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**TAKING A CLOSER LOOK: THE *WHY* AND *HOW* OF NEW
ACCOUNTING PRACTICES IN AN AUSTRALIAN
RELIGIOUS/CHARITABLE ORGANISATION**

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by

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TAKING A CLOSER LOOK: THE *WHY* AND *HOW* OF NEW ACCOUNTING PRACTICES IN AN AUSTRALIAN RELIGIOUS/CHARITABLE ORGANISATION

ABSTRACT

Neo-institutional sociology proposes that organisations in a particular field behave in essentially the same way. In taking for granted the prevalence of institutionalised activities, such as accounting, however, it offers little in the way of penetrating insights into how, and to what extent, those activities are actually introduced and embedded into individual organisations. Changes in the nonprofit environment in Australia in recent years have catapulted organisations in that sector into a new corporate mode of operation, providing a unique opportunity not only to observe the introduction of new accounting practices, but also to critique the usefulness of neo-institutionalism as a complete explanation of organisational behaviour. A brief study of one particular religious/charitable organisation highlights both the valuable "big picture" insights institutional theory offers and also its neglect of the "micro" view. A modified institutional lens provides the fine-tuning necessary for a more satisfying explanation of the likely impact of institutionally desirable practices on individual organisations.

KEYWORDS: accrual accounting
neo-institutional theory
nonprofit organisations

You can't introduce accrual accounting a fortnight before the year end, and bring it into line. So there was insufficient time to train not only the managers, but the bookkeepers, in accrual accounting ... we've also got a problem in that most of the managers are basically there because of their people skills, not because of their accounting skills. So that under the old cashbook system, under cash accounting, it was all right to have somebody who could write up a cash book ... but that's no longer feasible, it's no longer practical.

THE VIEW FROM A DISTANCE.

An interpretive key, neo-institutional theory is concerned to explore deeply the way organisations relate to their environment, and the institutional pressures on organisations for adopting certain structures, cultures and routines¹. While the concept of institutional isomorphism and the resulting legitimacy it provides, strike an authentic note for observers of organisational behaviour, neo-institutional theory is primarily a "big picture" or macro theory. In its focus on organisational fields, it provides little enlightenment about the dynamics through which institutionally acceptable behaviours are embedded into organisations at a micro level.

One particular organisational field is that of religious/charitable organisations, which form part of the vast nonprofit sector. The social and economic profile of the Australian nonprofit sector has increased in recent years as its size and impact has been recognised (Flynn et al, 2000; Lyons and Hocking, 1998). As commercial accounting practices have become increasingly desirable for nonprofit organisations if they are to maintain their credibility and legitimacy on the fund-raising stage, individual organisations have struggled with the implications of these practices at a grass-roots level.

It is in this environment that Hearts and Hands², an international religious/charitable organisation, operates in its two divisions within Australia. One of these divisions was the subject of a year-long qualitative study of accounting practices, including the introduction of accrual accounting and the production of consolidated, corporate-style financial statements. The application of institutional theory provided an intellectually satisfying explanation of the introduction of these practices at an organisational field level, yet offered little insight into the rationale for their introduction and their impact.

This paper first introduces institutional theory, and then explores the notion of accounting as an institutional practice. Next, the nonprofit environment in which religious/charitable organisations operate is described, followed by a more detailed introduction to Hearts and Hands and the way the study was conducted. A description is provided of the actual adoption of new accounting practices within the organisation. As a result of this study, the limitations of institutional theory are identified, and a modified institutional framework is suggested for future research.

¹ Structures, cultures and routines are described by Scott (1995, p. 33) as the "carriers" of institutions within organisations, i.e. the means by which stability and meaning is assigned to social behaviour.

² A pseudonym.

INSTITUTIONAL THEORY: EXPLAINING WHY.

Institutional theory is one way of looking at organisations, which exposes and explains the existence and power of underlying and taken for granted rules, norms and expectations. Intangible elements that are nevertheless very real (Allport, 1933, p. 13), these institutions are something that can be made visible by means of the tangible elements of organisations, when they are put into practice. Organisational structures are "reflections of rationalised institutional rules" (Meyer and Rowan, 1977, p. 340), or "shared knowledge and belief systems" (Scott, 1995, p. 13).

What is the significance of these institutions to organisations? Organisations want to be viewed as competent and acceptable. They therefore find value in compliance with institutional expectations, because through such compliance they receive the prestige, stability, access to resources, and social acceptance they require in order to survive (Oliver, 1991; Fogarty, 1996; Ang and Cummings, 1997; Meyer and Rowan, 1977; Oliver, 1997; Meyer et al, 1992; Hines et al, 2001). Because of this, there is a tendency, already mentioned, for organisations within a particular organisational field to become similar in structure and practices, following institutionally acceptable "blueprints" for organising (Barley and Tolbert, 1997, pp. 93 - 94). This process, known as institutional isomorphism, leads to organisational homogeneity (DiMaggio and Powell, 1983; Booth, 1995; Powell, 1985; Covaleski et al, 1993, p. 66).

Institutional theory, therefore, provides a theoretical lens through which to view organisations, and raises some different and interesting questions about the world of organisations, questions which are capable of leading to generalisations about organisational behaviour³. The extent and variety of research which has been attempted under the umbrella of institutional theory is huge, drawing on an almost limitless pool of organisations and the social contexts in which they operate⁴, including studies relating to accounting⁵.

The roots of institutional theory are in economics, political science and sociology studies from the beginning of the 1900s onwards. It challenges many of the assumptions underlying neo-classical economics, with the economic system viewed as part of the total social system, held together not by a set of equilibrating market forces but instead by "a set of coherent

³ Questions such as (Scott, 1995, pp. xiii - xiv):

- why do organisations of the same type so closely resemble one another?
- is behaviour in organisational settings primarily rational?
- why and how do laws, rules and other types of regulative and normative systems arise?
- how do differences in cultural beliefs shape the nature and operation of organisations?
- why do organisations and individuals conform to institutions?

⁴ Many studies with an institutional perspective focus on health issues (Montgomery and Oliver, 1996; Covaleski and Dirsmith, 1986; Meyerson, 1994; Goodrick and Salancik, 1996; Scott, 1992; D'Anunno et al, 1991). Another area for institutional research has been education (Townley, 1997; Rowan, 1982; Meyer and Rowan, 1992; Meyer et al, 1992). Other studies have focused on institutional aspects of building firms (Oliver, 1997), child care service organisations (Baum and Oliver, 1991), work/family programmes (Osterman, 1995); the airline industry (Bacharach et al, 1996); the newspaper business (Dacin, 1997); a manufacturing industry (Dickson and Weaver, 1997); and the Californian cattle industry (Elsbach, 1994).

⁵ These have included a consideration of the State of New York's decision to adopt Generally Accepted Accounting Principles (GAAP) for external reporting (Carpenter and Feroz, 1992), which was held to be done in an attempt to gain legitimacy. Other institutionally focused studies related to accounting have included case studies of nonprofit organisations (Feeney, 1997, p. 506), a study of financial reporting practices at the Fortune 200 between 1962 and 1984 (Mezias, 1990), a study of hyper competition in the banking industry (Ang and Cummings, 1997), and a study of the "calculative practices and techniques including accounting" by the Governor of Wisconsin (Covaleski and Dirsmith, 1995).

social, political and economic forces" that make up the "social fabric of economic phenomena" (Ahmed, 1992, p. 42). Weber's influence on institutional theory has been vast. The attention he paid to "the effects of broader institutional forces in shaping and supporting differing administrative systems" (Scott, 1995, p. 14) identified institutions as separate from the organisations they influenced. Weick (1996, pp. 567 - 568) noted that organisations were seen to be "externally controlled by their social contexts", which were determined by "what people take for granted, and consider legitimate, and are willing to pay as the price of being included". Early institutional theories thus focused on systems and organisations as being situated within a wider societal setting.

The "new institutionalism" as it is known, began in the 1970s, with seminal papers by Meyer and Rowan (1977) and Zucker (1977). Prior to this time, organisational studies focused mostly on the way organisations worked from an internal perspective, with the exception of some "old institutionalists" such as Selznick (1957), who considered environmental influences (Mizruchi and Fein, 1999, p. 655). In 1977, Meyer and Rowan, drawing on the work of Berger and Luckmann (1966), proposed that institutional rules functioned as myths, which were adopted at the expense of organisational efficiency, in order to enable "ceremonial conformity" so that legitimacy could be maintained. This "macro" perspective was also adopted by DiMaggio and Powell (1983), who identified three mechanisms by which institutional norms took effect within an organisational field. Their coercive, mimetic and normative classifications⁶ of institutional forces have been the basis for much research and theory development since that time (Mizruchi and Fein, 1999).

Identifying and classifying institutional influences into these three categories is not a straightforward undertaking, since they are likely to merge together into the social and economic fabric in which organisations are embedded, and which, in turn, are established in those organisations in a reflexive manner⁷. The common threads running through institutional literature include this notion of institutional isomorphism (from whatever source), and the concepts of decoupling, organisational success, bureaucracies, the process by which institutionalisation happens, and the significance of the founding of an organisation⁸.

⁶ Coercive (or regulative) isomorphism is identifiable in an environment where there is an "elaboration of rules and requirements" (Oliver, 1997, p. 101). Organisations gain and maintain legitimacy by conformity with these rules and regulations. Mimetic institutional forces refer to those that entice other organisations to model themselves after successful organisations in their field in order to achieve the same legitimacy and success. Normative institutional influences are less easily identified, consisting of values and expectations that may be unspoken, but which have gained acceptance within organisations. The professionalisation of the workforce is one example of normative pressures, with the establishment of common promotion practices and skill level requirements, and the institution of human resource departments, so that those who reach the top of their professions are "virtually indistinguishable" from each other (DiMaggio and Powell, 1983, p. 153).

⁷ Scott (1995) suggested that institutional influences could be identified as a result of a researcher's ontological beliefs, e.g. that the identification of regulative institutional elements usually occurred where a "social realist ontology" was embraced. DiMaggio and Powell (1983) would describe the three forces as being in play concurrently, i.e. "not necessarily empirically distinguishable" (Mizruchi and Fein, 1999, p.657).

⁸ Institutional isomorphism is presumed to lead to increased legitimacy (Deephouse, 1996, p. 1033); decoupling is a means by which the conflict between efficiency and ceremonial conformity can be resolved: "organisations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities ... building gaps between their formal structures and actual work activities" (Meyer and Rowan, 1977, pp. 340 - 341); organisational success, according to institutional theory, is not necessarily achieved by greater efficiency, but rather through long term survival, through resource acquisition, facilitated by conformity with institutional rules (Meyer et al, 1992, p. 65); the growth of bureaucracies has been attributed to an institutional environment, with DiMaggio and Powell (1983, p. 147) identifying as the "iron cage" (Weber's original terminology) the rationalistic bureaucratic order that imprisoned humanity; the "imprinting" of an organisation at the time of its founding affects organisational structure (Scott, 1987).

In any organization, not only is the notion of why (the big picture) institutionalization happens relevant, but also how (moving towards a close-up view) the process occurs. Given that it is a response to various institutional influences (the "why"), the actual "how" has been described as a four stage structuration process, reflective of the formation of an organisational field (DiMaggio and Powell, 1983). First there is an increase in the interaction among similar organisations, followed by sharply defined interorganisational structures of domination and patterns of coalition, then an increase in the information load for organisations, and eventually a mutual awareness in a set of organisations of a common purpose. During this process, organisations develop "a concern for self-maintenance" (Scott, 1995, p. 18), as they see themselves as part of an organisational field competing for scarce resources. The stage is then set for increasing institutionalisation of these organisations.

Environmental complexity is a factor that has a bearing on conformity with institutionalised norms. If an environment demonstrates formally organised interests and groups⁹, the likelihood is that the administrative burdens of organisations will be greatly expanded (Meyer et al, 1987). Zucker (1977, p. 741) proposed that the greater the degree of institutionalisation within an environment, the more persistent that particular culture would be, with change being resisted. Once social knowledge had been institutionalised, she claimed, it existed as a fact, an objective reality, and was "transmitted directly on that basis", from generation to generation (Zucker, 1977, pp. 726 - 728).

Institutional theory would therefore propose that the process of institutionalisation occurs because of a variety of external factors and influences, and also the founding and history of an organisation, its dependence on funds, cultural expectations about what practices and solutions to problems are acceptable, and, the networking of professionals across organisations. In the context of this paper, two topics that need to be addressed in relation to the "big" picture are first, the presence in society of accounting as an institutionalised activity, and secondly, the development of the nonprofit sector, and religious/charitable organisations in particular, as a defined organisational field subject to common institutional pressures.

ACCOUNTING AS PART OF THE INSTITUTIONAL ENVIRONMENT.

Institutional expectations are "powerful elements in the environment (which) can create demand for expanded accounting" (Carpenter and Feroz, 1992, p. 622, referring to Meyer, 1986), with accounting regarded as a powerful "social and institutional practice" (Miller, 1994, p. 1). The "building blocks" of institutions, which Meyer and Rowan (1977, p. 345) described as being "littered around the societal landscape", surely include accounting. Hoskin and Macve (1994, p. 67) described accounting as "an ancient practice with a distinctive modern power", and suggested that the emergence of accounting in the form in which it is now practised, is not just a practical response to entrepreneurial challenges or a means of making rational decisions, but "a powerful new way of 'writing the world' "(Hoskin and Macve, 1994, p. 91).

Given the pervasiveness of accounting, organisations that adopt "rational" accounting and management practices are more likely to be rewarded, and since organisations require funds in order to continue, this is the kind of legitimacy they seek (Dent, 1991, p. 707; Fligstein, 1987, p. 44). Yet accounting is much more than a "simple technique" (Carruthers, 1995) or a

⁹ This would be the second stage of the four stage process (DiMaggio and Powell, 1983).

"technical, context-free phenomenon" (Laughlin, 1995, p. 82). It is rather a "social symbol", a form of invented language that aids in the spread and enforcement of values, within the organisation, and the wider society (Dirsmith, 1986, p. 358). Accounting can present a façade of impartiality, and masquerade as a neutral activity (Young, 1996, p. 509), translating abstract economic concepts into tangible forms, and making them "visible in financial terms" (Miller, 1994, p. 4). Yet the growing prevalence of accountings and accountants is not, according to Meyer (1986, p. 345), a "progress in rationality", but rather an "expansion of bureaucratic restrictions on life and choice". Accounting technologies and professions, he suggested, had been institutionalised by a process of creating such practices in the first place, making it "easy and necessary for organizations to use them" (Meyer, 1986, p. 346), and bestowing legitimacy on those organisations which incorporated them into their structures. Accounting offers economic explanations of organisations and their activities, and has become "centrally implicated in the modern form of organizing" (Hopwood, 1983, p. 287), determining the way organisations are viewed. Management accounting and control systems have been described as playing a role in the production, regulation, and transformation of the *social fabric* of organisations¹⁰, i.e. not only does accounting possess technical aspects, but it also affects the world we live in, in wide ranging ways (Macintosh and Scapens, 1991, p. 131; Macintosh, 1994; Miller, 1994).

Power (1994, p. 299) proposed that the notion of audit has become so institutionalised within the social world, that it has gained the status of a "cultural logic", deeply embedded in what has become an "audit society". This has happened because of a demand for assurance regarding accountability, which has been met by a reliance on expert auditing. Institutional theory is therefore highly applicable to accounting issues (Fogarty, 1996, p. 243), since it challenges the "more conventional interpretations" of accounting offered by the profession, and separates "functional rationality and political reality for social actors". Accounting, therefore, is deeply embedded as an institution of society, "complicit in the constitution of a social and political reality" (Covaleski and Dirsmith (1995, p. 170), not only in the for-profit world, but also in the nonprofit arena (Carruthers, 1995, p. 323). There also it has power to grant legitimacy. This is increasingly evident in Australia, due to changes that have happened in recent years in the environment in which nonprofit organisations operate.

THE AUSTRALIAN NONPROFIT ENVIRONMENT.

An Industry Commission (1995, p. 4) Report described the Australian nonprofit charitable sector, in its role in delivering social welfare, as "a crucial partner with business and government, with which it is both complementary and contrasting". A greater emphasis on quality of service, together with more reliance on fundraising, a "professional" relationship with governments, and increased management and financial accountability, stress what will be a more demanding role for charitable organisations. As their profile in the community increases, due to political initiatives and agendas, and their reliance on corporate donors grows, they will be expected to achieve higher levels of efficiency and effectiveness, in order to improve performance and to eliminate organisations which do not maintain acceptable levels of stewardship. These concepts sum up many of the changes that have occurred in recent years in the institutional environment in which charitable organisations operate. Increasingly they are being identified as an organisational field that has a huge and growing

¹⁰ As part of the "rational" management structure, accounting played a major role, Dent (1991) claimed, in the transformation of Euro Rail from a railway-oriented, financially dependent organisation to a business-oriented, enterprising organisation.

impact¹¹. It has been observed that “the collective share of NFPEs (not-for-profit entities) worldwide economic and social power can only grow as, given the current climate of economic rationalism and devolution of the state’s powers, NFPEs are increasingly assuming roles and functions progressively abandoned by government” (Flynn et al, 2000). Subject to changing institutional expectations, including accounting control systems (Booth, 1995, p. 52), this sector seems to be following changes that have already occurred in the public sector, and which have created new institutional practices and expectations.

The huge changes in the public sector in the last two decades have resulted in the implementation of significant reforms (Funnell and Cooper, 1998, p. 80; Everingham, 1998; Adams, 1997; Guthrie and English, 1997; Parker and Gould, 1999). These have placed Australia in the forefront of a world-wide trend towards managerialism in public sector management (Hopwood, 1990a; Van Peursem and Pratt, 1998; Hopwood, 1990b; Budäus and Buchholtz, 1996; Guthrie, 1998; Guthrie and Humphrey, 1996), with the "far reaching" result (Guthrie and English, 1997, p. 154) being to redefine both the nature of public service "business" and the way that "business" is carried out (Adams, 1997, p. 99).

These reforms, coming as they have from greater public calls for accountability and the introduction of commercial business and accounting practices, have had a significant effect on the nonprofit environment in at least three ways, arguably through coercive, mimetic and normative institutional pressures¹². First, in a coercive sense, as the public sector provides funding for religious/charitable organisations, values and practices that have been institutionalised within that sector have spilled over into organisations that depend on that funding. Secondly, as some religious/charitable organisations move ahead in fundraising and financial reporting practices, and are perceived to be successful, there is mimetic pressure on other religious/charitable organisations to adopt similar practices. This is particularly obvious in a social climate when government funding is shrinking and there is increased reliance on corporate sponsorship. Thirdly, in society as a whole, there are normative pressures in the form of increased expectations for a higher level of accountability and performance of all organisations, from whatever sector, if they are to be judged worthy of existing. Previously, this level of expectations had been reserved mainly for the commercial sector, but increasingly, in recent years, it has encompassed both the public and nonprofit sectors.

In 1998, funds for Australian charities came primarily from government sources (40%), from fundraising, both individual and corporate (22%), bequests (7%), investments (3%), and the charging of fees and selling of assets (28%) (Philanthropy Australia, 2003). The expectation seems to be that donations through fundraising ought to come increasingly from the business sector (Cleary, 1998, p. 1). With cutbacks in government funding over recent years, charitable giving is experiencing financial pressure in an increasingly competitive funding environment. Consequently, in order to establish and maintain legitimacy as worthwhile recipients for charitable dollars, nonprofit organisations are adopting the structural forms and cultural practices not only of the government and the general public, but also of corporate Australia. While Australia undoubtedly lags behind the USA and Canada in terms of corporate sponsorship of nonprofit organisations and the sophistication of the philanthropy

¹¹ According to the Johns Hopkins Comparative Nonprofit Sector Project (Salamon and Anheier, 1999, p 2), in 1995 across 22 countries, the nonprofit sector spent \$US1.1 trillion, an amount so large, that if it were a country in its own right, it would have been the eighth largest world economy.

¹² Parker and Gould (1999, p. 127) suggest that in the public sector, a process of both coercive and mimetic isomorphism has occurred over the last two decades. This has been evidenced by the requirements of "neoliberalist political ideology" and the growing trend towards corporatisation and privatisation in the public sector.

"industry" (Lamont, 1998a, 4), it appears to be heading in that direction. One fundraiser expressed it as an "interchange of management between corporate Australia and philanthropic Australia, so that one can see what's happening in the other one's court" (Lamont, 1998b, p. 4). The result of these pressures is a tendency for nonprofit organisations, and, for the purposes of this study, of religious/charitable organisations in particular, to resemble one another, both structurally and culturally (Stout and Cormode, 1998, p. 68).

At this "macro" level, institutional theory makes sense, when applied to the practices adopted by organisations within the public sector (Parker and Gould, 1999, p. 127), and by extension, to the nonprofit sector (Feeney, 1997, p. 506). But what of the "micro" picture? Who decides which institutional pressures are to be "obeyed", and is capitulation the only possible response to those pressures? How do the institutions of society actually become embedded in organisational structures, cultures and routines, and what effect does this have on their existing systems? While institutional theory is satisfying at an organisational field level, it has some deficiencies at the level of individual organisations. Porter (1996) suggested that, from a "micro" point of view, the study of organisations as "critical contexts" had been given too little attention. He called for more research on the "internal, organisational environment affecting behavior", arguing that very little research had paid attention to individual organisations (Porter, 1996, pp. 264 - 265). The next two sections will introduce Hearts and Hands in more detail, and provide a description of the way accrual accounting, an increasingly institutionalized practice within the nonprofit sector, was introduced.

INTRODUCING HEARTS AND HANDS.

Hearts and Hands is a unique organisation, with its own distinctive history and culture. It is an international church, a charitable organisation, an employer, and a successful fundraiser. While it is one single legal entity, required to separate social welfare and activities from its church work, it actually operates as several separate "quasi" entities, providing 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 Hearts and Hands' church network and ministries. It is an organisation that has a significant economic as well as social impact on the Australian community, with its continuing operations dependant on its ability to maintain and increase funding from external sources.

According to its 1997 financial statements, Hearts and Hands' income came primarily from state and federal government grants, social services client contributions, and fundraising, as shown in Table 1 below, "Hearts and Hands Proportional Income 1995 - 1997".

Income Category	1997 (%)	1996 (%)	1995 (%)
Government Grants	29.89	32.17	29.62
Fundraising	14.12	16.15	14.98
Client Contributions	15.26	15.11	14.45
Legacies and Donations	12.82	8.17	14.24
Sales	11.00	11.64	10.09

Interest and Dividends	7.63	5.22	4.75
Other Income	9.28	11.54	11.87
Total	100.00	100.00	100.00

Table 1. Hearts and Hands Proportional Income 1995 - 1997
Source: Hearts and Hands Consolidated Financial Statements June 30 1997

During these three years, there were significant changes in external funding structures. There was an acknowledgment from people within the organisation that raising money from the public had become increasingly difficult, and that government funding was more difficult to obtain, being increasingly linked with restrictive funding requirements. This observation is borne out by other research (Lyons, 1997, pp. 206 – 207; Irvine, 2000, p. 9), which points to the fact that government funding is now dependent on the delivery of services by charitable organisations according to “administrative norms” which are constantly monitored (Meltz, 1997, p. 191). These developments, together with Hearts and Hands’ heavy dependence on government and public donations, made it vulnerable to the need to appear legitimate in order to ensure a steady inflow of funds.

Changes within Hearts and Hands in recent years have emanated from both external and internal sources. Alterations to government funding systems, together with the expectation that Hearts and Hands, and other similar organisations, would adopt accrual accounting, have had a huge impact. Technological advances, and increasing competition for charity dollars, have also contributed to growing pressures on the organisation. These changes are consistent with those already outlined, and, given the organisation's dependence on the public, the government, and on the corporate sector for the funds they need in order to continue their operations, some capitulation to institutional expectations is hardly surprising if Hearts and Hands wishes to maintain its reputation and fund-raising ability.

Hearts and Hands has a distinctive culture, autocratic and driven from the top of the organisational hierarchy. The commitment by many of its ordained members was very strong and impressive, and the resultant ordained culture was therefore quite a palpable influence throughout the organisation, in spite of the fact that increasingly employees were performing tasks once done by ordained members. Figure 1 below, “Relative size of ordained and employee numbers, 1960 – 1995”, illustrates the change in employment structure of Hearts and Hands, and illustrates graphically the dramatic increase in the number of employees.

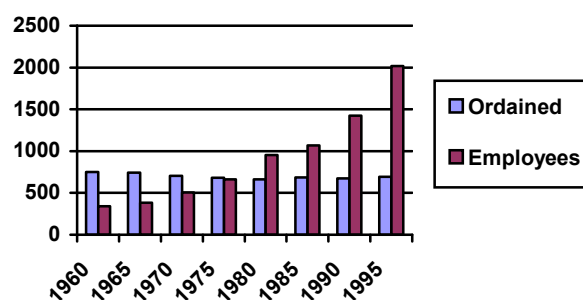


Figure 1. Relative size of ordained and employee numbers, 1960 - 1995.
Source: Hearts and Hands Year Books 1960, 1965, 1970, 1975, 1980, 1985, 1990, 1995

These changes have brought their own particular tensions, as the ordained culture, based on a sense of calling and mission, has been challenged by the employment of more professional social workers and accounting personnel. Historically, the organisation has placed ordained members in positions with little consultation, for short periods of time (one to three years), requiring them to do whatever was needed at the time, irrespective of their training and expertise. While some older ordained members saw this as positive, appreciating the variety of service they had experienced, in a number of different roles, from pastoral work to service center management, to accounting and administration, many of the younger ordained members were not as positive about the traditional system, favouring a more consultative style of appointments, and a defined, specialised career path. The increasing sophistication of information and management requirements, particularly in social centers, meant that ordained staff often struggled with acquiring the expertise necessary to perform their required tasks, challenging the traditional method of appointment, where people were required to “sink or swim”. These cultural practices had a significant impact on both the decision about the introduction of accrual accounting and the means by which it was implemented.

Throughout its history, Hearts and Hands, while maintaining its own distinctive culture, has been outward-looking, probably because of its heavy reliance on external funding. Various advisory boards consist of leaders from the business community, recruited in order to provide advice about how Hearts and Hands should operate from a fund-raising, commercial perspective. Internally, as a result of these external factors, and Hearts and Hands' outward looking approach, there have been a number of factors that have had a significant impact on the accounting system in recent years. These include an organisational restructure, the employment of a greater number of accounting professionals, the introduction of a global budgeting system, the commissioning of several management consulting studies, a reassessment of the computerised accounting system, and an increasing emphasis on operating in a business-like way. These changes have been overlaid on a unique culture that has emanated from Hearts and Hands' origins and subsequent development.

The study was conducted over a twelve month period, and consisted of observations, the conduct of over 100 interviews, attendance at meetings at both head office and divisional level, a study of documentation from the organisation's finance department and archival material of historic significance. Interviews were transcribed, presented to interviewees for signature as a correct record, and then, together with other data sources (documents, diaries, minutes of meetings) were analysed using the NUD*IST (Non-numerical Unstructured Data Indexing, Searching and Theorizing) (QSR NUD*IST 4, 1997) package, a qualitative data analysis program. The challenge was not only to capture a detailed appreciation of the way one organisation *actually* operated, taking into account the environment in which it operated, as well as its own unique organisational features, but to make sense of that, in terms of institutional theory.

NEW ACCOUNTING PRACTICES IN HEARTS AND HANDS.

Up until, and including, the year ended 30 June 1994, the annual financial reports of Hearts and Hands included a Balance Sheet, Income and Expenditure Statement, and a Statement of the Movement in Reserves for each of three funds, the Social Trust, the Property Fund, and the General Fund. The financial statements were audited by a "Big Six" (in those times) accounting firm, and were produced, according to the Audit Report, for distribution to members of the organisation. The report was not to be relied upon by any person other than those within Hearts and Hands. A primarily cash basis of accounting was used, the accounts

were not consolidated, and a Statement of Cash Flows was not prepared. 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. This had been the pattern of annual financial statements for Hearts and Hands for several years until those produced for the year ended 30th June 1995.

In that year, for the first time, consolidated accounts were produced. They included, also for the first time, as part of the financial statements, a letter from Hearts and Hands Chief Executive Officer, addressed to supporters and friends of the organisation. The letter highlighted the social needs Hearts and Hands was meeting, thanked friends for their support, and included an appeal for more help in the raising of funds for the work. A more streamlined set of financial statements followed, including a consolidated Income and Expenditure Statement, Balance Sheet and Statement of Cash Flows. For the first time, depreciation on additions to freehold buildings was adopted as a policy. The move towards accrual accounting had begun for Hearts and Hands. By 30 June 1997, the collectibility of trade and sundry debtors was assessed at year end, and provision was made for doubtful debts. In addition, the new set of financial statements included a statement by the trustees, signed by Hearts and Hands' Chief Financial Officer, stating that the financial statements represented 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.

At least three interesting observations can be made about these changes. First, the 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 donations¹³. Secondly, they went beyond the strict letter of the law as it applied to Hearts and Hands (i.e. Hearts and Hands' trust deeds and government requirements, which at the time did not make accrual accounting mandatory), or beyond the objective of deflecting any potential criticism of Hearts and Hands' financial practices¹⁴. This voluntary higher standard of reporting moved Hearts and Hands quite definitely into the corporate arena, as arena already entered by other organisations in the nonprofit field. Thirdly, this was achieved by the adoption of accrual accounting, professional accounting standards, and consolidated accounts. Linked to the desire to raise funds, there appeared to be, at this external level, no "sacred" cringe at entering a "secular" world and employing "secular" accounting techniques. A refinement of Hearts and Hands' image had occurred, where, overlaid on its excellent existing reputation for social action, it was now promoting itself not just as a caring organisation, but as an up-to-date, financially responsible organisation. New accounting practices were presented as the means by which this new image was projected. From an institutional perspective, the questions this raises are: how and why was the decision made to change the image, and how was the adoption of these new practices implemented at an organisational level?

Why? The decision to change.

¹³ A finance department employee revealed that there were 5,000 copies of the financial statements produced for the year ended 30th June 1996, as compared with the 500 copies that had been published the year before. It was, he acknowledged, an exercise designed to attract corporate sponsorship.

¹⁴ While there had not been any financial scandals, senior organisational members were sensitive about the issue, and acutely aware of their dependence, for fundraising purposes, on the donations and goodwill of the public.

Understanding why the decision was made to change the financial reporting system involves an understanding of both the institutional environment in which Hearts and Hands operated, which has already been highlighted, and also the intricacies of its own internal decision making structures and culture. The introduction of accrual accounting appeared to be a response to pressure from various sources. According to one Hearts and Hands social employee, accrual accounting "just appeared" in government contracts, not across the board, but here and there¹⁵. While there appeared, initially, to be no overall government policy, it became obvious that accrual accounting was highly likely to become a general requirement. In addition, it was recognised that the accounting profession was already foreshadowing the mandatory adoption of accrual accounting, and so it was in the interests of Hearts and Hands to adopt it.

Another factor in the initial adoption of depreciation was attributed to the government's cutback in the funding of capital works programmes for charitable organisations. 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 and Hands to set aside its own funds for building replacement. Depreciation was the means by which such an amount was calculated¹⁶. 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, hence the establishment of Asset Replacement Trusts was vital to Hearts and Hands' continuation of its mission.

The Business Secretary, a man with experience of accrual accounting within Hearts and Hands in the USA, described how nonprofit organisations there had been dragged "kicking and screaming" into the accrual accounting arena. The "fairly simple" cash based system that Hearts and Hands once used belonged to an earlier era, he said, where government regulations were simple, unlike the complex arrangements that had now been introduced. It was acknowledged that accrual accounting was the "trend", with most similar organisations moving in that direction.

Similarly, the production of consolidated accounts that were consistent with accounting standards, was another response to a growing trend within society for non-corporate organisations to adopt corporate-style accounts. The Government, as a major funder of Hearts and Hands, had already moved in that direction, and the presence of a corporate-minded advisory board, already mentioned, reinforced this influence. The appointment of a Chief Accountant who was a professional accountant, rather than an ordained clergyman, further committed Hearts and Hands to moving in that direction. Auditing, while it had been a feature of Hearts and Hands' financial statements since its inception, now took on a more complex role, as cracks in Hearts and Hands' accounting system showed up under the increased pressure that accrual accounting and the consolidation process imposed. The decision was therefore made at the top levels of the organisation, in an autocratic manner, as a response to institutional pressures and the desire to present an image consistent with the corporate world, where Hearts and Hands was increasingly looking for corporate donations. While not a directly regulatory pressure, it was certainly mimetic (based on the corporate environment and the fact that other nonprofit organisations had already taken up accrual

¹⁵ In the audited returns the government required from aged care centres, for example, salaries and wages had to be shown for 365 days, so accruals had to be calculated.

¹⁶ Hearts and 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 and Hands' head office.

accounting) and normative (society's pressure for increased financial accountability, together with the responsibilities and expectations of professional accountants within the organisation).

Because of the hierarchical, autocratic nature of Hearts and Hands, and the “sink or swim” culture, making the decision to move in that direction was probably the easiest part of the process. The desire was to keep the organisation up-to-date, at the cutting edge of fundraising. It was perceived that in order to maintain the legitimacy the organisation had enjoyed, and the fundraising benefits that followed as a result, more than sound financial practices were required. Attention also needed to be given to producing a carefully crafted image of corporate-style financial ability and accountability.

This new image was one that Hearts and Hands wanted to project, but it came at a cost, not just because it was a major change, but because of the unique nature of the organisation and its hierarchical structure, entrenched autocratic culture and lack of trained personnel. The simple statement, made in Hearts and Hands' financial statements for the year ended 30th June 1995, that depreciation on freehold buildings had been adopted as policy, gave no hint as to the upheavals that would follow in the organisation.

How? Adopting new accounting practices.

From the outset, the change was managed badly. In Hearts and Hands' guidelines to social centre managers about their budgets for 1996/97, for example, a mere two sentences established accrual accounting as the "basis for budgeting", and a brief explanation of depreciation was given:

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 capitalised and depreciated accordingly.

This gave an impression of relative simplicity, with no hint of the tensions and difficulties such an attempted change would cause. The three funds through which all Hearts and Hands' transactions were processed, have already been mentioned. The separation of general, property and social items had been seen as vital from an accountability point of view, and from a legal viewpoint, as stressed in Hearts and Hands' trust deed:

... full accounts of all money contributed collected or received for the Social work and of the application thereof should be kept in such manner as to keep the same always distinct and separate from the property of Hearts and Hands.

The practice of accounting for many years had been one of separation of funds received, authorisation, 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 specialised accounting training, but simply an understanding of basic record keeping, so the constant rotation of jobs, already highlighted, was a frequent occurrence, and ordained members, when required, took up accounting positions and discharged their duties as required, with varying levels of success. If successful, they moved up the hierarchy, and if unsuccessful, they were shifted sideways or down the hierarchical ladder. Decisions were

made at the top of the hierarchy, and the system was fairly unsophisticated. In keeping with the culture of the organisation, the emphasis was stringent adherence to rules and regulations, with the assumption being that if these regulations were being fulfilled, then "proper" accounting would automatically follow.

With the adoption of accrual accounting announced, what remained was for the system to be put into practice. That it took considerable time for the new system to be "digested" is hardly surprising, given the strength of Hearts and Hands' procedures and culture, and the initial absence of any meaningful training. The result after two years was that changes had not been implemented "completely and effectively", but had resulted in a "half-way situation between cash and accrual accounting", with managers and ordained members confused about the relationship between accrual and cash-based figures. While there was an acknowledgment among organisation members who understood government funding requirements and accounting, that the introduction of accrual accounting was an inevitable undertaking, response within Hearts and 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". Previously, he said, the attitude of the divisions and the centres had been to spend, spend, spend, and get the head office to bail them out, but now they would be forced to make provisions for the future. 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.

Positive responses seemed to be almost entirely from those who had some sort of financial expertise or accounting training, and yet even these were able to recognise the difficulty that many had with the adoption of accrual accounting:

... we've gone from cash accounting, manual books, to computerised 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.

Stimulated by the Year 2000 computer problem, but also by a raft of underlying frustrations and complaints about the new system, in 1997 Hearts and Hands commissioned a leading firm of chartered accountants to provide a review of the existing computerised accounting system. In their report they highlighted the negative impact of accrual accounting on Hearts and Hands. The report stated that most centre staff and divisional staff could not cope with the accrual accounting system nor with the accounting issues surrounding transactions. This impacted negatively on the quality of the financial information the accounting system produced. The reasons they identified for these problems were a reflection of the culture, systems and personnel employed at Hearts and Hands: accounting issues were not understood, nor were accounting policies and procedures developed; there was an absence of clear and useful accounting instructions from head office, which led to confusion in processing transactions; training was inadequate; bottlenecks occurred in the process because not all staff knew how to deal with the accrual accounting system.

These observations were borne out by the responses of individuals within the organisation, most being negative. They described accrual accounting as "much more technically demanding", "just impossible", "not very clear", "confusing", "much more complex" and "requiring additional supervision", all responses that reflected a lack of knowledge and expertise, as well as inadequate training and supervision. One divisional officer blamed the

head office's finance department for the poor implementation of the new system. According to him, they failed to "read" the organisation correctly, expecting more of ordained members and employees than they were capable of performing. One employee spoke positively of the training that had begun initially, but was discontinued, on the advice of a senior executive from head office. The person involved 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 old-fashioned autocratic system that the top drove the organisation 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.

One of the difficulties Hearts and Hands, and other nonprofit organisations, have, because of their budgetary constraints, is that they tend to employ people from "the bottom end of the market". This has meant that with the introduction of accrual accounting, even the bookkeepers were unable to cope with the new system without additional training or resources. Where they had been able to cope with the cash system, which was based on common sense and concrete concepts, they struggled with an accrual system. At some centres, some employees "panicked and left because they couldn't cope with accrual accounting".

The result was that at every level of the organisation, the gap between accountants and non-accountants was startlingly obvious. The Chief Accountant explained to managers and bookkeepers of social centres at a training day that assets over \$500 must now be capitalised rather than expensed, and that to expense them 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 was startlingly evident, and observing these difficulties at a grass roots level, it seemed amazing that the people at head office could have assumed that accrual accounting could be adopted with little or no training, fuss or bother. To me, as an outsider, it was an extraordinary assumption, but probably, given the organisational culture, it was in keeping with the way things in the past had always been done: a decision was made at head office level, and those underneath in the organisational hierarchy put it into practice without question. Accrual accounting proved to be not so simple, and yet still head office finance department staff described the incompetence of various centre managers, the wilful disobedience of managers who showed no respect for accounting deadlines, and a generally poor level of accounting understanding.

At the top levels of the hierarchy, organisation members were also having difficulty in making decisions about matters that required an understanding of accrual accounting. Top ranking members in most cases had come through Hearts and 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, the Chief Accountant 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. Frequently in such meetings, the accountants and non accountants seemed to be at odds, the accountants understanding the accounting that was being applied and being able to talk the language, with the other group obviously not grasping the concept.

The combination of a lack of accounting expertise on the part of ordained members and employees, and an insensitivity, on the part of those at head office, to this lack of expertise, proved to have a stifling effect on the adoption of accrual accounting. Both these factors

resulted from the entrenched organisational culture that was already in place when accrual accounting was introduced. To change such a culture was a huge undertaking:

... 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 computerised, 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.

The "lag" in the adoption of accrual accounting resulted in huge frustrations with the consolidation process as well. It was slow and unwieldy, and because of the lack of expertise demonstrated by ordained members and employees at every level of the organisational hierarchy, the finance department at head office, and particularly the fund accountants, experienced a great deal of frustration when performing the consolidation process. Figures that were unreliable, inaccurate and late were being transmitted to them from various centres. The Chief Accountant, who had formerly worked for a large international 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 former position, simply did not happen at Hearts and Hands. One ordained member from head office expressed frustration that the financial reports for the 30th 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". Corporate-style reporting had been adopted, but it was simply not a corporate-style organisation, even though some members recognised that it had to become much more oriented to that culture:

... it's no good putting (ordained members) there just to give them a job ... Hearts and 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, while sensible in a business sense, brought tensions within the organisation, with Hearts and Hands strong ordained culture evident in perceptions about internal audit work, for example. Even though the current head of the internal audit department was not the first professional accountant to be employed in this position, the presence of a non-ordained member in this role occasioned some negative feedback:

... professionally, probably quite sound, and I can see they're trying to work in with Hearts and 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 and Hands, and are not keen on promoting its cause through their lives, sure, our image will drop.

Where institutional theory assumes, or at least makes provision for, a decoupling of image and the reality behind the image, the integrity of many Hearts and Hands' ordained staff and employees required that their image should actually be a reality. They wanted to be as good as the public believed they were, and saw it as a contradiction of their mission if this were not the case.

Hearts and Hands made a huge leap when it moved to produce general purpose consolidated financial statements based on an accrual accounting system, in line with accounting standards. While the statements were produced, the organisation struggled to maintain the performance at such a level. Plagued with an outdated accounting system, with personnel who are poorly trained in accounting, and with an unwieldy computer system, it had to come to grips within a number of revolutionary changes.

Many of the aspects of this saga were difficult to understand. Why did the finance department fail to continue with the accounting training it initially began when accrual accounting was introduced? Why was it assumed that the new system, once announced, would simply be adopted? Why was there a sense of competition between the head office and the various divisional offices? Why was there an unease between professional accountants and other organisation members? The difficulties in implementing accrual accounting, and the ongoing problems Hearts and Hands faced, emanated from Hearts and Hands' distinctive culture, a culture that almost guaranteed it would struggle to make the changes that were required.

The adoption of accounting practices that were institutionalised in the corporate world, and were becoming so within the public sector, into a religious/charitable organisation, was a process that could not be explained merely in technical terms. The decision to move in that direction, based as it was on a perception of what the external world expected, and what would be advantageous for the organisation from a funding point of view, was made in an autocratic manner. The directive to implement it was made in a similar manner, one that was typical of Hearts and Hands' usual practices. In this organisation, the embedding of a new institutional practice was fraught with difficulty as it clashed, head on, with existing structures, cultures and routines. The energy required to implement such a change was huge, and to maintain it required a continuing expenditure of effort, as existing cultures threatened to swamp the new system. The story of Hearts and Hands illustrates that the adoption of an institutionalised practice by at least one organisation was not a passive activity.

A MODIFIED INSTITUTIONAL FRAMEWORK.

The notions of institutional isomorphism, organisational inertia and an organisation's imperative to achieve legitimacy, form the basis of much work based on institutional theory, and yet it has been suggested that while these concepts provide valuable insights, there has been too little attention devoted to the limits of these assumptions (Kraatz and Zajac, 1996, p. 812). The assumption of institutional isomorphism has been criticized for its "overly passive conception of individual action" (Roberts and Greenwood, 1997, p. 368, referring to Powell, 1991), for its downplaying of "organizational innovation and adaptation" (Davis and Powell, 1992, p. 342) and its passive view of human agency (Davis and Powell, 1992, p. 363). By assuming that organisations are passive players, researchers sometimes disregard the ability of individual organisational members to respond "proactively, creatively, and strategically to institutional influences" (Ang and Cummings, 1997, p. 235).

Institutional isomorphism could be thought of as a not completely straightforward process (Montgomery and Oliver, 1996), since there may be selection processes within organisations that either resist or adopt homogenising pressures (Oliver, 1988, p. 558; Powell, 1991, p. 195). Within organisations, there may be pockets of acquiescence or resistance, depending on the nature and intensity of institutional pressures, and the culture and organisational structures of the individual organisation. The organisation should not be thought of as "a unitary functioning agency with a unitary goal", and therefore its response to institutional

pressures would be made within the constraints of organisational ambiguities (Ahmed, 1992, p. 159). One of these could be organisational belief systems, particularly of a religious/charitable organisation, where an organisation might choose whether or not it would copy the behaviour of other organisations within the religious field (Demerath, 1998, pp. 168 - 169), and might choose to resist, for example, "bureaucratic isomorphism" (Nelson, 1993, p. 675). This was certainly the case with Hearts and Hands: different personnel groupings had different perceptions about what was acceptable in terms of acceptance of government funding, image production and the move to a more corporate style of management. The strong imperative, in the minds of many staff, for a correspondence between the organisational image and the reality behind that image has already been mentioned. Decoupling was seen as unacceptable and morally wrong if a false image was given of what actually went on within the organisation.

A body of literature on accounting in churches (Laughlin, 1988; Laughlin, 1990; Booth, 1993; Booth, 1995; Lightbody, 2000) suggests that the adoption of accounting practices in religious organisations, far from being an automatic response to external expectations, is actually resisted because of the perceived "sacred" nature of the organisations, as opposed to the "secular" nature of accounting and business. While this has been questioned and debated as being not necessarily the case in all religious organisations (Irvine, 1996; Jacobs and Walker, 2000; Irvine, 2002), nevertheless the notion raises the issue that automatic conformity to institutional expectations cannot be assumed. Within individual organisations 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 organisation's mission and belief system.

Other factors that might work against a passive response to institutional pressures could be resource dependencies (Oliver, 1991), functional complexity, technical uncertainty, organisational size (Ang and Cummings, 1997), the desire for organisational effectiveness, autonomy over decision making, flexibility, or satisfying conflicting internal demands (Townley, 1997, p. 262). The "old" institutionalism, in emphasising "organizational adaptation, change and uniqueness" rather than "inertia, persistence, and conformity" (Kraatz and Zajac, 1996, p. 833), avoided the charge of assuming organisations automatically conform with institutional pressures. Isomorphism, therefore, is not only a state, but a process subject to constant development and change. Once organisations have adopted institutions, those institutions must be maintained, changed (when new institutions are introduced), or eliminated.

As an extension of this emphasis on institutional isomorphism, institutional theory stresses conformity, not diversity, in spite of the fact that organisations are unique and individual, complex in their ways of learning and adopting new forms of organising (Roberts and Greenwood, 1997, p. 368). If studies were conducted at a micro level, a variability of organisational strategic responses to similar institutional environments could be observed (Zucker, 1991, p. 105), in contrast with the macro viewpoint. A study of "the more mundane and micro classes of organizational behaviors" could therefore reveal the "concrete" ways in which institutional systems are embedded in organisational systems (Meyerson, 1994, p. 650).

Interlocked with the failure of much institutional theory to acknowledge a variety of possible organisational responses to institutional pressures, and its seeming lack of interest in individual organisations, is its failure also to consider the dynamics of decision making. It has focused primarily on the capacity of institutional elements to constrain, rather than the links between institutions and actions (Barley and Tolbert, 1997). Perceptions of institutional

influences cause problems to be identified, alternatives to be proposed, and responses to be determined, in something like a "garbage can process embedded in a large institutional environment" (Mezias and Scarselletta (1994, p. 655).

Is institutionalisation to be regarded as a "why" or a "how"? The "why" viewpoint looks at the macro view, with the entire cultural or social system seen as an entity in which organisations operate. This offers valuable insights. It also has a "micro" element, however, if the possibility of resistance to institutional pressures is entertained. The "how" concentrates on the development, over time, of regulative, normative or mimetic systems (Scott, 1995, p. 64). If, as Zucker (1977, p. 728) suggested, institutionalisation is *both* "a process and a property variable", then both provide valuable and complementary insights into the creation, change, maintenance and diffusion of institutions. The development of technological practices provides an interesting example of the distinction: new technology could be introduced by technical considerations, but over time, its significance could change as it became institutionalised, with the focus more on the symbolic aspects of technology (Roberts and Greenwood, 1997, p. 353). The interesting question would be not just the why, as the environment specified the structure, level and nature of technology imposed, but the how, i.e. the mechanisms whereby it was introduced (Meyer et al, 1992, pp. 61 - 64).

Perceptions of institutional constraints are important factors that determine to what extent organisational change will occur:

... any theory of organizational change must also take into account the fact that the leaders of organizations watch one another and adopt what they perceive as successful strategies for growth and organizational structure. The picture one obtains is that organizational change will occur in a murky environment guided by what key powerful actors perceive and their abilities to implement change (Fligstein, 1985, p. 389).

If institutionalisation is to be studied as a process, then the behaviours whereby individuals and organisations "deliberately modify and even eliminate institutions", in a combination of choice and action, will be most relevant (Barley and Tolbert, 1997, pp. 94, 112). Bordt's (1997) study on the institutionalisation of "alternative" ideas and structures, highlighted the role of "human agency and interest" in the formation of institutions:

... an institution does not materialize out of the blue; nor is the process of institutionalization inevitable. It is the result of the work of individuals or a group of actors with particular interests; the process is political and often highly contested. Therefore, if alternative organizational forms are able to surface and eventually become institutionalized themselves, it should be viewed as a result of the actions of interested parties (Bordt, 1997, p. 136).

Institutional theory, it is claimed, has emphasised change within a population of organisations, to the neglect of emphasis on "the intraorganizational transformation process itself" (Bacharach et al, 1996, p. 501). It is likely that when organisational actors at the institutional level adopt a "new logic of action", it will be "inconsistent with the logics held by actors at the core level of the organization". The result is dissonance, with the possibility of increasing dissonance as the various hierarchical levels of the organisation are brought into "alignment" (Bacharach et al, 1996, p. 502).

Obviously, an understanding of the network structures within organisational populations is essential to an understanding of how various institutionally acceptable practices spread across an organisational field (Davis and Greve, 1997, p. 34), but individual organisations might operate under different "institutional logics", that may cause them to resist pressures for change (Townley, 1997, p. 264). The result would be that while the environment may require conformity to institutional "norms", organisations could choose the extent to which they would conform to those "norms".

If change does occur, opinions vary as to how the process happens. It has been suggested that strong forces within organisations resist change in cultural beliefs (Zucker, 1977), as demonstrated in the case of Hearts and Hands. Once a practice has been institutionalised, the notion of "cultural persistence" leads to its maintenance, through being embedded in networks, and resistance towards pressure to change (Zucker, 1988). The traditional cash book style of accounting that Hearts and Hands had employed for many years led to the entrenchment of a particular culture, which was overturned on the introduction of a system which required more than common sense, but some specific accounting training. Perhaps it is the maintenance of institutions that requires explanation, since it requires continuing effort in order to ensure that structures do not erode or dissolve (Scott, 1995, 79), and if left alone, would lead to organisational entropy. In some situations, institutional constraints aid the maintenance of institutions over a long period of time (Miller, 1994), but whatever the situation, the process by which ideas and procedures become institutionalised over time, i.e. by which "external legitimating functions become internal reality" (Ansari and Euske, 1987, p. 564) is subject to a variety of influences, from forces both external and internal to the organisation. In the case of Hearts and Hands, it depended on perceptions of institutional pressures (the need to fit in with corporate culture), resource dependencies (a heavy reliance on government funding and the need to raise funds from the general public), and the organisation's own structures, cultures and routines, including decision making processes (top driven with entrenched attitudes and differences between ordained staff and employees). In theory it is not likely to be a smooth and untroubled process, which means that studies of individual organisations will provide valuable insights into the different dynamics in play at a micro level.

Organisational response to the various features of the institutional environment would appear to depend not only on its resource dependencies, but also on the strength of agreement about organisational identity between organisational members, and its decision making structure. An organisation, depending on the strength of agreement about what constitutes its reason for existence, and whether institutional pressures conflict with those beliefs (as demonstrated by the comments regarding the role of professional auditors within Hearts and Hands), could respond in a variety of ways.

Table 2 below, "Summary of revised institutional concepts", outlines, as the title suggests, a combination of concepts, highlighting that many of the features of each represent opposite responses (or strategies) by which an organisation strives to maintain legitimacy, but also, on the other hand, pro-actively to acquire the resources it needs in order to ensure its survival. Accounting, it is believed, has a significant role to play in the achievement of both these goals.

Issue	Explanation
Institution	An institution is an established, legitimated procedure, which transcends the technical and incorporates additional, unseen, taken-for-granted societal values. These values emanate from a number of sources (coercive, normative and mimetic), and exert pressure upon organisations. Some institutions, e.g. entrenched cultures and attitudes, exist within an organisation.
Institutionalis- -ation	Institutionalisation is the process whereby an organisation adopts the unseen institutions of society. It is by no means a straightforward or guaranteed process, and occurs in response not only to external institutional pressures, but also to those which have been developed internally, as a result of an organisation's own unique founding, history and culture. Internal and external institutions sometimes will be in opposition.
Legitimacy	Organisations are concerned to maintain their image as legitimate in order, ultimately, to obtain the resources necessary to survive. An organisation that adopts institutionally acceptable values and practices is more likely to be able to establish itself as a legitimate claimant of economic resources.
Isomorphism	Organisations tend to conform to institutional expectations, but there is scope for a variety of organisational responses to those expectations, depending on the nature of both external pressures and internal organisational factors.
Decoupling	There is a tendency for organisational structures to be decoupled or loosely coupled in relation to actual processes. If structures are decoupled or loosely coupled, there is a concern to maintain an image of legitimacy. The greater an organisation's reliance on technical factors, and the higher the desire of members to present an image that is consistent with reality, the more likely it is that decoupling will be constrained.
Accounting	Accounting is more than a technical craft, but is an institutional element in itself, with powerful legitimising potential. The professionalisation of the accounting function within society reinforces the institutionalisation of accounting within organisations.

Table 2. Summary of revised institutional concepts.

If accounting, budgeting and other related matters, such as organisational structure, management styles, human resource programs, and public relations strategies, are viewed as institutional "givens", expectations, or requirements for success, then applying the notion of individual response will open up possibilities for a variety of differences in the institutional process at an organisational level. This response may not be dependent merely on whether certain rules or practices offer legitimacy and, therefore, benefits in terms of resources, but also on whether those rules or expectations are consistent with the organisation's core belief structure, cultural identity, unity and resourcing dynamics.

The issue, from an institutional theory viewpoint, then becomes whether the organisation is content to become isomorphic with its external institutional environment, or whether it is prepared to offer resistance to such pressures. Pressures are being exerted concurrently, from both inside and outside the organisation. The stage is thus set for a rich human drama within an organisational setting.

In the offering of resistance to pressures for isomorphism, an organisation may decide to manipulate its environment actively in order to obtain resources. Expectations of accounting, should such a scenario occur, will differ significantly from the role and expectations in a "decoupled" (or loosely coupled) situation, where its value lies primarily in its legitimating potential. Once an organisation has granted admission to accounting, as part of its acquiescence to institutional pressures, its role will not remain static. Pressures for the significance of accounting to change will be felt from at least three areas. First, there will be pressure for the accounting function to grow in size and significance. Secondly, the accounting function will become professionalised, and the professionals who perform accounting functions will exert pressure, as they seek to increase the domain and method of practice of accounting within the organisation. Thirdly, pressure will come from accounting strategies the organisation devises to assist it in managing its environment and pro-actively obtaining resources. Requirements of accounting in this situation may be very different from those expected merely to ensure that the image of the organisation is isomorphic with institutional patterns of accounting.

FUTURE DIRECTIONS.

This study of the changes in Hearts and Hands' accounting system has provided not only a snapshot of one organisation as it has struggled to implement new accounting practices, but also provides an opportunity to critique the usefulness of neo-institutional theory in understanding what occurs at a micro level, in an individual organisation faced with the adoption of new institutionally acceptable practices. In the light of this case, the following three themes follow from an analysis of both institutional theory and Hearts and Hands' case, and are proposed as a framework for future studies of individual organisations' responses to institutional pressures.

Accounting has already been demonstrated to offer a badge of legitimacy to organisations. A situation of ambiguity could exist in the organisation's external environment, about issues such as funding, government reporting requirements, public perceptions, or general uncertainty about the future of the organisation. Internally, there may be disagreement about organisational goals or culture, or what constitutes acceptable organisational behaviour, or responses to external institutional pressures. In such ambiguous situations, an organisation may respond by re-asserting its legitimacy in a number of ways. Accounting would be one potentially powerful way to demonstrate this. If these uncertainties existed, then the adoption of institutional practices is likely to be far from an automatic or agreed-upon occurrence.

- 1. Will there be pressure, in times of change and uncertainty, for the profile of accounting to increase? If so, would this be in order to exhibit greater conformity with institutional practices and thereby to maintain the legitimacy of the organisation?**

As illustrated by the Hearts and Hands' case, an increase in the profile of accounting in an organisation can put pressure on existing employees to perform accounting tasks for which

they may be unqualified¹⁷. In order to fulfill new accounting expectations, there will be a growing need for the expertise of trained accountants. The professionalisation of a work force has been identified as an example of normative institutional pressure. Trained professional accountants can be expected to perceive organisational problems and solutions in a unique way, influencing existing organisational structures, cultures and routines in a way which could be in conflict with the deeply held religious convictions or the historically informed culture of organisational members. Feedback would be likely to bounce back from the environment into the internal workings of the organisation, with the result that as non-qualified employees are replaced or supplemented with trained accountants, internal organisational dynamics could change significantly. This will be especially obvious in nonprofit organisations, particularly religious organisations, which have not traditionally relied heavily on trained accountants.

2. As expectations of accounting increase, will the role of professional accountants also increase? If it does, what impact will this have on established organisational structures, cultures and routines?

Organisational response to pressures for institutional isomorphism is not always positive, uniform or agreed-upon. For a variety of reasons, an organisation may resist pressures for conformity, instead initiating pro-active behaviour with the aim of securing and assuring its resource base. In such a case, accounting may be required to play more than a legitimating role. Where accounting structures and actual practice were previously de-coupled or loosely-coupled, there may now be pressure for a re-coupling of these structures and activities. Accounting does have a technical role to play in organisations. It is certainly not its only role, but it can be significant when an organisation begins to define and measure its output in numeric terms. This theme is particularly relevant to one aspect of Hearts and Hands' operations that was not discussed in this paper, the running of its business arms in order to fund some of its ministries. Many religious/charitable organisations conduct such businesses, increasingly being forced into that role in order to protect ministries they perceive to be at risk. These three themes, the profile of accounting, its professionalisation, and its technical role, are inextricably linked in a combination of reflexive relationships.

3. If an organisation undertakes active choice behaviours in relation to its resource base, will expectations of accounting change? Will organisational actors be satisfied for accounting to play a decoupled, symbolic role, or will there be pressure exerted for accounting to play a greater technical role?

There have been numerous calls for more research on accounting as it is practised within an institutionalised environment¹⁸, and this study of Hearts and Hands represents a response to

¹⁷ This may have a greater impact in a religious/charitable organisation which has traditionally not placed a high reliance on accounting techniques, and therefore may not have suitably qualified personnel.

¹⁸ Booth (1995) called for more stories about accounting as it was practised; Covaleski and Dirsmith (1988) called for more historically informed case studies to investigate why accounting may come into a setting, and

those calls. Organisational attitudes to accounting practices can be described and interpreted in the context not only of external institutional influences, but of an organisation's own internally developed structures, cultures and routines.

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how it may be determined and affected by various institutional and societal forces; Meyer (1994) urged more research into the expansion of accounting activity in organisations.

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