process has faced certain difficulties owing to Vietnam's specific national characteristics such as its local economic system and accounting tradition. Nguyen (2013) suggested that the regulators of Vietnam need to be careful in their approach in finding and designing the accounting system to combine or adapt the accounting practices which lead to the co-existence of Vietnamese accounting traditions and IFRS.

The Thai government required public agencies to adapt their accounting practices to be in line with NPM. The management of Thai universities needed improved information for planning and control which was attained through a change of the accounting system with the adoption of computerized BLAPs. Here the constraining factor happened to be the low institutional capacity of some Thai universities evidenced by the lack of technological resources and staff with knowledge of private sector accounting practices. Thai Universities that had become autonomous or intended to be so had given attention to changes in the accounting systems, emphasizing the importance of external consultants and staff that had knowledge of data requirements (Upping and Oliver, 2012).

PSAFR Reforms and Stakeholders

The stakeholders of PEs do not feel the significance of PSAFR and financial information in making policy decisions. One can discern four different stakeholders in the standardization process of accounting practices with varying authority to shape the outcomes (conceptual frameworks and standards), viz. financial statement users, management, independent public accountants, and national regulators of accounting practices. After NPFM reforms, national governments and other PEs now seek consistency and conformity in presenting their general purpose financial statements and budget statements. Before reforms, the presentation styles were a matter to be decided entirely by the national governments themselves. However, in the present context, it is a matter to be decided by professionals. As a result, the conflict among accounting professionals and the national government accounting regulators are apparent (Oulasvirta, 2010).

It is highlighted that there is a lack of interest and understanding of issues concerning NPFM reforms among newly empowered members of the legislature of countries. There is a considerable reluctance by successive political parties coming to power to press for PSAFR reforms as improved accountability poses a threat to the income levels of politicians and bureaucrats (Harun, 2007). Also, imprudent human resource management practices in the public sector have resulted in a shortage of accounting skills, which is a critical factor for successful implementation of accounting reforms (Harun, 2007).

PSAFR Reforms and the Conceptual Framework of Accounting

The basic question confronted by researchers about conceptual frameworks and accounting standards is whether the needs of shareholders in the private sector and stakeholders in the public sector are the same (Guthrie, 2008). Though much effort had been taken to introduce a PSAFR framework and standards during the last thirty years in Australia, New Zealand, Spain, UK, Canada, Italy and the United States (Soverchia, 2012; Buhr, 2012), it had not been identified and followed (Ryan, 2008; Oulasvirta, 2010). It is only in 2015 that the International

Public Sector Accounting Standards Board had come out with a draft framework for PSAFR. It is worth noting that none of the public sector conceptual frameworks had been empirically validated and this explains the flagging interest in the academic literature in conceptual frameworks (Jones, 1992). As a result, though the research on PSAFR has increased lately, the issue of the most appropriate theoretical framework to be adopted in the PSAFR remains unanswered (Jacobs, 2012).

IFAC is the private sector-based accounting professionals behind the BLAPs reforms. Though it is said that IFAC had failed to carry out a thorough assessment of PEs in formulating a suitable framework of PSAFR, scholars argue that researchers can form normative and practical conclusions on the best model for a specific accounting environment (Oulasvirta, 2010). However, they argue that the formal adoption of BLAPs per se will not bring about the officially stated outcomes (Kamase, 2012). In this situation and developing countries, in particular, there are many technical and institutional problems which hamper the government's efforts at PSAFR reforms to (or “intending to”) improving efficiency in PEs (Kamase, 2012).

Effectiveness of PSAFR reforms

The effectiveness in simple terms refers to the degree to which something is successful in producing the desired result. Thus, effectiveness is the component that identifies which policies are best fitting, timely, deliver the expected results, needed by clear objectives, an evaluation of future impact and, where available, of experience (Karellacina, 2011). It also depends on implementing policies in an appropriate manner and on taking decisions at the most appropriate level (Karellacina, 2011). The objectives of PSAFR are defined as the provision of relevant, reliable, understandable and comparable financial information which shapes the decision's usefulness, transparency, accountability and comparison needs of the public sector stakeholders. Therefore, based on the argument by Soverchia (2012), the effectiveness of the PSAFR reforms depends on how well it is designed and implemented which may result in achieving the objectives of PSAFR.

Institutional Theory

Therefore it is evident that the PSAFR reforms are proposed to achieve the effectiveness of accounting and financial reporting. Whether the PSAFR reforms improve the effectiveness of accounting and financial reporting is a matter of design and institutionalization. As such, Institutional Theory becomes significant in the present study. The next section focuses attention on Institutional Theory.

Institutional Theory considers institutions as “multifaceted, durable social structures made up of symbolic elements, social activities, and material resources” (Scott, 2014). The theory provides useful insights into not only the persistence and the homogeneity of institutions but also institutional change and transformation (Dacin, Goodstein, and Scott, 2002). Hence, the center of Institutional Theory is how a social reality is made legitimate in the social domain. Carpenter and Feroz (2001) argue that Institutional Theory assumes that organizations adopt management practices that are considered legitimate by others, regardless of their actual usefulness.

Legitimacy

Legitimacy is the process of institutionalizing a social reality binding in a social domain. Thus, Institutional Theory is supported by three pillars: regulatory, normative and cultural-cognitive (Table 1). All three pillars of institutions lead to the legitimacy of a social reality albeit on different bases: legally sanctioned, morally governed and culturally supported. Therefore, legitimacy constitutes a generalized perception or supposition that actions of reform are desired and accepted per se or as a suitable component within a particular social domain (Suchman,

1995). Hence, it is argued that legitimacy plays a role as a fundamental accompaniment to the isomorphic conditioning of social reality in a social domain.

Isomorphism

Isomorphism could be defined as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio & Powell, 1983). The emergence of homogeneity is the result of structuration of the organizational field. The structuration is largely affected by legitimacy and thus becomes a fundamental accompaniment of isomorphism. There are three mechanisms according to DiMaggio and Powell through which isomorphism is conditioned: coercive isomorphism, normative isomorphism, and mimetic isomorphism.

Coercive Isomorphism: This results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function (DiMaggio & Powell, 1983).

Mimetic Isomorphism: Uncertainty is also a powerful force that encourages imitation. 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 & Powell, 1983).

Normative Isomorphism: This is professionalization as the collective struggle of members of an occupation to define the conditions and methods of their work, to control "the production of producers," and to establish a cognitive base and legitimization for their occupational autonomy (DiMaggio & Powell, 1983).

It is argued that the rate of institutional isomorphism increases when firms are highly dependent on the institutional environment or their survival is under question or relies extensively on professionals. Mimetic and normative processes are internal to the organizational field and help to explain the spread of roles and structures whereas coercive processes are external to the organization field and help to explain the spread of threats to survival in the absence of adoption (Frumkin & Galaskiewicz, 2004). Apparently, therefore, different isomorphism mechanisms may prevail at work during the process of institutionalization, from coercive through normative to mimetic (Wahid & Sein, 2013). Actors in the organizational field ought to comprehend what segment of the isomorphism mechanism plays the major role and which segment plays the least role in building the ground for the legitimacy of social reality in the social domain.

Table 1: Three Pillars of Institutions

	Regulative	Normative	Cultural-Cognitive
<i>Basis of compliance</i>	Expedience	Social obligation	Taken for grantedness Shared understanding
<i>Basis of order</i>	Regulative rules	Binding expectations	Constitutive schema
<i>Mechanisms</i>	Coercive	Normative	Mimetic
<i>Logic</i>	Instrumentality	Appropriateness	Orthodoxy
<i>Indicators</i>	Rules, laws, Sanctions	Certification, Accreditation	Common beliefs, Shared logic of action, Isomorphism
<i>Affect</i>	Fear Guilt/Innocence	Shame/Honor	Certainty/Confusion
<i>Basis of legitimacy</i>	Legally sanctioned	Morally governed	Comprehensible, Recognizable, Culturally supported,

Source: Scott (2014)

Actors' Interplay

Institutional actors can be viewed as agents and carriers for producing and reproducing the institutional logic within a specific institutional environment (Scott, 2014). In this sense, it is simply a consequence of the fact that institutions do not exist in isolation, but frequently overlap and influence each other in their operation (Jungcurt, 2006). Cross-institutional influences and pressures are taken into consideration as factors among those that influence the positions of the state parties and the internal organs of the institution (Benvenisti, 2005). Thus, interplay refers to conscious efforts by any relevant actor or group of actors, in whatever form or forum, to address and improve institutional interaction and its effects. As such, actors' interplay is the active interrelationship among the associated factors to arrive at a negotiated settlement through established common sense. As a result, actor's interplay becomes the determinant of evolution and change. The interplay among the actors thus opens the assertions for isomorphism and legitimacy. The actor's interplay is significant in reducing organizational diversity (Oliver, 1988) and improving organizational homogeneity (Di Maggio & Powell, 1983). Therefore, the logic of appropriateness becomes the parameter of behavior among actors (Friedland & Alford, 1991).

Logic of Appropriateness

The logic of appropriateness is a perspective that sees human action as driven by rules of appropriate or exemplary behaviour, organized into institutions (March & Olsen, 2009). It is defined as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton & Ocasio, 1999). It is worth noting that this concept is synonymous with institutional logic, which was introduced by Friedland & Alford (1991), who argue that institutional logic seeks to explain contradictory practices and beliefs inherent in institutions. Every institutional order has a central logic that guides its organizing principles and provides social actors with vocabularies of

[motive?] (Thornton & Ocasio, 2008). Further, institutional logic provides a connection between individual agencies, cognition, and socially constructed institutional practices.

Institutional logic may work at different levels, both within institutions and between institutions (Thornton & Ocasio, 2008). Within an organization, multiple and competing institutional logics may be simultaneously at play (Friedland & Alford, 1991). These competing institutional logics can hinder or trigger change, and they can be pre-existent or appear as a consequence of change (Thornton & Ocasio, 1999). Over time, institutional logic may shift from one institution to another, and this will influence how the institutionalization process takes place. Institutional logic guides the behaviour and practices of an organization's members. Multiple and often contradictory institutional logics may be present in the same organization. Changing the prevalent institutional logic and installing a new logic is the key to bringing about a change (Wahid & Sein, 2013). As a result, therefore, no doubt, different social domains might experience different degrees of institutionalization of the social reality of the multiple and often contradictory institutional logic experienced by them and the same may lead to similar experiences at different times.

Institutionalization

Institutionalization is “how social reality is produced, repeated and comes to evoke stable, similar meaning in self and others” (Scott, 2014). Institutionalization is both a process and a property of organizational arrangements. Zucker (1987) defines institutionalization as “a rule-like, social fact quality of an organized pattern of action, and embedding informal structures, such as formal aspects of organizations that are not tied to particular actors or situations.” The formation of the institution is perhaps the central contribution of Institutional Theory (Scott, 2014). Scott (2014) borrowing the ideas of Hoffman (1997) argues that the three pillars of institutions form a continuum of institutionalization moving from the conscious to the unconscious, from the legally enforced to the culturally supported.

Negotiation, Incorporation, Acceptance and Consistence

Conscious institutionalization is the function of negotiation, incorporation, and acceptance whereas unconscious institutionalization is the function of conscious institutionalization and sustenance of social reality. Negotiation is the concept which explains to what extent the actors' interplay succeeds in reaching a common consensus having explored the appropriateness of the reforms in the process of institutionalization (Benvenisti, 2005; Demetriadis et al., 2003.). Negotiation is the primary role of the actors' interplay, and resolution of the conflict is the major goal of negotiation. Negotiation can reinforce the effectiveness of the institutions involved or can lead to disruptions in the achievement of agreed objectives, diminishing or even offsetting gains from cooperation. In both cases, inter-actor coordination is necessary to consolidate rules and reduce conflict, or to exploit synergies in implementation (Jungcurt, 2006). Incorporation is the process of isomorphic conditioning and legitimizing the social reality in a social domain. It has already been pointed out that isomorphism and legitimacy involve different mechanisms and bases. Therefore, incorporation of a social reality would experience different degrees of the outcome. This claim is further validated by Hall (1999) (cited in Kardulias, 2007) who points out that incorporation is a variable phenomenon. Acceptance is an act of positive perception and real exercise of the reforms (Demetriadis et al., 2003). Sustenance refers to how long the social reality exists in a particular social domain. The longer the existence, the higher the possibility of the social reality becoming the culture. Therefore, sustenance is part of moving the reforms for long periods of time and making them the culture of that particular social domain.

Research Gaps

A research gap is a contradiction in the literature of a phenomenon which needs a scholarly inquiry (Dissanayake, 2013) and the following research gaps have been identified.

- (a) The NPFM reforms were introduced and implemented in the absence of an empirically rooted conceptual framework which resulted in implementers adapting an accounting system suitable for the private sector. This is highly criticized as inappropriate owing to the heterogeneous nature of the services provided PEs.
- (b) The common claim in PSAFR reforms is that cash-based accounting and accrual-based accounting are not appropriate for the public sector.
- (c) The implementation of BLAP has not brought the expected results.
- (d) Further, it is argued that the major focus of the PSAFR reforms is the adoption of international accounting practices regardless of the local context.
- (e) In addition, the question of whether the constituents of PSAFR reforms become significant in deciding on pragmatic solutions for the issue rather than standing on either extreme of CAP is not sufficiently answered.

So, if policymakers do not succeed in building a more coherent body of knowledge about NPFM reforms rooted in empirical understanding, then the nation's policy agenda of NPFM reforms will not be addressed adequately and therefore unable to influence the world (Guthrie, 2008).

Propositions and Concept Indicator Model

The authors assert that the research question could be well understood and explained in the light of Institutional Theory since the three pillars of institutions well support the institutionalization of PSAFR reforms. However, Tolbert and Zucker (1996) argue that the institutional approach has yet to become institutionalized. The additional concern for them is that there is very little consensus on the definition of key concepts, measures or methods within this theoretical tradition. Further, Institutional Theory has developed neither a central set of standard variables nor is associated with a standard research methodology or even a set of methods (Tolbert and Zucker, 1996). Moreover, there has been surprisingly little attention given to conceptualizing and specifying the process of institutionalization (Tolbert and Zucker, 1996).

The present study, therefore, tries to reduce the conflict in institutional approach customizing some of the relevant concepts of Institutional Theory: actors' interplay, isomorphism, legitimacy, institutionalization, negotiation, incorporation, acceptance, sustenance and the logic of appropriateness to understand and explain the institutionalization process of the PSAFR reforms.

Constituents of Reforms and their Interplay

Scholars have already identified many constituents of PSAFR reforms, viz., accounting tradition and reformation culture, political culture, nature and type of activities of PEs, and the role played by senior management in change, external pressures, indigenous factors and self-initiative, and finally, information technology (Rayegan, Parveizi, Nazari & Emami, 2012; Soverchia, 2012; Buhr, 2012; Grossi and Soverchia, 2011; Oulasvirta, 2010; Grossi and Newberry, 2009; Al Husaini and Gowda, 2008; Brusca, Benito and Montesinos, 2006; Donaldson, 2006; Newbury, 2006; Diamond and Khemani, 2006). As illustrated before, it is evident that even when many of the constituents of the PSAFR reforms are favorable, they may still fail. Therefore, one of the foci of this study is to find such factors that lead to PSAFR failure. Thus the first proposition of the study reads:

Proposition 1: The constituents of PSAFR reforms which have not yet been found may cause the reforms to fail or end up with unintended results.

Actors' interplay generates three emergent properties: initial pressure, induced pressure and institutionalization. Hence, arguably, actors' interplay would first generate the initial pressure for PSAFR reforms and the initial pressure is advocated by the Supra-National Organizations (Lindseth, 2015) (e.g., World Bank and International Monetary Fund, etc.), International Professional Accounting Organizations (e.g., IFAC, Confederation of Asia Pacific Accountants, South Asian Federation of Accountants, etc.), and the world's best practices of accounting (International Accounting Standards, IFRS, IPSAS, etc.). The initial pressure, if it succeeds, would generate the induced pressure for PSAFR reforms. The induced pressure is brought into a country by the actions taken by the Government (laws, circulars, and instructions), accreditation and getting membership of accounting bodies and benchmarking the best practices in accounting. When the induced pressure is satisfactory, it will lead the members of the social domain (i.e., PEs) to accept the social reality (i.e., PSAFR reforms). Thus the second proposition would be:

Proposition 2: The stronger the interplay among actors, the stronger the initial pressure, and the stronger the induced pressure, then the stronger the PSAFR reforms.

Choice and Institutionalization of Accounting Practices

The status of success or failure of PSAFR reforms is still widely debated (Jacobs, 2012; Grossi and Soverchia, 2011). The authors argue that it is vital to witness the logic of the appropriateness of the chosen accounting practices. Further, the countries need to follow a pragmatic approach in selecting the point(s) on CAP rather than a blanket adoption of identical practices of accounting across the world. This leads to the third proposition:

Proposition 3: The higher the logic of appropriateness of the choice of accounting practices on CAP, the higher the success of the reforms.

The present study maintains that negotiation (actors' interplay), incorporation (satisfactory level of initial pressure and induced pressure), acceptance (conscious institutionalization), and sustenance (continuing with the conscious institutionalization and turning it out as unconscious institutionalization and culture) are focal elements of the institutionalization of the PSAFR reforms in PEs. The conscious institutionalization is the process of legitimate reinforcement of the accounting practices and hence, it is the composite product of negotiation, incorporation, and acceptance of the reforms. As a result, the members of the PEs truly would be prepared to implement the BLAPs. Therefore, the ability to construct the acceptable level of the initial pressure, induced pressure and fashioning the PEs to accept the reforms is called the conscious institutionalization. This leads to the fourth proposition:

Proposition 4: Positive negotiation among the actors, effective incorporation of the change and strong acceptance of the reforms would lead to the conscious institutionalization of the accounting practices.

Moreover, unconscious institutionalization has a culturally supported effect on the PSAFR reforms, which is the composite product of conscious institutionalization and sustenance. That is when the conscious institutionalization is sustained for considerable periods of time it transforms into the PSAFR culture, which according to Scott (2014) is unconscious institutionalization. The fifth proposition would be:

Proposition 5: The sustained PSAFR practices turn out to be the PSAFR culture.

The Institutionalization Process

This study mainly focuses on the approach of institutionalization to understand and explain the failure of PSAFR reforms at PEs. The proposed institutionalization framework consists of successive rostrums and the logic of appropriateness as a common feature to be observed. The authors argue that the institutionalization process needs to be sequential and the logic of appropriateness needs to be observed at each rostrum to make institutionalization of BLAPs effective. This gives rise to the sixth proposition:

Proposition 6: When the implementation process is sequential, and the logic of appropriateness prevails at each rostrum, and throughout the institutionalization process then the reforms are likely to succeed.

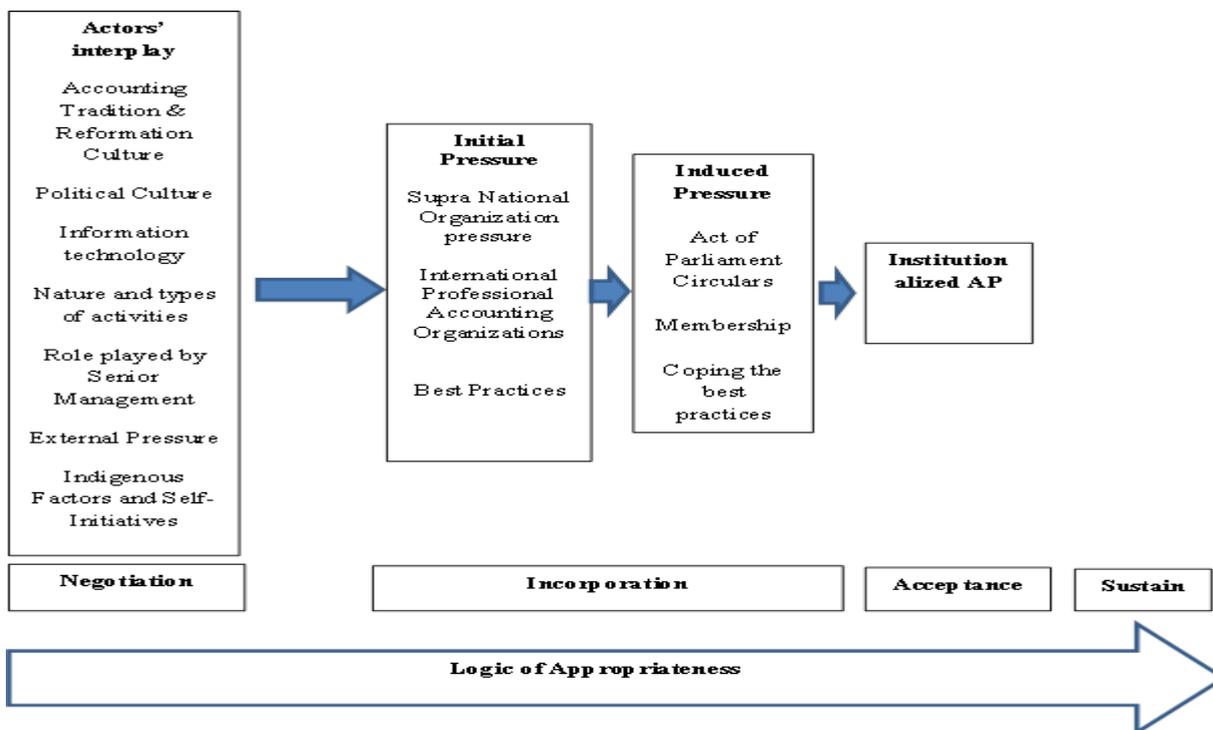
Deinstitutionalization of Cash Accounting Practices

Brunsson and Olsen (1993) argue that the possibility of producing a successful transformation of the internal values of an institution will vary with the degree of institutionalization of the values of the previous regime (i.e., in the current case the cash-based accounting practices). The capacity to reform the organization is a function of the extent to which the environment of that institution is institutionalized. Hence, the argument is that the unconsciously already institutionalized institutions (i.e., in our case, the cash accounting practices) have to be unplugged from the system to ensure successful injection of the change (i.e., in our case, the BLAPs). If the environment is highly institutionalized, for example, if it has a strongly entrenched set of values and procedures then changing that institution to another mode of operation will be very difficult (Olsen and March 2009; Peters, 1998). This leads to our last proposition:

Proposition 7: Effective deinstitutionalization of the existing accounting practices would lead to successful implementation of the new accounting practices.

The relationships mentioned above are graphically shown in Figure 1.

Figure 1: Concept indicator model of the study



Source: Author

Theoretical Implications

The present study tries to conjoin the concepts of CAP and institutionalization and thereby attempts to propose the institutionalization process of PSAFR reforms. Further, this study concentrates on how the variations in the actors' interplay might affect the pressure in PSAFR reforms, viz., initial pressure and induced pressure. As a result, it tries to explain how it might affect the degree of similarity in institutionalizing the accounting practices in PEs. As a result, the current study attempts to understand and explain the structural arrangements of the institutionalization process of the accounting practices in PEs from the relativist point of view and thereby attempts to reduce the ambiguity as claimed by Tolbert and Zucker (1996). Moreover, the "a priori codes" were established in the very early stage of the study (i.e., at the concept paper level) and therefore, the authors argue that the development of the theoretical base in this study has appeared well in advance though it is expected to be derived, according to Chan et.al., (2013), only at the research proposal, data collection or analysis level.

Managerial Implications

The institutionalization process proposed in this study tries to provide public sector policy makers and standards setting organizations a guide vis-à-vis the what (i.e., the accounting practices) and the how (the implementation process) of reforms. The authors further point out that this institutionalization process is also applicable to reforms in other disciplines in the public sector too (e.g., marketing, human resources, and general public administration). Moreover, the authors are of the view that it applies to private sector reforms as well.

Conclusions

The logic of the appropriateness of accounting practice reforms is imperative throughout the institutionalization process, and PEs must strive to make the accounting practices reformed as the culture of PEs. Further, the study is highly focused on the implementation process of the reforms and argues that it should be appropriate to the context of international and country-specific constituents and should map sequential steps which should be logically appropriate for institutionalizing the reforms. The present study, therefore, proposes a pragmatic approach in choosing modified accounting practices on CAP for a given country, which is of paramount importance in PSAFR reforms in PEs. The authors maintain that the research question exists unanswered due to the absence of the logic of appropriateness, on the one side accounting practices and the other implementation process.

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