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The changing role of accounting: From consumers to shareholders

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ABSTRACT

From the view of accounting as a social, political and institutional practice, this study examines the processes of accounting change as a State-sponsored consumer co-operative transformed to a private sector company pursuing profitability and value creation for shareholders. Accounting policy and practice were important aspects of the institutional and regulatory logics as the organisation changed from an entity focused on community service obligations to one that was profit driven. The State was the main factor/agent enabling this change. We frame our study within institutional theory and the political economy of accounting. We use institutional theory to inform our understanding of the institutional terrain and the political economy of accounting to understand the power and coercion of the State. Accounting rules and practices were co-opted to provide legitimacy, resistance, institutional logic, coercive change, and to redistribute wealth and power in society.

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1. Introduction

Accounting practices emerge in the context of various organisational, political, social and state contexts. This emergence is situated in the particulars of certain locations and their related complexities. In this paper we present an historical case study which examines the cultural, institutional, political, economic and social impacts on the annual reporting of a New Zealand electricity entity, the Waitemata Electric Power Board (WEPB), from its beginning in 1924 until its sale in 2002. We frame our study within the political economy of accounting (PEA) and institutional theory. PEA perceives accounting reports as social, political and economic documents and recognises power and conflict in society and the influence of accounting practice and reporting on the distribution of wealth (Cooper & Sherer, 1984). Institutional theory provides a framework for understanding the institutional context and shift that occurred from a co-operative form of business organisation to a corporate form of organisation (Archel, Husillos, & Spence, 2011; Spence, Husillos, & Correa-Ruiz, 2010; Suddaby, Cooper, & Greenwood, 2007). We use case-based research because it provides for a detailed contextual analysis of events in explaining and understanding the historical development of accounting practice and reporting (Previts, Parker, & Coffman, 1990a, 1990b). The political economy that we emphasise is the historical and institutional environment of the society in which our case organisation operated.

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Organisations choose particular reporting techniques in order to construct relationships with the various elements of the environment within which they operate. We observe the influence of socio-historical circumstances, the role of financial reporting in the development of new management practices and new accountabilities (Hopwood, 1992; Potter, 2005), and how accounting reflects its context and makes sense of and shapes that context (Davis, Menon, & Morgan, 1982). As WEPB changed from a State-sponsored consumer co-operative to a private sector company pursuing profitability, we find that the power of the State enabled the changes; and institutional logics were used to integrate and differentiate the social actors within the moving institutional terrains (Suddaby et al., 2007). Therefore, the study highlights the significance of accounting as a social-political activity and the coercive role of the State in embedding dominant interests by co-opting accounting practices (Archel et al., 2011).

We mainly draw on archival material for this study, including the annual reports from 1924 to 2001, correspondence, special reports, staff magazines and communications from management to employees. Our analysis is enriched by interviews with three WEPB ex-employees (secretary/treasurer (A1); accountant (A2); secretary/treasurer/General Manager (A3)) who are now retired.¹ These semi-structured interviews provide insights into the development of accounting at WEPB and the way that development was influenced by a range of forces in the institutional environment.

The paper proceeds with an outline of the theoretical framework and consideration of a range of studies that examine the institutional logics and macro issues of power on organisational and accounting change. The next section explains the industry background of the case entity. Section 4 describes the development of WEPB from 1924 until its sale in 2002. In Section 5 we examine the socio-political constitution of accounting practice – specifically accounting practices that sometimes resisted changes and at other times produced changes in assets, equity, liabilities and profits; the political forces that influenced the operations of WEPB; and the changing form of the annual reporting. This followed by our conclusions.

2. Political economy and institutional theories of accounting

The political economy of accounting is a term presented by Tinker (1980) and extended by Cooper and Sherer (1984). It recognises the institutional environment within which corporate reporting is situated, and acknowledges the organisation as a social-political entity (Samson & Daft, 2003). PEA posits that the nature of accounting is constructed by the exercise of social and political power (Lehman & Tinker, 1987). It recognises the inherently political character of an organisation and the role of accounting in maintaining relationships of power and domination in its development (Cooper, 1983). The PEA perspective is characterised by conflict and unequal distribution of wealth and power in society, with accounting having a significant role in supporting this situation (Archel, Husillos, Larrinaga, & Spence, 2009; Gray, Owen, & Adams, 1996). The outcomes of accounting policy and practice are essentially political in that they operate for the benefit of some groups in society (e.g. financial and shareholder interests) and disadvantage others (Cooper & Sherer, 1984, Craig & Amernic, 2006). In this context, accounting information is considered as a disciplinary and control measure that instigates and supports power-based relations existing in the State and the organisation (Archel et al., 2009; Dillard, 1991). This implies that the practice of accounting is not neutral, and that power and conflict exist both within and outside organisations (Tinker, Lehman, & Neimark, 1991).

Our focus is annual reporting framed within a political economy perspective to examine factors external to the organisation that affected what was communicated to stakeholders. Accounting was influenced by the processes of change involving the State, political ideologies, organisational forms, customers, voters at the local and national level, markets and financiers. Wickramasinghe and Hopper (2005) demonstrate the usefulness of a political economy view of accounting when looking at accounting change within an organisation. Accounting viewed in such a way acknowledges its contingent nature and that the relationship of accounting and economic transformation is complex at the organisational, State and global levels. PEA provides a framework for us to identify strategic actions that the case organisation enacted to resist change and establish order and stability by minimising electricity prices for consumers. In addition, PEA provides a framework to identify actions promoting change and to understand the power of the State in maximising economic returns from the political environment, and ensuring that the welfare of shareholders was paramount. We highlight the interrelationship of accounting and the State.

The view of accounting as a social, political and institutional practice has resulted in a range of studies which reflect a need to understand how accounting changes within specific settings (Potter, 2005). These studies suggest that accounting is influenced by the context in which it operates (e.g., Burchell, Clubb, & Hopwood, 1985; Carnegie, 1993; Dillard, Rigsby, & Goodman, 2004; Gomes, Carnegie, & Rodrigues, 2008; Hopwood, 1983, 1990; Ligouri & Steccoloni, 2011; Napier, 1989) and reflect Hopwood's (1983) view that accounting and organisational functioning are intertwined. Within this perspective, Burchell et al. (1985, p. 32) noted that social forces 'impinge upon and change accounting' and that financial accounting and reporting reflect and respond to complex institutional processes. Therefore accounting is 'implicated in the life of individuals, organisations, and society' (Craig & Amernic, 2006).

A number of researchers have studied the motivators of accounting change. These include changes in the operating environment (Gray & Haslam, 1990), external constituencies (Bhimani, 1993; Dent, 1991; Ligouri & Steccoloni, 2011), and

¹ Two researchers interviewed each ex-employee for approximately 2 h. Discussions focused on changes in annual reporting and the influences on those changes. The interviews were recorded and transcribed.

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