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Changes in accounting and financial information system in a Spanish electricity company: A new institutional theory analysis

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Abstract

This paper reports on the results of an intensive case study that investigated changes in the accounting and financial information system of a large Spanish electricity company (Sevillana). Sevillana was acquired by the Endesa Group upon the deregulation of the Spanish electricity sector (SES). Drawing on data from multiple sources including interviews, observations, discussions and documents, the paper aims to theorize the change in the accounting and financial information system. An integrated accounting and financial information system was imposed by the Endesa head office on Sevillana and other Endesa subsidiaries to support organizational changes designed in response to regulatory requirements. The institutional senvironment also interacted with market forces and intra-organizational power relations to either directly or indirectly influence the changes in the accounting and financial information system. Given the interplay between these forces, the paper draws on and extends the New Institutional Sociology (NIS) theory [DiMaggio, P.J., Powell, W.W., 1983. The iron cage revisited: institutional isomorphism and collective rationality in organizational fields. Am. Sociol. Rev. 48, 147–160; Powell, W.W., DiMaggio, P.J., 1991. The New Institutionalism in Organizational Analysis. The University of Chicago Press, pp. 183-203] to understand the dynamics of the change.

Keywords: Institutional theory; Market forces; Accounting and financial information system; Spanish electricity sector; Deregulation; Organizational change; Intra-organizational power

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1. Introduction

Organizational change has generated much discussion in the literature over the years (Mizruchi and Fein, 1999; Townley, 2002). Perhaps no industry has attracted as much attention in terms of change in recent years as the utilities sector (Ogden, 1995, 1997; Nwaeze and Mereba, 1997; Shaoul, 1997; Parker, 2000). Several Western governments have deregulated their utility sectors and this has changed the institutional environments of utility companies by creating more competition (Ogden, 1995, 1997; Dacin et al., 2002). In Spain, a wider privatization programme was started by the government in the mid-1980s, and between the years 1996 and 1998, for example, more than €21 billion was raised from the sale of equity shares in major public enterprises (Noceda, 1999).[1] One of the major sectors affected was the Spanish electricity sector (SES), which was deregulated in 1997 (under Electricity Sector Law 54/1997) in response to a European Union Directive.

Our case organization (Sevillana), which was one of the major electricity companies in Spain prior to the deregulation, was confronted with institutional change and market competition. As a result of the impending deregulation, the company was partially privatized and sold to the Endesa Group at the end of 1996. The new SES law also required the juridical separation of electricity activities and the introduction of competitive practices into the sector. The Endesa Group responded to these regulatory requirements by dissolving Sevillana and other Endesa subsidiaries and instead created new business lines. By creating these new business lines, the Endesa Group was allowed to engage in all four electricity activities (Generation, Commercialization, Transportation, and Distribution), which the new SES regulation prohibits a single company from undertaking.

A new integrated accounting and financial information system was then implemented by the Group to support the new organizational form. Given the role of the regulatory environment in driving change in the SES in general, and in our case organization in specific, New Institutional Sociology (NIS) (DiMaggio and Powell, 1983, 1991) is adopted in the paper to explain and understand the dynamics of the change in the accounting and financial information system. The focus of the paper is therefore on explaining and understanding how the change in the accounting and financial information system was shaped by both exogenous and endogenous forces.

NIS has been adopted in the accounting literature to explain accounting choice in both the public and the private sector (Whitley, 1999; Hussain and Hoque, 2002; Collier, 2001; Modell, 2002). These studies have focused on, amongst other things, identifying and explaining the sources of isomorphic pressures on the adoption of accounting systems (Brignall and Modell, 2000; Carpenter and Feroz, 2001; Hussain and Hoque, 2002), the interplay between institutional and technical environments (Hoque and Hopper, 1997; Hussain and Hoque, 2002; Modell, 2002), and the power and actions of individual organizational actors to respond to the institutional pressures (Collier, 2001; Modell, 2002). NIS is particularly relevant for analysing organizations that are confronted with uncertainties and, as a result, compete for political and institutional legitimacy and market position. These fit in with our case organization.

While NIS has made a significant contribution to our understanding of accounting practices, it has been criticized for its inability to capture the dynamics of organizational change because of its failure to adequately theorize market competition and intra-organizational power relations (Powell, 1991; Oliver, 1992; D'Aunno et al., 2000; Dillard et al., 2004). As identified above, the change in our case company was driven by changes in the institutional environment and the introduction of market competition. However,

[1] Examples of the enterprises sold include Telefónica, Iberia, Tabacalera, and Aceralia.