From go to woe

How a not-for-profit managed the change to accrual accounting

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Abstract

Purpose – The aim of this paper is to examine the process of change in an Australian not-for-profit organization, from a cash-based to an accrual-based accounting system. Its particular focus is the relationship between the image portrayed by accrual accounting adoption and the technical realities of the new system.

Design/methodology/approach – Data were gathered from interviews, documents and meetings, and were contextualized and interpreted using institutional theory.

Findings – The decision to change to accrual accounting was made at the top of the organizational hierarchy in response to institutional pressure to present a corporate image. The implementation of the new system was poorly conceived, inadequately resourced, and hampered by an authoritarian structure that effectively ignored the technical incompetence and training needs of many accounting staff. This resulted in an accounting system half way between cash and accrual, and very different from the system as it had been promoted. The process caused conflict at all levels of the organizational hierarchy.

Research limitations/implications – Accounting in not-for-profit organizations is an under-researched area offering potential for fruitful research in a changing institutional landscape. This institutional approach, while offering just one interpretation of the qualitative data gathered in this project, provides valuable insights about the process of change.

Practical implications – Not-for-profit organizations play a vital economic and social role, and need carefully to assess their responses to ongoing institutional pressures. In implementing change, they face the challenge of balancing the promotion of an institutionally acceptable image and the need for technical efficiencies.

Originality/value – The examination of change in an organization provides a rich context for the exploration of the dynamic, problematic process by which a new accounting practice is embedded and institutionalized.

Keywords Institutional theory, Not-for-profit organizations, Accrual accounting, Change process, Qualitative research, Change management, Decision making, Training needs, Australia

Paper type Research paper

Introduction

The not-for-profit sector[1] has undergone significant changes in the last two decades (Tuckman, 1998; Alexander, 2000; Georke, 2003; Jegers and Lapsley, 2003). In response to institutional pressures that have emanated from the private sector, and have been funnelled through the new public management practices of the public sector

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(Broadbent and Laughlin, 1998; Pilcher, 2005; Hoque, 2005; Llewellyn and Milne, 2007; Rautiainen, 2008), not-for-profits have now moved to a more corporate, competitive, professional mode of operations (Lyons, 1997; Alexander and Weiner, 1998; Irvine, 2000; Myers and Sacks, 2003; Dart, 2004). This transition has necessitated the adoption and embedding of institutionally acceptable practices at organizational level. New accounting and financial reporting systems, including accrual accounting, represent a significant component of these changes (Torres and Pina, 2003; Vakkuri, 2003; Flack and Ryan, 2005; West and Carnegie, 2010).

Organizational change has been studied in several modes[2] across a plethora of discipline areas[3], and has been theorized using a variety of lenses, including institutional theory (Brignall and Modell, 2000; Burns, 2000; Burns and Scapens, 2000; Siti-Nabiha and Scapens, 2005; Ribeiro and Scapens, 2006; Burns and Baldvinsdottir, 2005). This qualitative study examines the process of change in Hearts & Hands[4], an Australian not-for-profit religious/charitable organization that replaced its cash-based accounting system with an accrual-based system in the mid-1990s. The study draws on a contextualized and expanded institutional perspective (Meyer and Rowan, 1977; Burns, 2000; Burns and Scapens, 2000). This acknowledges both the image benefits enjoyed by organizations that adopt institutionally desirable practices such as accrual accounting and their technical requirements. The purpose of this paper is to investigate the relationship between the image portrayed by an accrual accounting system and the technical realities of its adoption.

Data were gathered over a 12-month period during 1996-1997, from observations, over 100 interviews, notes of meetings attended both at head office and divisional level, documentation from the organization's finance department, and historic archival material. Interviews were transcribed, presented to interviewees for signature as a correct record, and then, together with other data sources (documents, diaries, minutes and notes of meetings) were analysed, using a computerized qualitative data management package. This analysis was conducted not only to capture a detailed appreciation of the way the organization actually operated and the way the change was managed, but to take into account the institutional environment in which Hearts & Hands operated, its own unique organizational features and its response to that environment in the process of its adoption of accrual accounting.

Hearts & Hands is introduced in the next section of the paper, together with a snapshot of the institutional environment in which it operates. An expanded institutional framework is then developed. Through this framework, the process by which accrual accounting adoption was decided upon, then encoded, enacted, reproduced and institutionalized within Hearts & Hands is described and analyzed. The conclusion offers suggestions for further research.

The organization: structure, culture, and accounting

Hearts & Hands is an iconic organization with a distinctive history and culture, and a significant economic as well as social impact on the Australian community. It is not-for-profit, religious (Christian), social services (charitable) organization, an employer, a successful fundraiser and part of an international organization[5]. While it is one single legal entity, required to separate social services activities from its religious work, it actually operates as several separate "quasi" entities. It provides an extensive network of aged care services, employment and training services, services to the homeless, drug rehabilitation, the sale of donated second hand goods and farm produce, missionary work, educational institutions, and a church network and related ministries.

The organizational structure of Hearts & Hands is portrayed in Figure 1. The Divisional Head Office that is the focus of this study is one of two Australian divisions that answer to the International Office. At the time of the study, the division studied consisted of eight sub-divisions, seven geographical and one functional. Within the seven geographical sub-divisions were 170 churches, 67 social centres and 135 community centres. The functional sub-division oversaw 13 rehabilitation centres and various industrial premises and local stores.

At the Hearts & Hands Divisional Head Office, the Divisional Chief Executive Officer (CEO) was at the top of the structure, with a Divisional Deputy CEO and Personnel, Business Administration (including finance and audit departments), Program and Women's Departments. These departments were usually headed by a Secretary, and in the case of Business Administration, this was Joe. Working alongside the CEO was a Divisional External Advisory Board comprised of business and professional leaders. These friends of Hearts & Hands were, in many cases, high profile professionals from industry and the media, who volunteered their expertise and provided valuable connections that assisted the organization with advice about a range of topics including publicity, fundraising, management and accounting. They ensured the organization was aware of current business practice. The Finance Department consisted of five ordained people (i.e. full time religious workers) and twenty-one employees. The Secretary of Finance was Barry. He was an ordained man who was, most unusually for Hearts & Hands, a former Chartered Accountant. The Chief Accountant, Stuart, was an employee, a qualified practising accountant, with no other affiliation with Hearts & Hands. It is significant to note that Hearts & Hands is an autocratically governed organization. While a Cabinet was made up of the Divisional CEO and the Secretaries of the various departments, only the CEO had any decision-making power. The remaining members of the Cabinet gave input to the decision-making process, but the ultimate decision always rested with the CEO.

Four defining features of the Hearts & Hands culture were identified in the course of the study. These were its mission, its funding arrangements, its personnel, and its outward-looking philosophy of community engagement. All these had an impact on the way the organization managed the change from a cash-based to an accrual-based accounting system. The sense of mission within Hearts & Hands was very strong and well established, particularly amongst its ordained workers, but also amongst many others, including some employees who were also members of the Hearts & Hands church. Its 1996 Year Book described the mission as being "to preach the gospel of Jesus Christ and meet human needs in his name without discrimination". Ordained personnel expressed an impressive commitment to this mission, working long hours, often under considerable pressure, to serve the public and to live up to the public's expectations, of which they were acutely aware.

The maintenance of funding levels to fulfil this mission was crucial to the ongoing successful operations of Hearts & Hands, which relied heavily on external sources of income. According to its 1997 financial statements, at the time of the study Hearts & Hands' income came primarily from state and federal government grants, social services client contributions, and fundraising (see Table I). An awareness of these dependencies permeated the organization. All personnel were very much aware of the need to attract

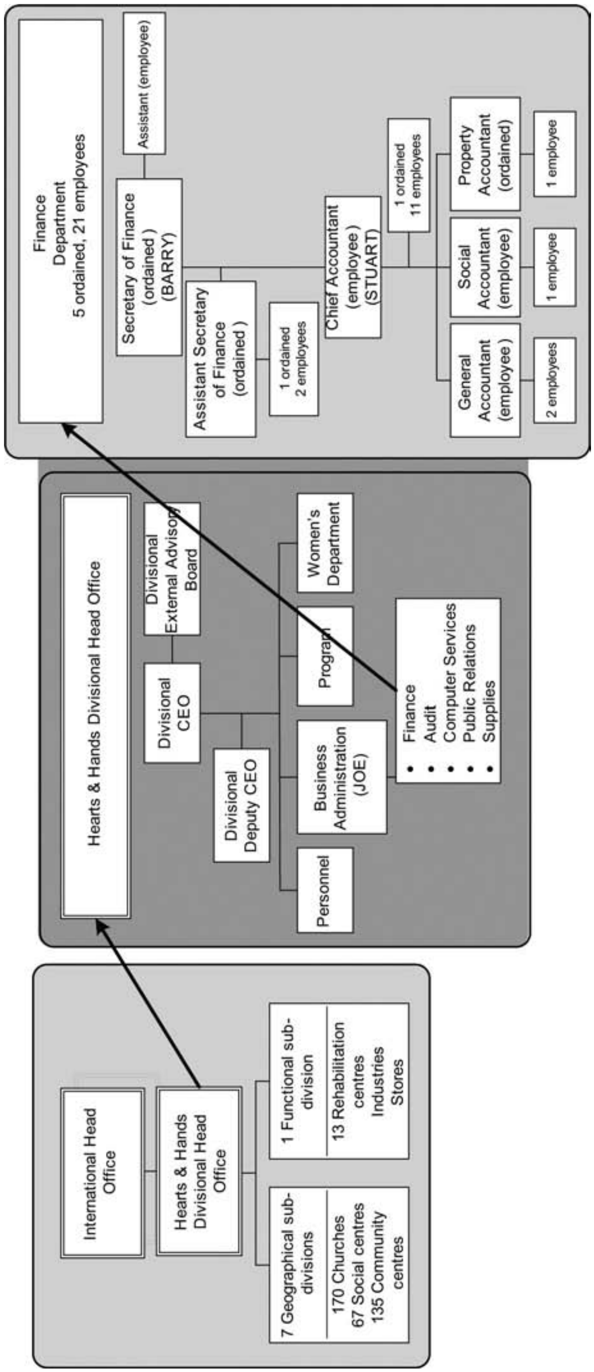


Figure 1.
Hearts & Hands' organizational structure

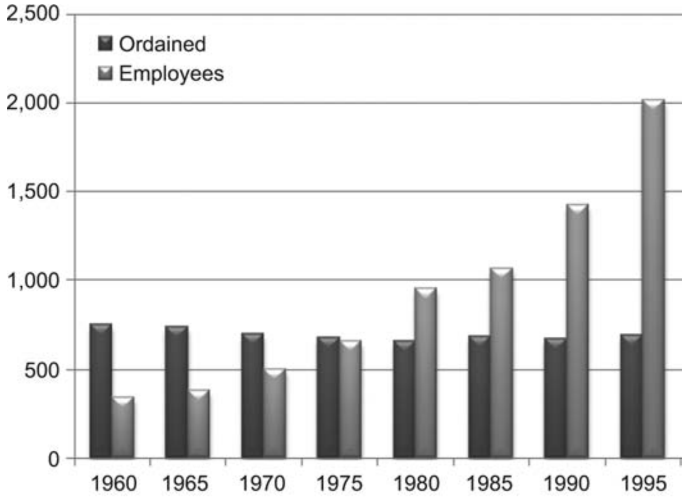
Table I.
Hearts & Hands proportional income 1995-1997

Income category	1997 (%)	1996 (%)	1995 (%)
Government grants	29.9	32.2	29.6
Fundraising	14.1	16.2	15.0
Client contributions	15.3	15.1	14.4
Legacies and donations	12.8	8.2	14.2
Sales	11.0	11.6	10.1
Interest and dividends	7.6	5.2	4.8
Other income	9.3	11.5	11.9
Total	100.0	100.0	100.0

Source: Hearts & Hands Consolidated Financial Statements, June 30, 1996, 1997

Government grants, to raise funds successfully and to guard the public image of Hearts & Hands in order that future fundraising, and mission fulfilment, might continue unhampered. Together with its reliance on external funding and donations, went a well-established and documented system of internal accountability, based on a culture of good stewardship. Resources were to be used wisely and well, and a proper accounting provided in accordance with organizational expectations. External accountability was fulfilled by means of the annual report and audited financial statements, and there was a strong emphasis on operating within budgetary constraints.

Personnel issues emanated from Hearts & Hands' hierarchical structure and its system of appointments, which perpetuated a strong distinction between ordained personnel and employees. Increasingly employees were performing tasks once done by ordained members. Figure 2 illustrates the change in employment structure of Hearts & Hands, and demonstrates the dramatic increase in the number of employees, coinciding with a slight decrease in the number of ordained personnel.



Source: Hearts & Hands' Year Books 1960, 1965, 1970, 1975, 1980, 1985, 1990, 1995

Figure 2.
Relative size of ordained and employee numbers, 1960-1995

These changes in personnel were already well under way when accrual accounting was introduced, and brought their own particular tensions. The ordained culture, based on a sense of calling and mission, was challenged by the employment of a greater number of professionals, particularly social workers and accounting personnel. Employees could never demonstrate the same level of commitment as ordained personnel, to organizational mission, and furthermore, were sometimes culturally a little out of place in a religious organization. The traditional practice of the organization was to appoint ordained members to accounting and management positions with little or no consultation, and little or no formal professional training. Appointments were for relatively short periods of time (one to three years), requiring appointees to do whatever was needed at the time.

Although this was not a significant problem in accounting roles while Hearts & Hands employed a cash-based system, accrual accounting required more expertise, which was lacking in many staff. At the time of the study, Hearts & Hands had already adopted some new management accounting practices following a report by an external consultant, and had experienced a clash of cultures in that process. The preparation of acquittals for government grant purposes[6] was becoming more complex and necessitating a more highly developed accounting skill set. In addition, the organization had recognized the need for an improved computerized accounting system. All these factors had contributed to the employment of a professionally qualified Chief Accountant.

Some of the older ordained members saw these expectations and changes of position as positive, appreciating the variety of roles they had performed, from pastoral work to service centre management, accounting and administration. However, many of the younger ordained members were not as positive about the traditional system. They favoured a more consultative style of appointments, and a defined, specialized career path. In addition, the increasing accounting and reporting regulatory requirements, particularly in social centres, meant that ordained staff often struggled with acquiring the expertise necessary to perform their required tasks. These issues were a challenge to the "sink or swim" culture of appointments. One ordained manager of an aged care centre spoke very emotionally about his sense of inadequacy on his appointment directly from a local church situation, since he knew nothing about government regulations, accounting requirements or the general running of aged care facilities.

Another dominant feature of Hearts & Hands' culture was its outward-looking, community focus. Advisory Boards, already mentioned, were recruited both at Divisional and Sub-Divisional level. They consisted of high-profile business people who were able to provide advice about how Hearts & Hands should operate from a fund-raising, corporate perspective. Hearts & Hands personnel were used to being open to external influences, and this reliance on corporate expertise was well-established in the organizational structures. At the time of the study, Hearts & Hands was either undergoing or had recently undergone several consultancies, all focused on gaining greater efficiencies in its internal operations.

Prior to its introduction of accrual accounting, Hearts & Hands' accounting practice for many years had been cash based, fund accounting. It involved the separation of funds received, authorization according to set hierarchical responsibilities, and accuracy in the recording and reporting of movements in and out of these funds. These were tasks that required no specialized accounting training, but simply an understanding of basic record keeping. The system was fairly unsophisticated, focusing on internal reporting requirements. Consequently, with the constant rotation of jobs, already highlighted, ordained members were required on occasions to take up accounting positions and discharge their duties as required. This was accomplished with varying levels of success. Following authority structures, and in keeping with the culture of the organization, the emphasis was on stringent adherence to rules and regulations that were established higher up the hierarchy. The assumption was that if these regulations were being fulfilled, then "proper" accounting would automatically follow.

Up until, and including, the year ended 30 June 1994, the annual financial reports of Hearts & Hands included a Balance Sheet, Income and Expenditure Statement, and a Statement of the Movement in Reserves for each of its three funds, the Social Trust, the Property Fund, and the General Fund. The accounts were not consolidated, and a Statement of Cash Flows was not prepared. The financial statements were audited by a "Big Six" accounting firm[7]. They were produced, according to the Audit Report, for distribution to members of the organization, and were not to be relied upon by any person other than those within Hearts & Hands. The audit report was qualified, due to the impracticability of maintaining an effective system of internal control over donations until the point at which they were entered into the accounting records. In response to institutional influences emanating from the public sector, however, this system had already begun to change, with the employment of a number of professionally-trained accountants in Hearts & Hands' internal audit section, and in its Finance Department, as indicated in Figure 1.

In 1998, around the time this study was conducted, funds for Australian charities came primarily from government sources (40 percent), from fundraising, both individual and corporate (22 percent), bequests (7 percent), investments (3 percent), and the charging of fees and selling of assets (28 percent) (Philanthropy Australia, 2003). With cutbacks in government funding, charitable giving was experiencing financial pressure in an increasingly competitive funding environment, with the growing expectation that donations through fundraising ought to come from the business sector (Cleary, 1998). Consequently, in order to establish and maintain legitimacy as worthwhile recipients for charitable dollars, not-for-profit organizations like Hearts & Hands were adopting the structural forms and cultural practices not only of the government and the general public, but also of the corporate world (Irvine, 2000).

The adoption of accrual accounting by the public sector, as part of a raft of new public management reforms, heralded "momentous" and controversial changes (Pilcher, 2005, p. 174). Llewellyn and Milne (2007, p. 818) identified it as a political strategy, having a "variable" impact on managers, depending on whether they accepted, attempted to evade, or worked to challenge the prevailing discourse. Because not-for-profit organizations, including Hearts & Hands, depend on funding from the public sector, they experience pressure to adopt the institutionalized values and practices of that sector (Lyons, 1997; Alexander and Weiner, 1998; Irvine, 2000; Myers and Sacks, 2003; Dart, 2004). Subject to changing institutional expectations, including accounting control systems (Booth, 1995), the not-for-profit sector at the time of this study was already instituting changes that had occurred in the public sector. These created new corporatized practices and expectations that would inevitably have an impact on Hearts & Hands as it changed from cash-based accounting to accrual accounting.

An expanded institutional framework for examining accounting change

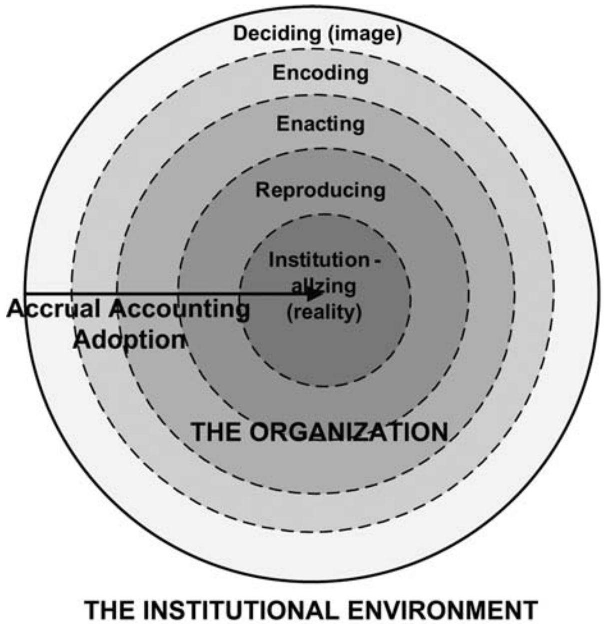
According to new institutional sociology, in adopting institutionally acceptable practices, organizations resemble each other both structurally and culturally in a process known as institutional isomorphism (DiMaggio and Powell, 1983; Dacin, 1997; Stout and Cormode, 1998). If external coercive (regulatory), mimetic (the copying of successful organizations) or normative (the influence of professional groups)[8] pressures lead to the adoption and implementation of institutionally legitimate practices, organizations face internal adjustments as existing structures, cultures and routines are displaced and reconstituted (Scott, 1995).

As a consequence of its emphasis on institutional isomorphism, however, institutional theory stresses conformity, not diversity, in spite of the fact that organizations are unique and individual, and complex in their ways of learning and adopting new forms of organizing (Roberts and Greenwood, 1997). Case studies such as this enable insights into the variability of organizational responses to similar institutional environments (Zucker, 1991, p. 105). They reveal everyday organizational behavior and the "concrete" ways in which institutionally desirable systems are embedded in organizational systems (Meyerson, 1994, p. 650).

Factors that have been identified as working against a passive response to institutional pressures include resource dependencies (Oliver, 1991), functional complexity, technical uncertainty, organizational size (Ang and Cummings, 1997), the desire for organizational effectiveness, autonomy over decision making, flexibility, or satisfying conflicting internal demands (Townley, 1997), and a perception that in a religious organization, accounting should be resisted because of its "secular" nature (Laughlin, 1988, 1990; Booth, 1993, 1995; Lightbody, 2000)[9]. These factors will inevitably affect the response that organizational decision-makers have to institutional expectations. Once the decision to adopt an institutionally desirable practice is made, then organizational actors respond. The organization's unique structure, culture and routines inevitably affect the formulation of rules, and the implementation of and responses to those rules. This raises the possibility of questioning and resistance to the adoption of practices that do not fit in with these organizational realities.

The "old" institutionalism, or old institutional economics, in emphasizing the unique internal processes by which institutional practices are embedded in organizational routines, does not assume that organizations automatically display "inertia, persistence, and conformity" (Kraatz and Zajac, 1996, p. 833). Burns and Scapens (2000, p. 7) employed old institutional economics concepts to identify a number of processes whereby management accounting practice became institutionalized, i.e. became "a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people". Rather than conceptualizing institutionalization as a state, they identified it as the process of encoding, enacting, reproducing and eventually institutionalizing formalized rules into procedural or taken-for-granted routines (see Figure 3 for a diagrammatic interpretation of these stages).

The encoding process involves the translation of existing institutional behaviors into a system of rules. The enactment of rules and routines calls for a response from organizational actors, who may resist the new rules if they are capable of doing so, i.e. if they have the resources or power necessary to make such a response (Burns and Scapens, 2000, p. 10). Next comes the reproduction of the encoded rules as behavior in either the same or revized form. Revisions to the new rules may be either conscious if



Source: Adapted from concepts in Burns and Scapens (2000)

Figure 3.
Five stages of organizational change

actors have access to power and resources, or unconscious, particularly if there are no formal monitoring systems to check the manner of implementation, or if implementers are not conversant with what is required of them (Burns and Scapens, 2000). The process of institutionalization has occurred when the new rules and routines take on a "normative and factual quality", so that they are taken-for-granted and not connected with the various interests of organizational actors (Burns and Scapens, 2000, p. 11). Once this has occurred, the process continues into further iterations as new institutionally acceptable practices are introduced in a constantly evolving process.

This model of the process of change, however, is primarily intra-organizational, giving little consideration to the manner in which the new practice breaks into existing organizational arrangements. Since organizations are situated in society and dependent on that society, and the organizational tendency is to inertia, according to Broadbent and Laughlin (2005, p. 9), an initial "kick" will likely stimulate change, which could take a number of paths as it tracks through the organization. This "kick" could come from outside or inside (Laughlin, 1991), as a management response, for example, to an external cash flow problem (Siti-Nabiha and Scapens, 2005), or as an organizational response to external pressures (Rautiainen, 2008; West and Carnegie, 2010). The adoption of accrual accounting could be identified as such as "kick". Thus given an external institutional pressure, organizational actors are in a position to develop a consciousness of the need to change (Burns, 2000), and to make a decision about whether a new practice is going to be adopted. This deciding process, if added to Burns and Scapens' (2000) four change processes, would enable an analysis of the full gamut of the change process, incorporating an acknowledgement of the new institutional sociology pressures identified by DiMaggio and Powell (1983) with the strengths of the old institutional economics focus on the internal workings of the change process. These change processes are portrayed in Figure 3 as emanating from the institutional environment, and eventually permeating to the core of the organization in a five-staged process.

Another deficiency of institutional theory is the dearth of consideration given to the role of politics and power in organizations (Dillard *et al.*, 2004). Consistent with the understanding of institutionalization as a complex and dynamic process of change, Burns (2000) identified politics and the mobilization of power as central to the change process. Political activities could be undertaken by organizational actors both externally and internally in the process of organizational change, at a variety of positions in the hierarchy, and could result in resistance or conflict (Burns, 2000). Decisions about whether to adopt institutionally acceptable practices that emerge as pressures from the external environment could be politically negotiated, as could the process whereby new systems are encoded, enacted and reproduced. Similarly, power over resources, decision-making and meanings could be exercised throughout the change process (Burns, 2000), inevitably disturbing existing roles and relationships. They can create conflict or tension, as in the case of the development of new roles for management accountants (Burns and Baldvinsdottir, 2005), and involve the "unlearning" of existing habits, which creates anxiety and a need for trust in the process of change (Busco *et al.*, 2006, p. 28).

The process of institutionalization that results in new rules becoming taken-for-granted and unquestioningly accepted is unlikely to be achieved unless these power dynamics are managed carefully. In a study of imposed accounting change in a UK chemical manufacturer, Burns (2000, p. 591) concluded that, "despite all the political manoeuvres, and extensive mobilization of power, [the organization] still maintained its traditional ways of thinking", with the result that norms and values remained stable. Such a failure to take into account the attitudes and abilities of organizational members may lead to a merely superficial adoption of new practices, so that the routines enacted and reproduced are different from the rules encoded. This decoupling means that the image obtained by having an encoded system does not correspond with the actual enactment (Meyer and Rowan, 1977; Covaleski and Dirsmith, 1988; Fogarty, 1992; Siti-Nabiha and Scapens, 2005; West and Carnegie, 2010). Given that an organization responds to an institutional pressure by making the decision to adopt a particular practice, if the technical process of embedding that change does not meet the expectations of organizational members, or those actors are not capable of activating the change, there could be conflict or dissatisfaction. The result could be that the technical embedding of the practice will not achieve the requirements laid out in the formal policy.

It has been suggested that in a highly institutionalized environment, organizations conform by focusing primarily on managing their external reputation, through the expression of a logic of confidence, or image projection, in which they represent themselves as institutionally conformist (Meyer and Rowan, 1977; Fogarty, 1992; Fogarty, 1996; Rollins and Bremser, 1997; Fogarty and Rogers, 2005; Richardson and Kilfoyle, 2009)[10]. This organizational self-promotion can take on a greater importance than the actual management of the internal relationships involved in adopting the practice (Meyer and Rowan, 1977). This, in turn, could lead to conflict between those who are promoting the image and those who are charged with the responsibility of embedding the new practice. Further, since close inspection may reveal discrepancies between stated practice and actual implementation that would threaten organizational image, the system of inspection and evaluation is likely to be minimized or ceremonialized (Meyer and Rowan, 1977). Once organizational constituents have agreed on the importance of promoting the right image, the examination of work can be substituted for an assessment of its actual results (Fogarty and Rogers, 2005), i.e. its technical benefits or efficiencies. Thus if the image-producing benefits of a new practice are prioritized by one group of constituents, while the technical benefits are prioritized by another group, this also could lead to conflict or tension.

The manner or extent to which these tensions occur will vary from organization to organization. There may be deliberate manipulation of image, as in the case of managers who hid behind a "façade of acquiescence" while not actually activating change as required, when they experienced the imposition of forced accounting change (Siti-Nabiha and Scapens, 2005, p. 62). Or, faced with the need to present an image of conformity, organizations may struggle to make a new practice work in a technical sense, achieving varying levels of conformity between the image and the reality (Orton and Weick, 1990; Fogarty and Rogers, 2005; Busco *et al.*, 2006; Lukka, 2007).

Hearts and hands' management of the change to accrual accounting

Hearts & Hands' first set of consolidated financial statements, produced for the year ended 30 June 1995, provide an interesting window into the early stages of its adoption of accrual accounting. In that year, depreciation on additions to freehold buildings was included for the first time. In that set of financials there was a statement by the trustees, signed by Barry, the Secretary of Finance, that the accounts presented a true and fair view of the results and cash flows for the year, and that they had been drawn up in accordance with applicable Australian accounting standards. The independent audit report was qualified as it had been in earlier years, but this time it highlighted the adherence to accounting standards and other mandatory professional reporting requirements. These statements were a powerful image enhancer.

This image was important, because the 1995 financial statements were more overtly designed for distribution to the general public, including the corporate world, and to prompt a response in the form of donations[11]. Also for the first time, the financial statements included a letter from the Hearts & Hands CEO, addressed to supporters and friends. The letter highlighted the social needs Hearts & Hands was meeting, thanked friends for their support, and included an appeal for more help in the raising of funds for the work. The financial statements exceeded the legal requirements under which Hearts & Hands operated, since accrual accounting was not mandatory at that time. They also went further than merely deflecting any potential criticism of Hearts & Hands' financial practices[12]. As with other organizations in the not-for-profit field that had already moved in this direction, this voluntary higher standard of reporting moved Hearts & Hands quite definitely into the corporate arena, and provided a more corporate image. From this point onwards, the organization worked at the challenging process of implementing a complete accrual accounting system.

The institutional process of accrual accounting adoption portrayed in Figure 3, forms the framework by which Hearts and Hands' adoption of accrual accounting is now analyzed. Case study material is organized under five identified processes of institutionalization (based on Burns and Scapens, 2000), giving consideration also to any evidence of external institutional pressures (DiMaggio and Powell, 1983), the political and power dynamics of change (Burns, 2000), and the relationship between the image of accrual accounting and technical realities of its adoption.

Deciding – the move to accrual accounting. Understanding why the decision was made to change from a cash-based to an accruals-based accounting system involves a consideration of both the institutional environment in which Hearts & Hands operated, and also the intricacies of its own internal decision making structures and culture, both of which have been outlined. While Barry, the Secretary of Finance, had no problems with the decision to adopt accrual accounting, being a former Chartered Accountant himself, he nevertheless expressed frustration at this decision-making process, particularly in relation to financial matters:

> And the [CEO] says okay, we're going to do this, and you say, well – you say to yourself, who wants this, why are we doing it? Is this something the [CEO's] got, a pet thing that he wants to do, or has in fact the Cabinet got together and said yeah, that's a great idea, the Division ought to be doing it, get on and do it?

The lack of consultation, while frustrating on occasions, probably streamlined the decision to adopt accrual accounting, which was undoubtedly strongly influenced by Joe, the Head of Business Administration. He had experience of implementing accrual accounting in Hearts & Hands in the USA. In a meeting at the start of the project, he described how not-for-profit organizations there had been dragged "kicking and screaming" into the accrual accounting arena. The "fairly simple" cash based system that Hearts & Hands used belonged to an earlier era, he said, whereas now greater complexity was part of "a change in the function of society".

Several factors can be identified as contributing to the decision. The public sector's adoption of accrual accounting, already highlighted, had an indirect coercive impact, since accrual accounting was required for various reports necessary for government grants. According to one Hearts & Hands social employee, accrual accounting had "just appeared" in government contracts, not across the board, but here and there[13]. While there appeared, initially, to be no overall government policy, it was acknowledged that accrual accounting was the "trend", with most similar organizations moving in that direction, hence there was a strong mimetic pressure to adopt it.

The accounting profession was already foreshadowing the mandatory adoption of accrual accounting by not-for-profits, and so it was in the interests of Hearts & Hands to respond to this strong normative pressure. Hearts & Hands' production of consolidated accounts that were consistent with accounting standards was another response to a growing trend within society for non-corporate organizations to adopt corporate-style accounts. The Government, a major funder of Hearts & Hands, had already moved to adopt accrual accounting. The appointment of Stuart, a professionally qualified accountant, as Hearts & Hands' Chief Accountant, rather than a Hearts & Hands' ordained worker, further committed the organization to the decision.

Hearts & Hands' culture of openness to corporate influences had already resulted in significant changes in the two years prior to this study, as a result of advice from External Advisory Board members and external consultants. Prior to, and concurrent with, this study, the organization had undergone a series of changes, including an organizational restructure, the employment of a greater number of accounting professionals, the introduction of a global budgeting system, the commissioning of several management consulting studies, and a reassessment of the computerized accounting system. The adoption of accrual accounting represented a further step in this progression towards a more corporate mode of operations, and an increasing emphasis on operating in a business-like manner.

Resource dependencies enhanced Hearts & Hands' leaders' awareness that an institutionally acceptable image should be maintained if the organization were to appear legitimate to those on whom it relied for funding, specifically the government, corporations and the general public. In relation to financial matters, that image was to be fiscally responsible and corporate, with the adoption of accrual accounting contributing to that image. There was an acknowledgment from people within the organization that over the three years portrayed in Table I, raising money from the public had become more difficult. Government funding was scarcer, being increasingly linked to restrictive requirements. As Barry, the Secretary of Finance, observed:

> [. . .] we've got to [run as a business]. The business side of it, we've got to be pretty professional. If you call that running a business, it's fund raising. If you don't do it properly, you just don't get the money. There are a lot of other charities around.

Also related to funding was the government's cutback in the funding of capital works programs for charitable organizations. Where once the government could be relied upon to provide funds towards the replacement of buildings, this was no longer the case, and there was a need for Hearts & Hands to set aside its own funds for building replacement. Stuart, the Chief Accountant, stated at a training day for social centre finance staff in 1997, that over the next few years, $200 million of assets would need to be replaced. The establishment of Asset Replacement Trusts, based on depreciation calculations, was vital to the continuation of Hearts & Hands' mission. There was thus not only an image requirement, but also a technical benefit expected from the adoption of accrual accounting. The potential conflict between the image and the technical application would have to be balanced as the adoption process progressed.

The decision was therefore made at the top levels of the organization, in a politically astute manner, as a response to a barrage of institutional pressures and the desire to present an image consistent with the corporate world. However, this adoption decision heralded a process that would be fraught at many levels, not just because it was a major change, but because of the unique nature of the organization and its hierarchical structure, entrenched autocratic culture and lack of accounting trained personnel.

Encoding – designing new systems and training personnel. The encoding process, by which a formal set of rules was developed (Burns and Scapens, 2000), was conducted in a top-down approach that was somewhat haphazard. While Joe, as head of Business Administration, was ultimately responsible, Barry, as Secretary of Finance, oversaw the actual implementation, which was operationalized by Stuart, the Chief Accountant. Its implementation depended on other Hearts & Hands' staff in the Finance Department, and the managers and accountants/bookkeepers at the various centres.

The move to accrual accounting was encoded explicitly when, in a set of guidelines to social centre managers about their budgets for 1996/1997, accrual accounting was established as the "basis for budgeting". Stuart formulated a brief explanation of depreciation:

> Accrual accounting is to be used as a basis for budgeting. It needs to be noted that accruals for leave liabilities need to be accounted for in the budget. The cost associated with using any durable asset is termed "Depreciation", an item of expense to be accounted for. Assets over $500 need to be capitalized and depreciated accordingly[14].

At an accrual accounting training day for bookkeepers and managers of social centres in 1997, Stuart explained this policy in more detail. Although his audience was made up of people who were directly working on the financial aspects of the centres, he overestimated their accounting knowledge. He asserted that to expense assets over $500 was "morally and ethically wrong" now that the accounts were presented as annual reports and the auditors had to sign to say they gave a "true and fair view". On that occasion, the lack of understanding of basic accounting concepts demonstrated by attendees at the training workshop was startlingly evident. Coming as he did from a corporate situation, Stuart was unprepared for the financial incompetence he observed in some social centre managers:

> One [attitude towards finance] is one of sheer ignorance, that they just don't know what they're doing, and they've done their best to put a budget together, but they don't know how, or what they're doing.

Joe also acknowledged this lack of expertise, observing that accountants, or those with analytical skills, were "not the people who are most necessarily often found in the ranks of [Hearts & Hands]". Thus for a variety of reasons, including misperceptions of the existing financial expertise of social centre bookkeepers and managers, the Finance Department did not encode clear and unambiguous guidance for the implementation of accrual accounting.

This was revealed in a report prepared for Divisional Head Office leaders. Stimulated by the anticipated "Year 2000" computer problem, but also by a raft of underlying frustrations and complaints, in 1997 Hearts & Hands commissioned a leading firm of chartered accountants to provide a review of its outdated computerized accounting system. In their report the consultants highlighted the negative impact of the adoption of accrual accounting on Hearts & Hands. The report stated that most centre staff and divisional staff could not cope either with the accrual accounting system or with the accounting issues surrounding transactions. This impacted negatively, they stated, on the quality of the financial information the accounting system produced. The reasons they identified for these problems were that accounting policies and procedures were not well developed, nor issues understood; there was an absence of clear and useful accounting instructions from head office, which led to confusion in processing transactions; training was inadequate; and bottlenecks occurred in the process because not all staff knew how to deal with the accrual accounting system. The technical aspects of the adoption of accrual accounting were simply not being achieved, which led to a separation between the official rules and the actual routines that were being operationalized. This was an uncomfortable situation for Stuart, who saw his role as being "to preserve and enhance the financial integrity of [Hearts & Hands] by bringing them to account a little bit better than they are at the moment".

The findings of this report on Hearts & Hands' computerized accounting system were reinforced by a report by a firm of external consultants who were engaged specifically to assess the accrual accounting adoption process. After two years, they found, changes had not been implemented "completely and effectively", with the result that Hearts & Hands was operating in a "half-way situation between cash and accrual accounting". Many managers and many accounting personnel, they observed, were confused about the relationship between accrual and cash-based figures. Undoubtedly part of this confusion emanated from a lack of expertise, but it also resulted from a lack of clarity in the encoding of the new system and insufficient training for staff. The result was a disparity between the image portrayed by the adoption of accrual accounting and its actual technical implementation, and a tension between those at varying levels of the hierarchy.

As Stuart became more aware of the lack of financial expertise in the sub-divisions and social centres, he came to see the benefits of providing clear rules and directions to staff on financial matters. He related the request of a Secretary of Finance from one of the sub-divisions, for some suggestions about what he should do in his role. This was a revealing request, and one Stuart was happy to respond to:

> So we wrote back and gave him a few bullet points, just ten or twelve items, and it was very helpful, and we think we may have that as a standard document to give to the other [sub-divisional] financial secretaries, and say this is the expectations . . . I wasn't aware that they weren't aware of what they were meant to be doing. So obviously, in the past, they've been appointed to these positions. There's been no procedural manuals or operational manuals, or whatever, sort of guiding instructions as to what to look for. It was sort of assumed that vague terms like "monitor the centre's variance report" or something, but it just didn't say how, or what to look for, and what amounts or what differences, and so on, and how to follow it up.

Once the decision to adopt accrual accounting was made, its implementation was presented, initially, as a matter of relative simplicity. The encoding process was in keeping with the manner in which organizational change had been managed in the past, i.e. in an autocratic, top-down approach. One sub-divisional officer observed that the top management failed to "read" the situation, expecting more of ordained members and employees than they were capable of performing, and interpreting the behavior of some managers as wilful disregard for accounting deadlines. Coupled with this was the fact that with the locus of power being almost entirely at the Divisional Head Office, insufficient resources were released for the management of the change process[15].

Enacting and reproducing – implementing and refining the changes. The enacting and reproducing processes are iterative and difficult to separate. As organizational actors encode new rules, they may meet with resistance, which can be conscious or unconscious, as they come to terms with what is required. Thus, while there was an acknowledgment among organization members who understood government funding requirements and accounting, that the introduction of accrual accounting was an inevitable undertaking, response within Hearts & Hands to its adoption was mixed. One social officer described it as "a good way to go", and another finance employee as "a good move", indicating their agreement with the promoted benefits of accrual accounting[16]. Joe acknowledged that accounting had "gotten so much more complex" with the adoption of accrual accounting. Another social employee, who was studying accounting, described the shift to accrual accounting as "terrific", because what she was learning, she could now put into practice.

These positive responses to the changes, however, were almost entirely from those who had some sort of financial expertise or accounting training. One Divisional Head Office employee described the difficulty that many people had with the adoption of accrual accounting, and with the dearth of training that was provided:

> [. . .] we've gone from cash accounting, manual books, to computerized accrual accounting. Well, two jumps, computers and accrual accounting. And not everyone is qualified, either formally or informally, to deal with that. So that's something we must address, and as part of

our work, just in the few instances that I've been involved with, we have addressed that. Training is something that simply must be done.

Other Hearts & Hands staff described accrual accounting as "much more technically demanding", "just impossible", "not very clear", "confusing", "much more complex" and "requiring additional supervision". These were all responses that reflected a lack of knowledge and expertise, as well as unclear encoding of the new system and an inadequate provision for training and supervision. Personnel issues became more intense as accrual accounting was adopted. Because of their budgetary constraints, one of the difficulties Hearts & Hands faced was that they tended to employ people described by one head office employee, as being from "the bottom end of the market", with salaries that reflected this. This meant that with the introduction of accrual accounting, even the accountants/bookkeepers at the social centres were unable to cope with the new system without additional training or resources. Feelings about this ran very deeply, with many of the staff upset by the way the process was managed. They struggled with the new system, and at some centres, according to one ordained social centre manager, there were employees who "panicked and left because they couldn't cope with accrual accounting".

The result was that at every level of the organization, the gap between accountants and non-accountants was startlingly obvious. The image of Hearts & Hands as an implementer of a high quality accrual accounting system was therefore very different from the technical reality. Even at the top levels of the hierarchy, organization members were having difficulty making decisions about matters that required an understanding of accrual accounting. Top ranking members in most cases had come through Hearts & Hands in the days of the cash system, and accrual accounting was entirely new to them as well. At one head office Budget meeting, in the context of approving budgets for new capital items, Stuart explained to the meeting that there was a "lag" between the cash and accrual systems, that the changeover was "evolving", and that policies and procedures were overlaying practice. This was a huge undertaking according to one Divisional Head Office employee:

[. . .] while the cashbooks were manual, and you could see literally on the page what you were doing, you didn't need to know debits and credits. Now that we have accrual accounting, and it's computerized, you need to know debits and credits, and I did explain to one person what journals were. They weren't aware of that. Now they could do their bookwork, fine, but they weren't aware of the reason for the accounting side of it, or how the accounting side worked. So that's a culture change, as much as anything.

Faced with a situation where the image and the technical reality and expected technical benefits of accrual accounting were not matching up, Stuart worked hard to ensure that technical practice was accurate and effective. The "lag" in the adoption of accrual accounting resulted in huge frustrations with the consolidation process as well. It was slow and unwieldy, and Finance Department staff, particularly those who were trained accountants, experienced a great deal of frustration. They complained that accounting information that was unreliable, inaccurate and late was transmitted to them from various centres. Stuart, who had formerly worked for a large multinational company, felt this pressure, since his professional reputation was involved. To his frustration, the production of fully audited accounts within three weeks of the end of the financial year, which had happened in his previous employment, simply did not happen at Hearts &

Hands. One ordained member from head office expressed discontent that the financial reports for the 30 June one year came out in April of the following year. "It's crazy," he said, "but on the other hand, who cares? Nobody seemed to be worried about it". There appeared to be no real requirement that just because accrual accounting had been adopted, with its image-enhancing benefits, annual reports needed to be produced in a more timely manner.

Corporate-style reporting had been adopted, but Hearts & Hands was simply not a corporate-style organization, and required people with a different type of approach, according to a Divisional Head Office employee:

> [. . .] it's no good putting (ordained members) there just to give them a job . . . [Hearts & Hands] is too big now. The world's - we're too commercial. We've just got to fit in with things. We've got to have the right sort of people.

This recognition, sensible from a business viewpoint, conflicted with the views of many of the ordained members of Hearts & Hands. One area in which this was evident was in the employment of professional accountants. The head of the internal audit department at the time was not the first professional accountant to be employed in this position, but his presence in this role occasioned some negative feedback, as expressed by a non-ordained internal audit employee who was a member of a Hearts & Hands church. He wanted the task of accounting to be accomplished in a manner consistent with the organization's values:

> [. . .] professionally, probably quite sound, and I can see they're trying to work in with Hearts & Hands' philosophy, but sometimes the attitudes, the phraseology, the language, belies their suitability. It goes beyond true professional ability . . . but if we carry that through, and just simply select people because they're good at performing the basic tasks of their position and they don't have a very strong affinity with Hearts & Hands, and are not keen on promoting its cause through their lives, sure, our image will drop.

The processes of enacting and reproducing accrual accounting within Hearts & Hands, thus caused conflict between the leaders who made the adoption decision, the Finance Department staff who were responsible for the implementation of accrual accounting, and the personnel, both ordained and professional, who enacted and reproduced those rules.

Institutionalizing – taken-for-granted accrual accounting. The adoption of what was essentially a corporate-style accounting practice by a not-for-profit organization, and the process by which it became institutionalized, or taken-for-granted, can thus be seen as an ongoing, intricate and complex process that can precipitate conflict between the various actors involved, particularly if it is not managed well. Many of the aspects of this process were puzzling to an outsider, but more understandable once Hearts & Hands' internal dynamics were studied.

Why did the Finance Department, specifically Barry, fail to allocate sufficient resources to the project, even cancelling training that had been commenced? Barry himself had expressed the opinion that orders were to be obeyed. This view, coupled with a lack of acknowledgment of the poor accounting skills of many of the staff, combined to produce tension and conflict between the hierarchy who had decided to adopt accrual accounting, the department charged with the responsibility for implementing it, and the people (employees and ordained) with whom they had to work. Why was it assumed that the new system, once announced, would simply be adopted? Structurally and culturally, Hearts & Hands had always operated with a "sink or swim" culture, and the expectation was that commands would be obeyed and people would simply get on with the task. This had been the approach in the past. Accrual accounting, however, proved to be more difficult, and challenged established structures, culture and routines. Why was there a sense of competition between the Divisional Head office and the various sub-divisional offices? With the hierarchical structure and autocratic culture established, a system of command and obedience entrenched, and power over decisions and resources concentrated at the top of the organization, those lower down the hierarchy had little recourse to alternatives or resources. The Chief Accountant was caught between the upper and lower hierarchy, and was responsible for the implementation process. He found himself the frustrated player in a structure where decision-makers were accustomed to obedience and those who had to work with accrual accounting were incapable of obeying.

Why was there a sense of unease between professional accountants and other organization members? The Chief Accountant and other professional accountants were frustrated by the lack of accounting ability of many of the Hearts & Hands employees who were supposed to be performing accounting roles. This was the case for both ordained people and employees, most of whom had no formal accounting training. The difficulties in implementing accrual accounting, and the ongoing problems Hearts & Hands experienced, emanated from a clash between its own institutionalized ways of doing things, carried by ordained staff, and the changes required to implement the new accounting system, carried by professional accounting employees.

Applying Hearts & Hands' adoption and implementation of accrual accounting to Figure 3, the institutional environment exerted pressure on Hearts & Hands to adopt accrual accounting. Coercive institutional pressures emanated from government funding requirements. Mimetic pressures are illustrated by Hearts & Hands' desire to produce financial reports in keeping with those of corporate entities and other not-for-profit organizations, while normative influences are evident in the influence of the professional accountants employed by Hearts & Hands. The external political awareness of senior executives was acute in discerning the need to conform to external institutional pressures, and to promote an enhanced image with the adoption of accrual accounting. However internally, the decision makers and implementers failed to read the organization and to apply needed resources.

The result was that the accrual accounting system as it was portrayed was different from the actual system that operated. This frustrated all staff. Senior ordained people such as Joe and Barry expected those further down the hierarchy to be diligent and thorough in their implementation of new policies. Professional accounting staff like Stuart expected accrual accounting to be implemented efficiently and provide technical benefits. Many ordained staff struggled with the transition because they did not possess the necessary skills and at times questioned the appropriateness of professional staff. Employees who were not qualified accountants also needed more clarity about the new procedures and training in how to implement them. The energy required to institutionalize such a change was huge, and to maintain it required a continuing expenditure of effort, as entrenched practices threatened to swamp the new system.

Conclusion

This paper examined the process of change in a not-for-profit organization from an institutional perspective. Specifically, it identified and explicated five processes by which a new institutional practice, accrual accounting, was embedded in Hearts & Hands' internal structures and routines. It recognized the conflict that accompanied that change, and the tension between the image of accrual accounting and the reality behind that image.

The decision to adopt accrual accounting was made by Hearts & Hands' leaders who were alert to institutional pressures to conform with the practice of the private and public sectors, on both of which Hearts & Hands depended for resources. Internally, the change process was poorly managed, setting up conflicts between various organizational members. Due to an entrenched autocratic, hierarchical structure, those who held power made assumptions about the way the change process ought to be managed, and allocated insufficient resources to training and implementation.

Consequently, the encoding of the new system was ambiguous and incomplete, and failed to take into account the limited accounting abilities of many of the staff. It was therefore inevitable that the enactment and reproduction of the new system would be only partially successful, with frustrations experienced by all staff at all levels and between staff at all levels. While financial reports presented an image of an effective accrual accounting system, the behind the scenes reality was very different from this image. Professional accounting staff, who were responsible for enacting the change, were not content with this outcome, and worked to produce a system that functioned and was reproduced in the way it was supposed to. Institutionalization occurred eventually, but only after a reassessment by management of the necessity of releasing additional resources to the management of the adoption process.

The paper makes two contributions. First, it is a study of a not-for-profit organization that operates in an economically and socially significant sector that was undergoing rapid change. Expectations of what constitutes institutionally acceptable behavior for not-for-profits have risen dramatically in the last few decades, including the level of accounting professionalization expected. These expectations bring a requirement for ongoing changes. The perspective of a single organization offers insights not available in a sector-wide study, and a heightened appreciation of practice. Second, the application of an expanded institutional framework enables the complex and problematic nature of the process of institutionalization to be unpacked in a specific organizational context by focusing on the conflict that arose as various organizational members tried to match the level of technical adoption of accrual accounting with the enhanced image it provided.

While this paper does cover only one case, and its findings are not claimed to be generalizable, nevertheless, it does provide broader insights about the process of institutionalization, combining a recognition of both the influence of external institutional factors and internal dynamics through the institutionalization process. Future research could focus on other situations where, given times of change and uncertainty, an organization may adopt new accounting practices in order to conform to institutional practices and thereby enhance its image. Particularly in the case of not-for-profit organizations with a strong mission focus, operating as they do within uncertain financial parameters, further studies could be conducted on the legitimizing role of accounting and financial statements, on the relationship between accounting and fundraising, and on the dynamics of the professionalization of accounting.

Notes

1. The economic significance of the not-for-profit sector is considerable. The Johns Hopkins Comparative Nonprofit Sector Project reported that, in 1995, at the time of this study, the sector spent $US1.1 trillion across 22 countries, an amount so large that if the sector were a country in its own right, it would have been the eighth largest world economy (Salamon and Anheier, 1999, p. 2).
2. These include quantitative and qualitative studies (see Myers and Sacks, 2003; Torres and Pina, 2003; Siti-Nabiha and Scapens, 2005; Burns and Baldvinsdottir, 2005) conducted at both macro and micro levels (Vakkuri, 2003).
3. These include, but are not limited to, management (Maguire and Hardy, 2009), organization studies (Josserand *et al.*, 2006), marketing (Eikenberry and Kluver, 2004; Dolnicar *et al.*, 2008), and accounting (Broadbent and Laughlin, 1998). Sectoral issues have been studied in the private (Siti-Nabiha and Scapens, 2005; Busco *et al.*, 2006), public (Hoque and Moll, 2001; Hoque, 2005) and not-for-profit sectors (Alexander, 2000; Flack and Ryan, 2005).
4. The name Hearts & Hands and other names relating to the case, are all pseudonyms.
5. Hearts & Hands is part of the sector known variously as the "not-for-profit", "voluntary", "nonprofit" or "third" sector. It has been identified as diverse, complex and inter-related (Torres and Pina, 2003). The United Nations' (2006) *International Classification of Nonprofit Organizations* identifies 12 primary not-for-profit groupings. "Social services", "international" and "religion" comprise three of these groups (United Nations, 2006, pp. 3 -5).
6. An "acquittal" is the final certification by the grant recipient that the grant funding has been expended in accordance with the terms and conditions of the funding agreement.
7. At the time, these were Arthur Andersen, Coopers & Lybrand, KPMG, Deloitte & Touche, Price Waterhouse and Ernst & Young.
8. Professional work has been identified as being surrounded by institutionalized expectations, rather than simply a "neutral or technical exercise" (Fogarty and Rogers, 2005, p. 337).
9. While this has been questioned and debated as being not necessarily the case in all religious organizations (Jacobs and Walker, 2004; Irvine, 2002; Irvine, 2005), nevertheless, the notion raises the issue that automatic and total conformity to institutional expectations cannot be assumed. Within individual organizations there is a culture and a belief system that causes members to question and resist the adoption of practices that do not fit in with the organization's mission and belief system.
10. Image can be enhanced with the use of "brand name auditors" (Rollins and Bremser, 1997, p. 204).
11. This emphasis continued, with Stuart, the Chief Accountant, revealing that in the following year, 5,000 copies of the financial statements were produced, as compared with the 500 copies that had been published the year before. It was, he acknowledged, an exercise designed to attract corporate sponsorship.
12. While there had not been any financial scandals, senior organizational members were sensitive about the issue, and acutely aware of their dependence, for fundraising purposes, on the donations and goodwill of the public.
13. In the audited returns the government required from aged care centers, for example, salaries and wages had to be shown for 365 days, so accruals had to be calculated.
14. Hearts & Hands adopted a system where depreciation was not only charged as an expense, but the various centers were required to set aside cash funds equal to the amount of the depreciation charge, in order to provide a fund for building replacement. These funds were lodged with Hearts & Hands' head office.

15. One employee spoke positively of the training that had begun initially, but said it was discontinued, on the advice of Barry. Barry was reported to have described the transition to accrual accounting as a problem for the ordained members and staff who were implementing it, and not his problem, and as a result recommended that the training program be stopped. This attitude was consistent with the entrenched autocratic, hierarchical culture, where the top drove the organization and those at the bottom of the hierarchy simply toed the line and did what was expected of them, with little support or training, and certainly no complaints.
16. Previously, the finance employee said, the attitude of the divisions and the centers under the cash-based system had been to spend, spend, spend, and get the head office to bail them out. This system did not provide a full picture of the cost of running centers, but under accrual accounting, these costs were determined, and center managers were forced to make provisions for the future.

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