

The Role Of Climate And Culture In The Implementation Of Accrual Accounting: A Conceptual Paper¹

Zakiah Saleh
Haslida Abu Hasan
Che Ruhana Isa

University of Malaya

Yap Kiew Heong

HELP University

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Abstract

Accrual accounting is recognized to provide more accurate financial information compared to cash accounting. Implementing accrual accounting is among the strategic initiatives by governments across the globe, as well as Malaysia to ensure transparency and accountability in government's financial reporting. The transition from cash basis accounting traditionally used by government to the new accrual accounting regime is highly dependent on the acceptance and commitment of the members of the organizations. As implementation of accrual accounting is a form of change initiatives, conducive organizational climate and culture are important in ensuring successful implementation of the new regime of accrual accounting. Change climate involves change of policies, practices, procedures, routine and rewards systems while change culture involves change of employees' deeply held values and beliefs. This paper proposes a research framework to explore the influence of organizational climate and culture towards successful implementation of accrual accounting in Malaysia.

Keywords: accrual accounting, organizational culture, organizational climate, change management, public sector

1.0 Introduction

As Malaysia moves towards developed nation status, which requires higher investments in infrastructure and supply of goods and services, sound financial governance is necessary. Among the elements of good financial governance are transparency and accountability, which can be achieved with accrual accounting. In 2011, the government of Malaysia decided to adopt accrual accounting for the federal government, with a target of full implementation in

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2015. The decision was made as part of the Strategic Reform Initiatives related to Public Finance (PEMANDU, 2010 and 2015). Nevertheless, despite the efforts to build capacity in both human resource and system by the federal government, full implementation of accrual accounting had to be postponed to 2018.

Implementing accrual accounting requires huge amount of investment in infrastructure, information technology and training of the employees. According to a study done on managing change towards accrual accounting, factors such as top management support, organizational leadership, awareness level, organizational support for staff training, information flow, infrastructure and budget, are critical for successful implementation of accrual accounting (Isa, Saleh and Abu Hasan, 2013). Apart from ensuring successful implementation of accrual accounting, the government must also ensure sustainability of change. Sustainability of change requires support from all parties involved including top management, implementers and users, as well as conducive organizational climate and culture.

Various literatures have highlighted the importance of organizational climate and culture in ensuring successful change initiative. According to Schneider, Ehrhart and Macey (2013), changes in the psychology of employees are pivotal in ensuring the effectiveness and sustainability of any change programs. Sustainable change requires both changes in climate and culture. The same conclusion was made by Mehrolhassani, Khayatzadeh-Mahani and Emami (2015) who studied implementation status of accrual accounting in the health sector in Iran. They recommended that apart from codifying a change plan and analysis of threats, opportunities, strengths and weaknesses, a vital measure to implement change would be to change organizational culture which in turn will affect individuals' behaviours and decisions.

Change climate consisting of structure, policies, procedures, practices and reward systems at all levels of organizations must be consistent with the goals of the change program in order for change program to succeed and sustained. Culture is the implanted beliefs and values of the members within an organization. It resides within a deeper psychology level of the members, hence the beliefs and values are not so visible, whereas climate in term of policies, practices and rewards are observable. Change culture is possible if organization alters its climate such as daily policies, procedures, routines and practices, then the employees' beliefs and values will be impacted in guiding their actions (Schneider, Brief and Guzzo, 1996).

Consistent with the above discussion, it can be concluded that climate can influence culture of the employees which will then drive employees' values and beliefs to support the change. Hence, the general aim of this paper is to develop a framework to explore the nature of relationship between climate, culture and successful implementation of accrual accounting.

The remaining of this paper is organised as follows: Section 2 explores the literature, followed by discussions on the theoretical perspectives and the proposed research framework in section 3. Section 4 briefly introduced the proposed method and the paper then ends with a conclusion in section 5.

2.0 Literature review

2.1 Accrual Accounting In Public Sector

Accrual accounting is a method of recording income as it is earned and expenses as they are incurred during an accounting period in contrast to cash basis that records cash receipts and payments when they are received or paid. This basis of recording income and expenses as and when incurred in accrual accounting is claimed to enhance accountability and facilitates better asset-liability management. As argued by The International Federation of Accountants (IFAC) (2014), accrual based financial reporting system is essential to enhance accountability and transparency in government financial reporting. IFAC issued International Public Sector Accounting Standards (IPSAS) to guide governments in implementing accrual accounting system. In Malaysia, the government issued the Malaysian Public Sector Accounting Standards (MPSAS), which are adapted from IPSAS but taken into consideration the local legislation requirements. Accrual accounting provides:

- i. accurate and complete information on expenditures and transactions;
- ii. clear and comprehensive information regarding the financial consequences of economic, political and social decisions;
- iii. full disclosure of all assets, liabilities, and contingent liabilities; and
- iv. motivation for government leaders to make decisions that focus on long-term sustainability, and which are not driven by short-term political incentives.

Schneider et al. (2013) argue that changes in the employees' psychology play a very critical role in guaranteeing change programs be effective and sustainable. They further argue that appropriate climate and culture is necessary to ensure sustainable change. Implementation of accrual accounting in Malaysia represents change in a system. It involves total change in the accounting system involving policies, facilities, accounting software, human resource and capacity building. Thus, organizational and individual factors affected by the change need to be considered to ensure successful implementation of the change program.

Susceptibility in change program can be envisaged by clear benefits gained upon implementation of the change program. Despite of many benefits claimed for accrual accounting, it is difficult to assess with any degree of certainty whether the benefits of accrual accounting will accrue. In addition, it is suggested that the change to accrual accounting may be difficult to justify in cost-benefit terms. Many of the claimed benefits may not materialize (Mellott, 2002). Connolly and Hyndman (2006) studied the actual implementation of accruals accounting for UK public sector; they found that staff shortages, skilled shortages and very tight deadlines and peaks of activity were highlighted as challenges to efficient implementation. The introduction of accrual accounting may be a possible source of new difficulties, such as its complexity, validity of information provided and barriers to effective accountability and control.

Studies related to implementation of accrual accounting in Malaysia vary from looking into specific accounting issues such as heritage, military and infrastructure assets (Basnan, Salleh, Ahmad, Harun and Upawi, 2015), property, plant and equipment (Ismail, Abdullah and Zainuddin, 2012) to readiness of the Malaysian public sector employees to adopt accrual accounting (Azmi and Mohamed, 2014; Atan and Yahya, 2015). Isa et al. (2013) study reported on the factors influencing successful implementation of accrual accounting, suggesting that fostering cultural change is necessary. However, no study has been done to examine the influence of organizational climate and culture on the change initiative, i.e. implementation of accrual accounting in the public sector, in Malaysia.

2.2 Change Climate And Change Culture For Sustainable Change Program

Four factors that need to be considered in studying change management according to Kuipers, Higgs, Kickert, Tummers, Grandia and van der Voet, J. (2014) are: context, content, process and outcomes of change. According to Philippidou et al., (2008), context factor refers the external and internal environments surrounding the change such as changing political environment. Armenakis and Bedeian (1999) define content factor include strategies, structures, and systems. Pollit and Boucket (2004) suggest New Public Management, such as implementation of accrual accounting is an example of content factor. On the other hand, process factor are factors involved in the implementation of change – intervention and processes (Armenakis and Bedeian, 1999). Outcomes of change refer to attitudes, behaviors and experiences of those involved in the change (Armenakis and Bedeian, 1999). Referring the definitions above, the main focus of this study are content, process and outcomes of change. In addition, leadership of change is also considered as one of the critical factors highlighted in change management literature.

Schneider et al. (2013) argued that change only can be sustained and produce the desired results through total organizational change (TOC). TOC can lead to sustained change through the lenses of climate and culture. This means, change program can succeed and be sustained if the change climate consisting of structure, policies, procedures, practices and reward systems at all levels of organizations are consistent with the goals of the change program, which can then influence the values and beliefs of the members to support the change.

Sustainable change need acceptance of organizational members. Since organizations consist of employees, changing the mind sets of employees to embrace the changes is important (Schneider et al., 2013). The presence of the right organizational climate and culture are argued to influence the success of change programs. Organizational climate refers to the ‘policies, practices, procedures, and routines’ while organizational culture is related to ‘values and beliefs’. Climate and culture are interconnected as employees’ values and beliefs (culture) may influence the interpretation of the climate. Many have argued that change climate is a prerequisite of change culture, which suggest the right change structure and systems have to be prepared for employees to embrace the change. Similar to other organizational changes, the implementation of accrual accounting system in the government bodies will require the right climate and culture for it to be sustainable and ultimately achieve the government’s goal

in enhancing accountability and governance.

The focus on organizational climate originated from the early work on productivity by Kurt Lewin and his co-researchers (Schneider et al., 2013). They argued that productivity of employees is influenced by 'social climates' in the organization. Different leadership styles, democratic or authoritarian, were found to create different climate but had similar impact on productivity. However, employees were more satisfied under a democratic leader. McGregor (2005) examined the concept in the context of business and industry. His research came out with four key dimensions of climate: nature of interpersonal relationships, the nature of hierarchy, the nature of work and the focus of support and rewards. Organizational climate is shaped by structure, including leadership, systems, policies and procedures that exist in organizations. In particular, the use of cross-functional governance teams, a leadership style that values integrity, fosters open communications and takes a more strategic long-term outlook, the development of a culture that encourages learning, honesty and willingness to voice concern all are seen as critical for effective governance (Subramaniam, Stewart, Ng and Shulman, 2013).

Organizational culture refers to the inner belief and values of organizational members, which 'resides at a deeper level of people's psychology' (Schneider et al., 2013). Culture is argued to be influenced by organizational climate. The organizational members' beliefs and values are shaped by the climate in the organization. For example, a performance measurement and reward system (climate) that emphasizes measure of quality, will lead employees to believe that the organization put high values in quality (culture). In other words, the presence of conducive change climate can create change culture.

While organization climate and culture remain major concern when considering change programme, staff members' willingness or commitment is essential to ensure successful implementation of new accounting system. Commitment is willingness of staff members to make short-term sacrifices to realize long-term benefits (Jin and Zhang, 2012). Government agency may contribute a set of inducements and design processes aimed at motivating members to commit itself to accepting goals and values jointly established for the change project.

3.0 Proposed Research Framework

So far, studies on accrual accounting in Malaysia have explored and found the needs for enhanced knowledge, system, communication, leadership support, proper planning etc., while the influence of climate and culture has yet to be studied. Literatures also suggested that human factor influenced significantly especially on the period required to implement change. Human are also the main factors that determine organizational climate and culture. Thus, this paper aims to fill the gap in literature on how organizational climate and culture influence the implementation of accrual accounting. This study will examine the influence of organizational climate and culture towards successful implementation of accrual accounting.

3.1 Theoretical Framework

Climate

Climate reflects peoples' perceptions on how environmental attributes shaping expectations about requirements, outcomes, contingencies and interactions in the work environments (Parker, Baltes, Young, Huff, Altmann, Lacost and Roberts, 2003). These social environments were the initial assumption of theory and research of organizational climate. Few theories have been used to define climate's impact on creative achievements. According to theory of intrinsic motivation (Amabile and Conti, 1999), eight (8) dimension model consisting of (1) work group support, (2) challenging work, (3) organizational encouragement, (4) supervisory encouragement, (5) organizational impediments, (6) freedom, (7) workload pressure, and (8) sufficient resources, influence climate for creativity.

Other climate approaches proposed included engagement (Mossholder and Dewhurst, 1980), organizational reinforces (Abbey and Dickson, 1983), environmental appraisal (Tesluk, Farr and Klein, 1997) and organizational learning theory (Lapierre and Giroux, 2003). Even though some evidences pointing to convergence of various approaches, usage of different models give rise to different instruments employed to measure climate dimension. Researchers assessed climate dimension with variety of questions/criteria and responses format, this raises the question of findings validation (Hunter, Bedell and Mumford, 2007).

Organizational climate measures (OCM) is a multidimensional measure of organizational climate based on Quinn and Rohrbaugh's Completing Values Model (Quinn and Rohrbaugh, 1983). This model assesses a broad class organizational context for individual actions (Patterson, West, Shackleton, Dawson, Lawthom, Maitlis, Robinsons and Wallace, 2005). It is derived from four major studies of organizational effectiveness such as (1) human relations approach (internal focus and flexibility relating to the environments), (2) internal process approach (internal focus and tight control within the organization), (3) open systems approach (external focus and flexible relationships with the environments), and (4) rational goal approach (external focus but with tight control within the organizational). Employees experience internal and external, control and flexibility focus in their organizations. OCM can be applied to studies of culture change to determine the impacts on employees' change experience. This model summarizes four broad domains of valued outcomes and managerial ideologies to achieve results intended, and this is a major framework to assess the organizational values and effectiveness for the last 100 years (Patterson et al., 2005). The strength of this model is that it helps inclusiveness and ensures that dimensional tap the organizations' core values. It combines rich mix and balance of organizations' competing views and perspectives.

Culture

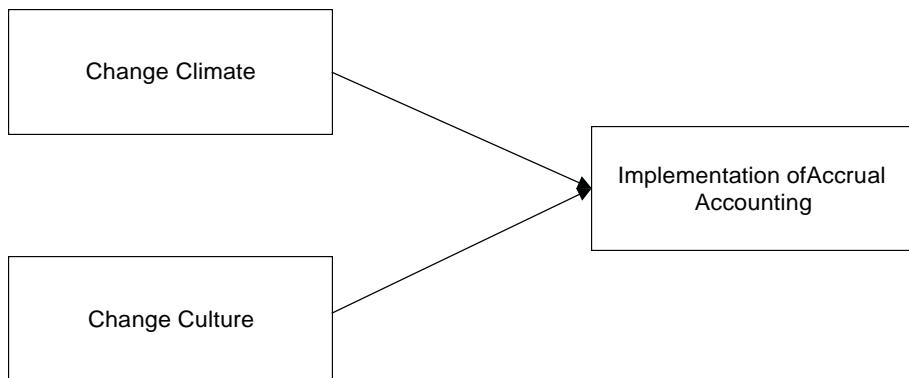
Culture is a multidimensional construct, which should be moving beyond national culture (Zolfaghari, Mollering, Clark and Dietz, 2016), because individuals can draw multiple self-conceptions from religion and organization memberships (or tiles) to display acceptable

appropriate behavior in a conflicting situation. Mosaic framework proposed by Chao and Moon (2005) draw from social identity theory and complexity theory to address both the meaning attached to values and culture's system view. The individual's cultural mosaic consists of demographic, geographic and associate cultural tiles. Zolfaghari et. al. (2016) argued individuals are capable of drawing from these multiple and simultaneous sources of cultural values or identities to behave according to their social settings. This multidimensional climate measures can be applied across different organizational types and in different national contexts. The measures demonstrate how individuals are capable of adopting distinct cultural identities, and able to navigate within them in order to behave according to the organizational climate which they attached to. Since individuals are capable and willing to "code-switch" depending on the internal integration and external environment, it may result to inconsistent behavior while managing their multiple identities (Zolfaghari et. al., 2016).

Glaser, Zamanou and Hacker (1987) defined organizational culture as systems of belief, symbols and rituals that change over time and it operates as the "glue" that holds the organization together. Glaser et al. (1987) developed the organizational culture survey (OCS) from a sixty-two (62) items questionnaire that consisted of five subscales, such as climate, involvement, communication, supervision and meetings (Glaser, 1983). Glaser developed the OCS from past literatures and a series of open-ended critical incident interview with employees from all level of a wood products company. Glaser et al. (1987) made significant contribution in the organizational culture literatures because they studied an ongoing organization in its natural environment. OCS is a reliable instrument since it was developed and tested rigorously with item analysis, factor analysis and test-retest reliability. Hence, it offers future researchers a useful approach to study the ways which people perceive and interpret their organizations.

Studies on climate and culture dimensions have increased rapidly over the year, leading to lack of certainty and slow theoretical progress (Patterson et al., 2005). Glicks (1985) made good progress by adding new climate dimensions such as leader's psychological distance, managerial trust and consideration, open-mindedness, risk orientation, service quality, equity and centrality. Subsequently, concern for customer service, the impact of information quality and ability to manage culture were added to business organization climate index (Patterson et al., 2005). According to Schneider (2000), the climate dimensions included in any study should be relevant to the purpose of investigation and the criteria interest of the organization. Exactly how organizational culture and climate form and evolve vary according to different organizations and departments. The most important possible attribute is the intangible attribute i.e. people working within the organization (Berg and Wilderom, 2004). Any organizational culture and climate study should focus on capturing the human perception toward their daily working practices, as it is crucial to organizational performance (Hansen and Wernerfelt, 1989).

Hence, the proposed framework hypothesized that there is a relationship between climate, culture and implementation of accrual accounting. The research framework is depicted in the following diagram:



The above research framework attempts to explore how change climate and change culture influence the implementation of accrual accounting in the Malaysian federal government. In addition, the study will examine which dimensions of climate and culture significantly influence implementation of accrual accounting.

3.2 Hypothesis Development

Change Climate

Climate is commonly held to be reflected in people's belief about or perceptions of environmental features shaping expectations about outcomes, requirements, contingencies, and interactions in the work environment (Hunter et al., 2007). Climate is a localized situation reflecting experience and environmental force at either the individual or group level. For example, typical climate questions ask are "employees feel free to express their ideas to superior" or "employees are not afraid to take risks here".

When organizations pursue change and innovation, four (4) key climate dimensions shaped how the organizations function: (1) interpersonal relationships, (2) hierarchy nature, (3) work nature, and (4) support and rewards (McGregor, 1960). Due to the diversity and habitual nature of these elements, climate of the organization is very difficult to change unless the interpersonal relationships are characterised by mutual trust (Schneider et al., 1996). In addition, how the organizations function for the members also decided level of change by the members according to their competencies and energies. When the psychology and feeling of the organizations are attended, then changes will take root (Schneider et al., 1996).

Employees with high organizational commitment may resist change because it threatens their job security. Herscovitch (1999); and Kalyal, Sverke and Saha (2007) found job insecurity and demanding organizational climate correlated to continuance commitment to organizational change. The reason being all stressors create uncertainty and ambiguity to those affected by them, as a result, the employees only show minimal support for organizational change. Hence, the researchers hypothesise:

H1 Change Climate Influences Implementation Of Accrual Accounting.

Change Culture

Culture is defined as “Members of a social unit have common ways of thinking, behaving and believing” (Cooke and Rousseau, 1988). The key attributes that influence culture included direction and intensity. Direction is about the actual content of culture which included values, behavioural norms and thinking styles emphasised by organizational members, and intensity refers to the strength of such emphasis. Hence, culture changes direction of different behavioural norms and thinking styles of organizational members, culture also changes intensity of influences on them. Two factors impact intensity, it included (1) unit members’ consensus degree about the culture they emphasised; and (2) state of connections among members in relation to expectation, behaviours and rewards. When this state of connection among members increased, they will have stronger shared beliefs and behaviour pattern (Cooke and Rousseau, 1988).

Culture is an important factor which influenced effectiveness of public sectors (Scott, Mannion, Davies and Marshall, 2003). The authors advocate that when an organization desires to improve quality and performance, a major cultural transformation in the area of procedural and structural changes is required in order to achieve desirable result. They strongly believed culture is related to organizational performance, for example cultures that emphasised on group affiliation, coordination and teamwork have been found to be positively related to successful implementation of continuous quality improvement practices among health care organizations.

Convention literatures divided culture into two categories, that included (1) culture is an attribute which an “organization has” together with other attributes such as structure and strategy; and (2) culture is defined as the whole character and experience of organizational life, that is what the “organization is”. The culture existed and reproduced through their participants’ social interaction within an organization. Culture as an attribute has been interpreted as an independent factor to fulfil organizational objectives (Scott et al., 2003). Culture change is considered as a means to technical and commercial ends, it makes up of a range of re-engineering and overhauling activities directed to achieve desirable organization’s value system. This is the most popular approach adopted by management literatures (Scott et al., 2003). In view of this, this paper also adopts the culture change as an independent variable for the implementation of accrual accounting for Malaysian Government. Therefore, the researchers hypothesize:

H2 Change Culture Influences Implementation Of Accrual Accounting.

4.0 Proposed Method

This study adopts a pragmatic approach and will employ mixed methods combining a structured questionnaire survey and open ended/in-depth interview. The reason for choosing these methods are to explore more in-depth view from respondents to meet the research

objectives and to provide recommendations for the issues relating to the implementation of the accruals accounting. The researchers designed the questionnaire to generate primary data from the survey. Questionnaire will be developed using 5 point Likert-scale range from "1" indicates as "To a very little extend" to 5 indicates as "To a very great extend". This 5 points scale will be used to identify the extent of change climate and change culture influencing the success level of accrual accounting implementation. In addition, in-depth interview will be conducted to obtain more information on the issues faced by respondents. Respondents for this study are implementers of accrual accounting in federal government of Malaysia. The respondents among implementers of accrual accounting should include all accounting officers: accountant, deputy accountant and assistant accountant of Federal Government. Altogether, the target respondents would be 300.

This study would add insights into necessary changes of climate or culture for sustainable change programme based on the feedback of accounting personnel from various government offices to facilitate good governance in Malaysian government departments.

5.0 Conclusion

The objective of this paper is to examine the characteristics of change climate and change culture towards implementation of accrual accounting at federal government of Malaysia. This paper proposes to use both OCM and OCS to measure organizational climate and organizational culture respectively. For organizational change, this paper employs Hercovitch-Meyer Model of Commitment of Change to measure employees' change experience. All these models were developed from considerable prior theoretical bases in the organizational sciences, and the instruments are reliable and stable used by many researchers in organizational studies. It provides useful measures to test central theoretical propositions about relationship between change climate and change culture toward effectiveness implementation of accrual accounting at Malaysian Federal Government.

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