

**THE ROLE AND THE PROCESS OF
INSTITUTIONAL ENTREPRENEURSHIP IN THE
IMPLEMENTATION OF ACCRUAL
ACCOUNTING BY THE MALAYSIAN FEDERAL
GOVERNMENT**

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by

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LIST OF ABBREVIATIONS

1GFMAS	1Government Financial Management Accounting System
ABC	Activity-based Accounting
AG	Accountant General
AGD	Accountants General's Department of Malaysia
ASOSAI	Asian Organization of Supreme Audit Institutions
CAs	Chartered Accountants
CFO	Chief Financial Officer
CIPFA	Chartered Institute of Public Finance and Accountancy
EEU	Expert End User
e-SPKB	<i>Sistem Perancangan & Kawalan Belanjawan Elektronik</i> or Electronic Budget Planning and Control System
ETP	Economic Transformation Plan
EU	End User
EUT	End User Training
EY	Ernst & Young
GAAP	Generally Accepted Accounting Principles
GASAC	Government Accounting Standards Advisory Committee
GDP	Gross domestic product
GFMAS	Government Financial Management Accounting System
GLC	Government-Link-Companies
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants

IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
KA	<i>Ketua Akauntan</i> or Chief Accountant
KSU	<i>Ketua Setiausaha</i> or Secretary General
KWAP	<i>Kumpulan Wang Persaraan</i>
MBS	Modified Budgeting Systems
MoF	Ministry of Finance
MPK	<i>Manual Prosedur Kerja</i> or Working Procedure Manual
MPSAS	Malaysia Public Sector Accounting Standards
NCP	National Competition Policy
NEAC	National Economic Advisory Council
NEM	New Economic Model
NIS	New Institutional Sociology
NPM	New Public Management
OBB	Outcome Based Budgeting
OECD	Organisation for Economic Co-operation and Development
OIE	Old Institutional Economics
PAC	Public Accounts Committee
PPBS	Performance Program Budgeting System
PPPA	Accrual Accounting Implementation Team or <i>Pasukan Pelaksana Perakaunan Akruan</i>
PTJ	<i>Pusat Tanggungjawab</i> or Responsibility Centre
PwC	PricewaterhouseCoopers
QCCs	Quality Control Circles
RAB	Resource Accounting and Budgeting

SAD	Self Accounting Department
SPEKS	<i>Sistem Perakaunan Berkomputer Standard Kerajaan Negeri</i>
SRI	Strategic Reform Initiatives
TOT	Training of Trainers
TQM	Total Quality Management
TTT	Train The Trainer
UiTM	Universiti Teknologi Mara
UUM	Universiti Utara Malaysia

**PERANAN DAN PROSES KEUSAHAWANAN INSTITUSI DALAM
PELAKSANAAN PERAKAUNAN AKRUAN OLEH KERAJAAN
PERSEKUTUAN MALAYSIA**

ABSTRAK

Menyedari bahawa perubahan perakaunan merupakan satu proses yang kompleks yang melibatkan pelbagai jenis kuasa dan ejen, adalah sangat penting untuk menjelaskan bagaimana perakaunan akruan sebagai produk perubahan dapat menjadi pemangkin untuk pembaharuan institusi melalui proses pengusahawanan institusi. Oleh itu, kajian ini mengintegrasikan pelbagai teori institusi, iaitu logik, pengusahawanan institusi, dan retorik untuk menjelaskan bagaimana Jabatan Akauntan Negara (JAN) memulakan perubahan perakaunan akruan dalam kerajaan persekutuan Malaysia dan menginstitusikannya. Kajian ini menggunakan kajian kes interpretasi sebagai paradigma metodologi penyelidikan. Daripada penemuan kes, dapat dilihat bahawa terdapat dua kuasa eksogen yang mendorong kerajaan untuk mengamalkan perakaunan akruan dalam kerajaan persekutuan Malaysia, dan kedua-dua tekanan eksogen tersebut bergerak secara bersama. Pengaruh kedua-dua tekanan eksogen dalam lapangan telah mendefinisikan semula logik institusi di kedua-dua peringkat persekutuan dan jabatan. Selanjutnya, kedua-dua tekanan isomorphism mendorong logik kerajaan berubah dari birokrasi kepada pengurusan, dan transformasi logik kerajaan kemudiannya mempengaruhi asimilasi logik akauntan sektor awam dari penjaga-rekod ke logik profesionalism-birokrasi. Oleh kerana lokasi JAN dalam lapangan yang sangat menekan, penggunaan logik profesionalism-birokrasi tidak meningkatkan peranan dan fungsi JAN dalam kerajaan. Walaubagaimanapun, kerajaan menggunakan sistem perakaunan akruan sebagai strategi pembuat-

pertimbangan membolehkan JAN untuk merencanakan strategi pelaksanaan untuk keluar daripada perakaunan tunai yang sedia ada dan menstabilkan perakaunan akruan. Terdapat tiga sumbangan besar dalam kajian ini. Pertama, secara kontekstual, kajian ini menyumbang kepada literasi dengan memberikan pandangan lain tentang bagaimana pelbagai logika institusi telah dibangunkan di peringkat antara-organisasi, dalam hal ini, antara kerajaan persekutuan dan agensi/jabatan kerajaan yang lain. Kedua, secara teori, kajian ini menyambungkan hubungan antara variasi transformasi logika institusi yang berlaku antara organisasi dan proses pengusahawanan institusi. Ketiga, secara praktikal, konseptualisasi justifikasi retorik dalam kajian ini memberikan sumbangan praktikal untuk menerangkan bagaimana aktor yang tertekan di lapangan, khususnya di agensi sektor awam, dapat menggunakan mekanisma retorika untuk memujuk orang lain untuk menyokong agenda perubahan mereka dan mengurangi penentangan dalam berubah.

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ABSTRACT

Recognising that accounting change is a complex process involving different types of forces and agents, there is an urgency to explain how accrual accounting as a product of change is able to become a catalyser for institutional reform through the process of institutional entrepreneurship. Hence, this study integrates multiple strings of institutional theory, namely, logics, institutional entrepreneurship, and rhetoric to explain how the Accountant's General Department (AGD) initiated accrual accounting change in Malaysia's federal government and institutionalised it. The study adopted an interpretive case study as the research's methodological paradigm. From the case findings, it can be seen that there are two exogenous forces that pushed the federal government to adopt accrual accounting in the Malaysian federal government, and both forces concomitantly worked at the same. The inducement of both exogenous forces in the field has redefined the institutional logics at both federal and departmental levels. Subsequently, isomorphism pressures pushed the federal government's logic from bureaucracy to managerialism, and the transformation of the federal government logic subsequently influenced the assimilation of public sector accountants' logic from scorekeeper to professionalism-bureaucracy logic. Hence, due to the AGD's location in a highly embedded field, the adoption of professionalism-bureaucracy logic did not significantly enhance the AGD's roles and functions in the government. However, the government used the accrual accounting system as a sense-making strategy, enabling the AGD to envisage an implementation strategy to break

away from the existing cash accounting and establish accrual accounting. There are three major contributions in this study. First, contextually, this study adds to the literature by providing another view of how multiple institutional logics are being developed at inter-organisational levels, in this case, between federal and other governmental agencies/departments. Second, theoretically, the study bridges the link between the variation of institutional logics' transformation that occurred inter-organisationally and the process of institutionalisation entrepreneurship. Third, practically, the conceptualisation of rhetorical justifications in this study provides a practical contribution to enlighten how actors who are highly embedded in the field, especially public sector agencies, can employ rhetorical mechanisms in order to persuade others to support their change agenda and reduce resistance to change.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter explains the objectives and background of this study. It starts with a brief discussion about the process of institutional entrepreneurship and how actors are able to envisage the change despite being embedded in a highly institutionalised environment. Then, the research objectives are discussed and this is followed by a short description of the problem statement, research method and the theoretical framework used in this research. Finally, this chapter provides a brief outline of the thesis.

1.1 Background of the Study

High-level financial scandals in which public funds are used for private gain and corporate welfare are not strange news in Malaysia. Most of the major scandals that have occurred in Malaysia have involved either governmental agencies or government-linked companies. Examples are¹ the Perwaja Steel scandal (1980s; RM10 billion loss), the Malaysian Airlines financial scandal (1990s; RM9.4 billion debt), Port Klang Free Zone scandal (2000s; 42 billion debt), and more recent cases, 1MDB (42 billion debt)², the land scandal involving 40,000 hectares of Ministry of Defence land (20017/2018)³, and the KWAP⁴ funds scandal (2017-2018; RM 4 billion). All of these scandals have tainted the image of Malaysia's public

¹ <https://m.malaysiakini.com/letters/85180>. Retrieved 10 July 2018.

² <https://www.scmp.com/topics/malaysia-1mdb-scandal>. Retrieved 10 July 2018.

³ <http://www.freemalaysiatoday.com/category/nation/2018/04/11/army-land-projects-according-to-procedures-says-mindef/>. Retrieved 10 July 2018.

⁴ Kumpulan Wang Persaraan (KWAP); <https://www.thestar.com.my/news/nation/2018/07/04/najib-charged-receiving-rm42mil-bribe-from-pension-fund-kwap/>. Retrieved 10 July 2018.

administration and put Malaysia's financial accountability and transparency into question. Previously, few attempts have been made by the Malaysian government to enhance its financial management but have not brought any significant changes to the government public fund administration. One of the factors contributed to this ailing fund mismanagement issue is the cash accounting system currently practised by the government.

As Tudor and Mutiu (2006) argued, cash accounting is simple, given that there is no matching principle in cash accounting – no matching transactions in the inventory can be linked to other related accounts. Consequently, there are no accounts receivable or accounts payable records, which makes it difficult for the government to trace its outstanding bills and subsequently impairs the ability of the balance sheet to reflect all monies due (Tudor & Mutiu, 2006). This phenomenon certainly seems to be the case in Malaysia where cash accounting might no longer be a realistic accounting system for government (Ahmad et al., 2013).

Besides the inability of cash accounting to provide holistic view of asset and liability of the government, major economic crises and shifts in political power in many countries tend to influence accounting and managerial systems in the public sector generally (Mimba, Van Helden & Tillema, 2007; Chang, 2009; Harun, Van Peurseem & Eggleton, 2012). This phenomenon certainly seems to be the case in Malaysia when then the new Prime Minister was appointed in 2009⁵. Under the new administration, a new economic model (NEM) was introduced to remodel Malaysia's economic landscape. The NEM was formulated to enhance Malaysia's financial outlook, and especially to improve the government's financial management. Thus, the

⁵ The new appointment of Malaysia's 6th Prime Minister.

adoption of accrual accounting for the federal government's financial reporting basis was outlined in the NEM's strategic formulation as a way to achieve the objective of prudent financial management in government.

Subsequently, the adoption of an accrual accounting system was proposed to replace the federal government's current cash-basis accounting system. The key objective of the adoption is to enhance Malaysia's financial integrity and efficiency (Saleh & Abu Hassan, 2012; Ahmad, Ahmad, Mazlan & Pangat, 2013). The expected outcome from the adoption of a new accounting system is to improve the public sector's governance and transparency. In so doing, public money needs to be reported, inspected and audited in accordance with managerial standards comparable to those employed in the private sector (Mellett & Williams, 1996; Hodges & Mellett, 2003; Lande, 2004; Christiaens & Rommel, 2008; Harun et al., 2012). Moreover, prior to 2009, several initiatives were introduced to adopt accrual accounting as the federal government's financial reporting basis, but the attempts failed due to a lack of support from top management, who took the view that there was no urgent need to replace the federal government's accounting practices. The impetus behind the suggested adoption of accrual accounting prior to 2009 was believed to have been partly influenced by an international trend, such as the New Public Management (NPM) agenda (Siddiquee, 2006; Siti-Nabiha, 2008) that later on was trialled by the government as part of their strategy to become a developed nation (Ahmad et al., 2013).

Many studies have been conducted on the adoption of business-style accounting systems as part of public sector accounting reforms, especially in developed countries such as Australia, New Zealand and the UK. Most of these studies provide no clear evidence about their benefits to the hosted countries and in some cases

such changes have produced inadvertent effects and adverse results (Pallot, 2001; Barton, 2004; Connolly & Hyndman, 2006; Christensen, 2007; Lapsley, 2009; Norhayati & Siti-Nabiha, 2009). For example, the institutionalisation of accrual accounting in the Indonesian public sector was led by new legislation but the results were decoupled in many aspects due to lack of participation, a low level of compliance, a low level of use and unintended consequences (Harun et al., 2012). In another case, the institutionalisation of a new budgeting system in a Malaysian public sector organisation created internal conflict and tension among workers (Nor-Aziah & Scapen, 2007). Drawing from these cases, it appears that implementing business-style accounting techniques that alter the existing or embedded institutional practices (i.e. cash accounting practices) is a daunting task to be undertaken by the change promoter. This is due to the efforts required to effect change, in the face of institutions' strong inertia (Battilana, Leca & Boxenbaaum, 2009).

Recognising that institutional change is a complex process involving different types of forces and agents, there is an urgent need to explain how institutions influence change actors' behaviour and how the actors influence and plausibly change the institutions (Battilana et al., 2009). In light of that proposition, institutional theorists such as DiMaggio (1998) have introduced a notion of institutional entrepreneurs that explains the theoretical enquiry of how the actors possess the ability to initiate change, influence it, and transform existing institutions, or create new ones. This theoretical enquiry has drawn a huge debate from many institutional scholars and gave impetus to theoretical puzzles in institutional theory, the issue of the "paradox of embedded agency". This theoretical puzzle asserts that if actors are highly embedded in an institutional field and their behaviour is substantially shaped by taken-for-granted institutional prescriptions, it is difficult for the actors to envision new practices and

legitimise changes in the contexts in which they are embedded (Holm, 1995; Friedland & Alford, 1991; Clemens & Cook, 1999; Seo & Creed, 2002; Greenwood & Suddaby, 2006).

Hence, new institutional sociology theorists suggest that institutional entrepreneurship might offer a theoretical insight into how and why certain new ideas or practices come into existence even in highly mature fields and eventually become well established and taken for granted over time (Garud, Hardy & Maguire, 2007; Maguire, 2007; Battilana et al., 2009). In an effort to understand the concept of human agency in institutional theory, institutional entrepreneurship and change have become popular subjects of study (Dacin, Goldstein & Scott, 2002). Some have studied institutional entrepreneurship from the perspective of individuals (e.g., Fligstein, 2001; Lawrence & Phillips, 2004; Battilana, 2007), professions (e.g., Greenwood, Suddaby & Hinings, 2002; Greenwood & Suddaby, 2006), states (e.g. Child, Yu & Tsai, 2007; Nasra & Dacin, 2010; Suthweewasinnon, Hoque & Nyamori, 2016), and social movements (e.g., Rao, 1998; Lounsbury, Ventresca & Hirsh, 2003).

Meanwhile, previous studies, both in accounting and the public sector, have focused majorly on accounting change from the organisational perspective (Kitchener, 1999; Burns & Scapens, 2000; Liguori & Steccolini, 2012; Liguori, 2012b). However, limited work has been carried out on how actors create new accounting practices or transform existing ones (Sutheewasinnon, Hoque & Nyamori, 2016; Harun et al., 2012) and how actors' legitimation strategies affect the remodelling of existing practices (Hyndman & Liguori, 2018). Most studies conducted on accounting change in public sector accounting have been done separately, and little research has concentrated on examining the variation in organisational processes, especially at inter- or intra-organisational levels (Friedland & Alford, 2012; Thornton, Ocasio &

Lounsbury, 2012). Examining how accounting change has occurred at different levels of the organisational process is crucial to understand how highly embedded actors are able to exert change and the field-level conditions (endogenous and indigenous factors/pressures) (Battilana et al., 2009) that push the change to occur, in addition to how those pressures affect the change actors' strategies for implementing institutional change (Battilana, 2007; Battilana et al., 2009; Thornton et al., 2012). Moreover, efforts put into explaining the roles of actors and action in the creation, diffusion, and stabilisation of change have not clarified these aspects (Burns & Scapens, 2000; Battilana et al., 2009; Liguori & Steccolini, 2012; Liguori, 2012b; Hyndman & Liguori, 2018).

1.2 Problem Statement

Administrative reform such as the implementation of accrual accounting in public sectors should improve the efficiency and effectiveness of public sector service structures, public sector operational performance and economic growth. However, implementing reforms is not an easy task and sometimes the outcome can be different from what is expected. It is very difficult to dismantle or alter current institutional practices because the prevailing cash accounting practices have been highly embedded in the prevailing administrative culture and have benefited its institutional members (stakeholders) such as politicians, top management and senior civil servants (Common, 2001). For instance, the AGD made several attempts in the early 2000s to promote the idea of changing the federal government's cash accounting system to an accrual-based accounting system. However, the AGD initiatives succumbed to failure due to a lack of support from politicians and senior officers, who believed that there was no urgent need to adopt accrual-based accounting systems at that point in time.

Besides that, the location of the Accounting General Department in a highly institutionalised environment makes the task of exerting change more difficult, especially persuading stakeholders to lend their support and mobilising resources to execute accounting change. There are many cases in Malaysia whereby the execution of new practices and policies has failed due to a lack of support from top management and resistance to change from the members of the affected organisation. For instance, the implementation of Integrated Cumulative Grade Point Average (iCGPA)⁶ for universities by Ministry of Education has been dismantled due to a change in government, and a lack of understanding and facilities (Sanip and Abdul Rahman, 2018), and most critically, resistance to change from the public and private university lecturers themselves⁷. As evidenced, it is not easy to introduce changes in highly embedded environments such as public sectors or any environments where the members of the old systems enjoy the benefits of the old practices (Battilana et al., 2009; Battilana, 2007; Suchman, 1995; Scott, 2001; Powell & DiMaggio, 1991).

Despite the federal government's rejections of the early attempts to change its accounting system, in 2011 due to internal and external institutional factors, the federal government's perception towards the idea of accrual accounting systems changed and they acknowledged that there was an urgent need for structural reform in the national financial structures. The AGD took up the challenge to initiate accounting through the implementation of accrual accounting practices in the Malaysian federal government. As a result, in 2012, the government approved the AGD's proposal to change the federal accounting basis from cash to accrual accounting. The task to implement accrual accounting at a federal level is not easy, as evidenced by the fact that during

⁶ <https://www.nst.com.my/news/government-public-policy/2018/06/382497/icgpa-system-no-longer-compulsory-public-universities>. Retrieved 31 October 2018.

⁷ <https://www.malaysiakini.com/letters/427182>. Retrieved 31 October 2018.

the change process two delays occurred that hampered the implementation of accrual accounting at the federal level. The first delay happened in 2015, the initial date that the new accounting information system (1GFMAS) was supposed to take off. The delay was due to underestimating the complexity of the federal government's financial procedures, which subsequently disrupted the 1GFMAS's development process. Hence, the first delay meant that the series of training courses that had been scheduled earlier had to be put on hold, which created anxiety among the future users of the accounting systems, especially public sector accountants. On top of that, to initiate institutional change in a highly institutionalised environment is already difficult, and it becomes more challenging to modify the initial change implementation strategies, because a disorganised strategy will make the change project vulnerable and expose it to resistance to change. This resistance may come especially from the institutional members, who might start losing their faith in the change project (i.e. accrual accounting).

As a result, the development of 1GFMAS, the training schedules and the change management programme were redesigned to trim down the negative impacts that resulted from the 2015 delay. However, the situation became worse when the new accounting system that had been rescheduled to go live in 2016 did not materialise as planned. Consequently, this triggered a second delay, an unfortunate situation that again tinted the AGD's image and made the accounting and non-accounting staff start to doubt the AGD's ability to handle the project. The critics of the ability of the AGD to run the change project slowly increased and the members' support for the AGD's agenda started to diminish.

Moreover, the change project covered a broad range of governmental structures. It covered up to 25⁸ major federal-level ministries and up to 50,000 users of the new system working at different levels of governmental agencies (i.e. centres, units, and departments). It became more challenging to ensure that all the institutional members at various governmental levels, especially public sector accountants, had the same level of understanding of the objectives of the accrual accounting implementation in the Malaysian federal government.. All these issues have shown that to initiate and implement a divergent change (or institutional change) is not an easy task. The AGD, as the institutional entrepreneur that had initiated the institutional change, had to alter the old institution (i.e. the cash accounting system). In so doing, the AGD was required to envisage implementation strategies in order to mobilise their allies and convince institutional members to support the change vision (i.e. the accrual accounting system). Thus, in understanding how the institutional entrepreneurs were able to initiate change while located in a highly institutionalised environment, this study offers explanations and insights into how the change process took place and how the change actors uninstalled the existing institutional practice, instilled a new culture and created a new institution.

1.3 The Objectives of the Study

The main objective of this study is to understand how and why accrual accounting as a product of change is able to act as a catalyst and influence the development of institutional logics at inter-organisational levels, which in this case is between the Malaysian government (federal level) and the AGD (departmental level). The study also attempts to understand how changes in institutional logics influenced the

⁸ As per study conducted in 2015-2017 (before the government change after the 14th general election in May 2018)

institutional entrepreneur's (the AGD) theorisation strategies for implementing accrual accounting in the Malaysian federal government. The specific research objectives are as follows:

- To identify the exogenous and endogenous institutional factors that enabled the accrual accounting change in Malaysia's federal government throughout the period of development of public sector accounting in Malaysia.
- To understand how changes in institutional logics in the Malaysian public sector and the AGD influenced the development of accrual accounting in Malaysia's federal government.
- To identify the institutional entrepreneur's implementation strategies for:
 - a) communicating the change agenda.
 - b) mobilising allies to support and maintain the change initiative.
- To understand how the institutional entrepreneur's rhetorical justification strategies (i.e. pathos, logos, and ethos) were used to theorise the institutionalisation process of accrual accounting practices.

1.3.1 The Research Questions of the Study and its Approach

The main research question formulated for this study is how and why accrual accounting practice influenced the development of institutional logics at inter-organisational levels, which is between the Malaysian government (federal level) and the AGD (departmental level). It also examines how changes in institutional logics influenced the institutional entrepreneur's (the AGD) theorisation strategies for implementing accrual accounting in the Malaysian federal government. The specific research questions are as follows:

- What are the exogenous and endogenous institutional factors that enabled the accrual accounting change in Malaysia's federal government? And when did it happen?
- How have changes in institutional logics in the Malaysian public sector and the AGD influenced the development of accrual accounting in the Malaysian federal government?
- What are the institutional entrepreneur's implementation strategies for
 - c) communicating the change agenda?
 - d) mobilising allies in supporting and maintaining the change initiative?
- How were the institutional entrepreneur's rhetorical justification strategies (i.e. pathos, logos, and ethos) used to theorise the institutionalisation process of accrual accounting practices?

The above research questions were derived from the theoretical framework, which is discussed in Chapter Three. The concepts and terms mentioned in the research questions will be explained extensively in Chapter Three.

As the study is qualitative in nature, this study adopted an interpretative case study approach. The adoption of this approach is congruent with the theoretical framework that is used to analyse the case study. Based on the approach adopted, a qualitative methodology was used to collect, analyse and present the data. Besides interviews, multiple data collection methods such as written documents, observations, and informal conversations with the members inside the organisation were incorporated to enrich the findings (Flick, 2002).

In this study, theory and observation were crucial for understanding and interpreting the research findings. The model of the process of institutional

entrepreneurship, suggested by Battilana et al. (2009), the rhetorical theory of diffusion proposed by Green (2004), and the stage of institutional change process outlined by Tolbert and Zucker (1996) and Greenwood et al. (2002), were utilised to underpin the answers to the research questions. The reasoning behind the utilisation of those theories is provided in Chapter Two and Three.

1.4 Contribution of the Study

This study will hopefully provide an understanding of the process of institutional entrepreneurship and at the same time, contribute insights into why and how accounting change occurs in a highly institutionalised environment. Hence, this study makes a contribution to the theory and practices of accounting change in the public sector in developing countries, such as Malaysia. As will be explained in the subsequent chapters, the purpose of this study is to extend the application of theory through theoretical generalisation. The findings obtained from this study will be compared to other studies that examine the variations in institutional logics' development at inter-organisational level, especially inter-organisational change. The study will also hopefully broaden the theoretical horizon of institutional theory through the lens of Battilana et al.'s (2009) institutional entrepreneurship theoretical framework. The utilisation of Battilana's theoretical insights into how accrual accounting is practised as a product of change enables us to understand the development of institutional logics at inter-organisational levels and subsequently the issue of the paradox of embedded agency.

The outcomes of the study might also be beneficial to practitioners, especially government officials, since an enhanced understanding of the process of institutional change at the pre-institutionalisation stage will elucidate how change happens, why it

happens and/or is rejected, the strategies utilised to manage and maintain the change, and also the interactions between the roles of change actors and the communication strategies used for theorising and legitimising the change. Besides that, many studies related to accounting change in public sectors have focused on examining accounting change that occurred in one or multiple organisational contexts, but less attention has been given to examining institutional change that occurred inter-organisational levels. This limits our understanding of how accounting change evolved from one form into another and how change actors respond to the changes, which take on multiple forms across the time horizons and field levels (Thornton et al., 2012; Friedland, 2012).

1.5 The Outline of the Thesis

The thesis is organised into chapters as follows.

Chapter Two illustrates a literature review on institutional change, with a specific focus on public sector accounting change. The chapter starts with a broad discussion on the subject of accounting change in the private sector environment, and changes in the public sector. This is followed by a discussion of particular approaches and strategies used by the organisations to legitimise the changes. This chapter also highlights the insights and possible research gaps that can be obtained from the previous studies.

Meanwhile, the process of institutional entrepreneurship framework, which is the main theoretical model used in this study, is elaborated in Chapter Three. The first two sections of the chapter outline the philosophical element of agent from the institutional perspective, followed by the methodological underpinning of institutional entrepreneurs. The third and fourth sections of the chapter discuss the key theoretical concepts that employed in the study, which is based on 1) Battilana et al.'s (2009)

process of institutional entrepreneurship, 2) Green's (2004) rhetorical theory of diffusion, and 3) Greenwood et al.'s (2002) and Tolbert and Zucker's (1996) stages of institutional change.

Chapter Four discusses the research methodology used. It provides a brief historical background and description of the organisation, especially the role and operational functions of the organisation. Besides that, the chapter also discusses the reasons for using a qualitative methodology and provides justification for choosing an interpretive approach to the study. The final part of the chapter concludes the details of the fieldwork and explains how analyses and explanations were constructed.

Chapter Five describes the findings derived from the case study. It starts with a detailed historical background of accrual accounting development in the Malaysian public sector. This is followed by an outline of the enabling conditions for initiating the new system, that is, the factors and logics behind the adoption of accrual accounting by federal government. Then, an explanation is also given of the strategies utilised by the accounting department in which the new accounting system was implemented.

Subsequently, theoretical analysis is provided in Chapter Six. The institutional entrepreneurship process framework was used to generate the theoretical analysis and an explanation of the case findings. Finally, the contributions of the studies, along with their limitations and suggestions for future study, are discussed in Chapter Seven.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The new public management (NPM) paradigm (Hood, 1995) has had a profound effect on accounting practices within the public sector. The NPM is a model of reform; accounting plays a central role in the model and it favours private-commercial efficiency elements. One product of this movement is accrual-based accounting practices, which arguably provide better efficiency and transparency with regard to enhancing financial management and controls. Thus, due to the popularity of the accrual practices, as advocated by NPM promoters such as the International Monetary Fund (IMF) and World Bank, many governments have adopted these accounting practices (Pallot, 1999).

Chile was the first state to introduce accrual accounting for the public sector in the early 70s, followed by New Zealand in 1990. Unlike other countries, New Zealand changed its accounting systems comprehensively throughout its governmental structures, from low level government up to federal level (Lye, Perera & Rahman, 2005). However, other countries such as the USA and Australia switched to accrual accounting in 1997, but only in central governmental administration, with changes in local administration being implemented several years later. By the year of 2000, New Zealand had become one of the countries with the most extensive set of accrual accounting disclosures (Ellwood & Newberry, 2007). Subsequently, other countries gradually followed suit, especially OECD countries and those that had a similar motive, to reform the financial management systems in the public sector (Guthrie, 1998).

Whilst accrual accounting was adopted by the various levels of public sector organisations under the umbrella of NPM; research on accounting change in the public sector, especially related to the subject of accrual accounting, increased and enriched the body of knowledge in public sector accounting literature. A strong research-practice nexus offers important benefits to researchers, since investigating relevant issues that contribute to the solution of practical problems and/or serve the interest of research stakeholders, enhances the acknowledgement of their academic pursuits. Hence, the appropriate identification of plausible research gaps and/or outcomes benefits research and academic communities, and therefore forms the focus of this chapter. To identify the possible gaps, a taxonomy on accrual accounting studies in public sector was developed, and consequently, four major areas of studies were identified (see Appendix A for the details), and the gaps were established from the analysis.

The objective of this chapter is to discuss the historical background of accrual accounting implementation in the public sector. In so doing, this chapter begins with a general definition of accrual accounting in the public sector, followed by a discussion of the four major areas of studies in accrual accounting in the public sector. In conclusion, this chapter delivers a discussion on the gaps derived from the four areas of study.

2.1 Development of Accrual Accounting in the Public Sector

"Accounting is a process of recording, summarising and reporting financial transactions" (CICA⁹, 1980). In addition, accounting also measures, describes and communicates economic information to the users. To meet the varied and different

⁹ Canadian Institute of Chartered Accountants

requirements of the users, many different accounting techniques have been adopted by governments. For instance, budgetary accounting is used to “emphasise the budget's role in the cycle of planning-control-accountability” (Jones & Pendlebury, 2000, p. 158) while cash accounting is used by the legislature as a control for resources flow.

Under cash accounting systems, only cash inflows and cash outflows are recognised, with summarised cashbooks as the final accounts. Cash accounting systems measure the difference between cash received and cash disbursed in a certain period, producing financial results. Under this system, no assets or liabilities are reported because all purchases are recorded as expenditures and all proceeds are recorded as receipts. Thus, the main financial statements consist of receipt and payment accounts. Besides that, cash accounting outputs function as a financial control mechanism to the government, since the cash basis is closely tied to cash budgeting, and taxes that need to be presented to Parliament in the form of Estimates and Appropriation Accounts. As described by Bird (1973, p. 6):

...the accounts presented to Parliament, in the form of Estimates and Appropriation Accounts, are statements of cash receipts and payments during a year regardless of whether they are in respect of current or capital expenditure and, if current, whether the benefit of the related goods or services was received during that year.

Accrual accounting, in contrast, only recognises the incomes when they are earned, not when they are received, and it recognises expenditures when they are incurred, not when they are paid. Thus, accrual accounting emphasises the recognition dates of the transactions. Accrual accounting conforms to the matching principle which states that revenues and their corresponding expenses should be matched in the same period to which they relate. This in return allows a distinction to be made between expenditures, incomes, assets and liabilities. Therefore, accrual accounting

has three objectives: (1) recognition of the accrual of the events; (2) matching the charges and products with the events; and (3) a distinction between expenses and products, and assets and liabilities. In practice, however, both cash accounting and accrual accounting have been modified to suit the reporting needs of government entities.

Modified cash accounting is similar to the cash basis in the sense that it recognises transactions and events when cash is received or paid. However, the books are kept open for a specified period after the year-end. Receipts and disbursements that occur during the specified period but which originated in the previous reporting period are then recognised as receipts and disbursements of the previous fiscal year. Therefore, the measurement focus under the modified cash basis is on current financial resources and changes therein (IFAC, 1998, p. 37).

Modified accrual accounting, on the contrary, recognises transactions and events when the transactions or events occur, rather than when cash is received or paid. The elements recognised under modified accrual accounting are financial assets, liabilities, net debt or net financial assets, modified revenues and expenditures. Under this basis of accounting, the measurement focus is on total financial resources and changes therein (IFAC, 1998, p. 41).

Following the introduction of accrual accounting to the public sector, notable tension has arisen, as accrual accounting is more familiarised within the private sector (Chan, 2003; Denning, 2000; Graham, 2007; Laughlin, 2008; Pallot, 1992). Attempts to import accrual accounting methods into government have led many standard setters and individual authors to explore and understand how accounting for business and accounting for government are similar or different from each other. The standard

setters include renowned accounting bodies from all over the world; such as the Public Sector Accounting Board (PSAB) in Canada, the Governmental Accounting Standards Board (GASB) in US and the International Public Sector Accounting Standards Board (IPSASB) (CICA, 2010; GASB, 2006; IPSASB, 2011).

Governments differ from businesses as governments are elected and have regulatory powers. Governments operate with a civil service that manages the resources that are raised, mainly through taxation. Then, these resources would be distributed based on a public budget that outlines the spending authority of a government. As compared to businesses, governments are engaged with social obligation activities, such as building public infrastructures, without receiving equal value in return. More importantly, governments have a greater and broader accountability to a wider variety of stakeholders than businesses, due to government's broader capital assets, such as infrastructure and national art treasures, which are not generally used as a revenue-generating means (Buhr, 2012).

Even though accrual accounting is a well-known as a comprehensive accounting mechanism, there are concerns over the reliability and usefulness of its adoption in the private sector for the capitalisation of the aforementioned public sector resources such as libraries and heritage assets (Carnegie & Wolnizer, 1996; West & Carnegie, 2010). On a bigger scale, the very nature of the "bottom line" and other indicators in accrual financial statements differ between the private sector and the public sector, as the public sector does not emphasise maximising profits.

Public sector accounting has been the subject of close attention during the past three decades. Major changes occurred in the 1980s relating to the public sector management approach, in which accrual accounting began to be seriously considered

by the elected officials in Anglo-American governments (Public Sector Committee of IFAC, 1996). The NPM movement sparked the interest in accrual accounting which began in the late 1970s and early 1980s, bringing managerialism into the public sector (Buhr, 2012). Managerialism refers to the introduction of private sector practices into the public sector (see, Pallot, 2003). The underlying philosophy behind NPM is that the private sector management style is considered to be superior to the public sector administrative processes. The objective is to transfer as many of the government activities to the private sector through privatisation and contracting as possible (Buhr, 2012).

Several reasons were behind the call for public sector reform by NPM in the 1980s: (1) the increasing size of the public sector; (2) the increasing levels of taxation; (3) the growing cost of government and its debt; and (4) the diminishing standard of living (Buhr, 2012). The 1970s and 1980s saw these concerns arise in many democratic countries which were expressed through public dissatisfaction (Barton, 2009). In turn, the concerns were addressed through election platforms and among the politicians who brought NPM into practice, such as Thatcher (in the UK), Reagan (in the US), Mulroney (in Canada) and Hawke (in Australia) (Peters and Savoie, 1994). However, even when the leadership changed, with Clinton in the US, Major in the UK and Chrétien in Canada, the various reforms continued (Savoie, 1995).

A number of characteristics and benefits associated with NPM and the NPM's advocates were frequently linked with the need for changes in financial reporting and an increased emphasis was placed on performance-based management in public sectors (Guthrie et al., 1999; Hood, 1995; Pollitt, 1995; Hood & Peters, 2004). This then requires performance measurement and reporting, and accrual accounting was an obvious and logical complement to NPM. This is because accrual accounting is

associated with private business management methods which are viewed as “good”, while the public sector administrative processes are perceived as outdated and “bad” (Hood, 1995).

2.1.1 The Development of Accrual Accounting in Developed and Developing Countries

The development of accrual accounting differs amongst countries as it depends on the implementation strategies put in place, as well as many other factors such as political or professional support, accounting information systems and coordination between governmental entities, which could affect the whole implementation process. As mentioned earlier, in the last two decades, the adoption of these private practices by the public sector has rapidly increased, with the philosophy of New Public Management (NPM) playing a crucial role in the movement towards adopting accrual accounting in public financial management. The underlying philosophy behind NPM is that the private sector management style is superior to the public sector administrative processes (Buhr, 2012).

Commonly, prior to the movement to accrual accounting, governments used either cash, modified cash or modified accrual basis accounting (Baker & Rennie, 2006). However, many governments from developed countries such as New Zealand, Australia and the United Kingdom have moved to accrual accounting, and these governments are considered to be pioneers in the implementation of accrual accounting in the public sector. More governments have followed suit, especially developing countries such as Malaysia, Indonesia, Ghana and many more. A large amount of research focuses on the accrual accounting experience of the developed countries as they have pioneered accrual accounting implementation since the 1980s.

In addition, few studies have provided a comparison of accrual accounting in two institutional contexts (i.e. a developed and developing country) (see Buhr, 2012). It is therefore crucial to have a discussion on how accounting change occurred and was implemented in two different institutional contexts.

Thus, this section provides a discussion on the development of accrual accounting in two different institutional contexts: developed and developing nations. Thus, two developed countries, namely New Zealand and Australia, and one Asian developing country, namely Indonesia, were chosen to demonstrate the development of accrual accounting in two different institutional contexts. New Zealand and Australia were chosen as prime examples due to their pioneering status as developed countries that have successfully implemented accrual accounting in their public sectors. They therefore serve as an example to other countries that have the intention of adopting accrual accounting. Meanwhile, Indonesia was selected as it is actively reforming its public financial management and migration to accrual accounting is one of the reforms being undertaken.

As shown in Table 2.1, the discussion for this section will focus on examining the differences in the accrual accounting implementation processes undertaken by different levels of the governments. The aspects of discussion will be divided into five parts and compared between the respective countries (i.e. New Zealand, Australia and Indonesia). The five aspects are: a) rationale for accrual accounting adoption; b) institutional arrangements (political system and regulations); c) accounting standards and professional accounting institutions; d) accounting information system; and e) implementation coverage across levels of government. The above-mentioned comparative aspects were chosen as they are often the major focus of extant research

and have been discussed by many researchers in relation to the adoption of accrual accounting in the public sector (see Buhr, 2012; Harun & Robinson, 2010).

Table 2.1 The adoption of accrual accounting in New Zealand, Australia, and Indonesia

Aspects	New Zealand	Australia	Indonesia
Rationales of accrual accounting adoption	<ul style="list-style-type: none"> ▪ Need for better and more transparent information for decision making ▪ 1978 Shailes Report from the Controller and Auditor-General ▪ High government deficits and public debt/double digit inflation (1970s & 1980s) ▪ Election of new Labour government 1984 	<ul style="list-style-type: none"> ▪ Economic decline ▪ Royal Commission Report 1976 – government is unaccountable ▪ Election of Hawke Labor Government 1983 ▪ Election of New South Wales 1988 	<ul style="list-style-type: none"> ▪ Post-Suharto era: opportunity to increase management quality ▪ 1998 Economic crisis leads to pressure from international aid donor to implement accrual accounting
Institutional arrangements (political system and regulations)	<ul style="list-style-type: none"> ▪ Unicameral legislature¹⁰ ▪ Legislation of Public Finance Act 1989/Local Government Act 1989 were passed – financial statements to be prepared on accrual basis ▪ State Sector Act 1988 - responsibilities of the chief executive officers of the departments and increased accountability of the Ministers for their departments' performance 	<ul style="list-style-type: none"> ▪ Bicameral legislature¹¹ except for two self-governing states (Victoria and Queensland) who have unicameral legislature ▪ Legislation of Public Finance and Audit 1983 – government to prepare accrual based financial statements 	<ul style="list-style-type: none"> ▪ Bicameral legislature ▪ Law 17/2003 requiring adoption of accrual-based accounting ▪ Contradicting laws and requirements: Law 17 versus Law 22 and Law 25; Ministry of Finance's requirements versus Ministry of Home Affairs' requirements

¹⁰ Unicameral legislature means that the Parliament consists of one chamber only and no upper house.

¹¹ Bicameral legislature is a legislature which consists of two Houses; upper house and lower house.

Table 2.1. Continued

Aspects	New Zealand	Australia	Indonesia
Accounting standards and professional accounting institutions	<ul style="list-style-type: none"> ▪ Using sector neutral approach in setting standards ▪ Standard setting bodies were created by profession to develop public sector accounting standards; then required approval by government appointed entity and given the force of law ▪ Announcement of decision to move away from single set of accounting standards for all entities to multi-standards framework (NZ IFRS and PBE accounting standards) 	<ul style="list-style-type: none"> ▪ Using sector neutral approach in setting standards ▪ Standard setting bodies were created by profession to develop public sector accounting standards; then required approval by government appointed entity and given the force of law ▪ Accounting standards based on IFRS ▪ Currently has no plan to move away from sector neutrality approach 	<ul style="list-style-type: none"> ▪ Have separate standards for public sector and private sector use ▪ The public sector setting body is appointed by the government; the standards need to be approved by an appointed government entity ▪ Public sector accounting standards based on IPSAS
Accounting information system	<ul style="list-style-type: none"> ▪ Use of generic private sector accounting software 	<ul style="list-style-type: none"> ▪ Usage of two accrual and budgeting systems (GFS and AAS system) created confusion 	<ul style="list-style-type: none"> ▪ Conflicting directives from the government regarding accounting system that should be used
Implementation coverage across levels of government	<ul style="list-style-type: none"> ▪ Comprehensive implementation – move their entire financial reporting, accounting and budgeting system to accrual basis ▪ Introduced accrual reporting and followed by accrual budgeting later 	<ul style="list-style-type: none"> ▪ Started by the state of New South Wales, followed by the national government a year later and by local governments a few years later ▪ Introduced accrual reporting and followed by accrual budgeting later 	<ul style="list-style-type: none"> ▪ The adoption of accrual accounting by central and local government – majority research focuses on the local governments of Indonesia ▪ Maintaining cash budgeting for now

Source: Buhr, 2012; Harun & Robinson, 2010; Harun et al., 2012; Lye et al., 2005; Ryan, 1998; Guthrie, 1998)

As demonstrated in Table 2.1, the most significant motivations for all nations were based on the need to enhance the efficiency, effectiveness, transparency and accountability of their respective governments. This relates to NPM's philosophical agenda, which favours using a private sector management style in public sector