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A negotiated order perspective on public sector accounting and financial control

Public sector
accounting

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Abstract *Just over two decades ago, Hopwood criticised accounting researchers for how little they knew of the actual functioning of accounting in organisational contexts. Recently, Parker and Roffey reminded us that this is still the case. A new wave of critical and interpretive researchers have not been able to ground their theorising in the actual practice of accounting. This paper attempts to explicate the negotiated order perspective as a social theory that may help to better understand accounting in its organisational context. The paper not only presents the theoretical constructs of the negotiated order perspective but also a case (Volta River Authority) illustration of how the perspective could help in appreciating accounting practice within organisations and society.*

Introduction

Since Hopwood's (1979) call for accounting researchers to discover more about the actual functioning of accounting within organisational contexts, there have been many studies attempting to better understand accounting practice within organisations and society. These research efforts have utilised diverse theoretical perspectives to produce fascinating observations about the social and other dimensions of accounting's functioning (Broadbent and Laughlin, 1997; Laughlin, 1988; Tinker, 1980; 1985).

While such studies were initially (and indeed are still) encouraged to "rescue" accounting research from the dominant functionalistic "paradigm" and to facilitate an understanding of "accounting as a social and institutional practice" (see Burchell *et al.*, 1980; Chua, 1986; Hopper and Powell, 1985; Hopwood and Miller, 1994; Miller, 1994, p. 30), some recent writings have cautioned about the need for "diversity" in appreciating accounting praxis within the critical accounting tradition (see Chua, 1998; Merino, 1998; Boland, 1989). For example, although the "new" wave of "alternative" accounting research has been argued to demonstrate a "strong capacity for innovation and experimentation" (see Morgan and Willmott, 1993, p. 25), current efforts seem to be skewed towards understanding accounting practice through the works of a few social theorists including Habermas (see Broadbent and Laughlin, 1997; Laughlin, 1984; 1987; 1995), Giddens (see Chew, 1993; Hopper and Armstrong, 1991; Lawrence *et al.*,

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1997), and Foucault (see Hooper, 1992; Hooper and Pratt, 1993; Scapens, 1990; 1994).

In a recent article, Parker and Roffey (1997) drawing on Glaser and Strauss (1967) questioned the practical relevance of some of these theorisations in the accounting literature. They suggested a return to a more grounded theorising allowing theory to emerge from the field evidence. Their article rekindles the controversy about the extent of theorising necessary or possible before entering the field. This paper contributes to that debate. It introduces the "negotiated order perspective", espoused by Strauss *et al.* (1963; 1964), as an alternative, currently under-utilised, theoretical position which holds a strong potential for making sense of accounting practice within social and organisational contexts.

Our principal objective is to explicate the basic constructs of the negotiated order perspective and to explore how this perspective could illuminate accounting practice within social and organisational contexts. The centrality of negotiations in organisational analysis has been emphasised by Pruitt and Carnevale when they argue that "negotiation presides over much of the change which occurs in human society" (1993, p. xv). We take this argument further within the public sector context, primarily because of the existence of diverse constituents which impact on the management processes of these entities. We argue that the processes of accounting systems design and change in public sector organisations are interwoven in the broader organisational negotiation processes. Our secondary objective is to provide an empirical illustration of how the negotiated order perspective could be drawn upon to make sense of accounting and financial control in action. We achieve this latter objective through a case study of the Volta River Authority, a major electric utility in Ghana.

The rest of the paper is organised as follows: the next section explicates the negotiated order perspective, noting how its basic constructs are particularly relevant for theorising public sector organisations. Within this discussion we also note how the various constructs of the perspective relate to accounting and financial management practice. We then illustrate how the negotiated order perspective could be employed to make sense of accounting and financial control in action through a case study of the Volta River Authority.

Negotiated order perspective and public sector organisational processes

The structural properties of organisations may be represented as negotiated orders. The theory of organisations as negotiated orders was "coined accidentally" by Strauss *et al.* (1963; 1964) when they sought to understand social interactions within a psychiatric institution. The theory begins by postulating that all organisations are social orders and interactions within and between organisations are to a large extent socially constructed (see also Lawrence, 1990). This social constructedness of organisational processes, as subsequently elaborated by Strauss (1978), is not accidental but reflects interests that social actors have in these organisations. Such interests are often

conflicting and constantly changing as events occur in the organisation's history. These events which invariably lead to structural changes in organisations are usually preceded by negotiations. Strauss *et al.* (1964) further contend that social orders are negotiated orders not only on the inside but also on the outside. This implies that both inter- and intra-organisational relations or interactions and the procedures^[1] which guide these interactions are characterised by negotiations. Reed (1985, p. 53) traces the origin of the perspective to Mead:

The negotiated order approach took its theoretical inspiration from the work of Mead (1936) who had argued that the problem of incorporating participative mechanisms of social change in the prevailing industrial structure of society was the central political and sociological issue confronting modern industrial society. Given this focus on the reproduction of social institutions through interactional processes, Strauss and his colleagues contended that the structural framework in which collective social action was located had to be continually reworked and renewed through a negotiation process involving all the main social groupings constituting a particular social unit, whether at the level of the nation state or the individual organisation.

Elaborating on the organisational aspect, Mastenbroek (1989, p. 3) observed that:

Many organisational problems have negotiating aspects. An organisation is composed of interdependent units each of which has interests of its own. Every important decision in organisations involves some degree of contention between the parties involved. Strategy formulation, cutbacks, the allocation of personnel, budgets, authority, important projects, space in buildings, provision of secretarial support, automation facilities, all of these are issues in which negotiating plays a role.

The centrality of negotiations in social or organisational interactions suggests an "anti-deterministic" stance (with regard to organisational structure) since the perspective "presents a balance between completely free-willed actors and actors whose actions are fairly strictly determined" (Strauss, 1978, p. 16). Structural contexts within which organisational interactions (i.e. negotiations) take place are represented as fluid and ephemeral. For example, management may constantly seek to enforce stringent accounting and financial control procedures as part of the organisation's formal structure. These procedures, however, would be far from being permanent not only because of the differing interpretations that organisational actors would give to them but also the strong influence that external constituencies have on them. This would invariably make the procedures negotiable as organisational actors go about their daily routines and as external constituencies continue to engage in lobbying these organisations. Such a theoretical position is similar to Giddens' (1984) notion of duality of structure (see Clark, 1990). As Strauss (1978, p. ix) observes:

A social order, even the most repressive, without some form of negotiation would be inconceivable. Even dictators find it impossible and inexpedient simply to order, command, demand, threaten, manipulate, or use force; about some issues and activities they must persuade and negotiate.

The above argumentation suggests, as Strauss *et al.* (1964) argued, that rules and procedures that remain central to organisational functioning are socially

produced and re-produced through interaction/negotiation. This view of the negotiated order perspective is particularly relevant with respect to accounting practice. Though accounting manuals often insist on accounting and financial management procedures which are totally consistent with established and agreed standards (i.e. GAAPs), in practice this would be potentially unachievable because some of these procedures would always have to be negotiated between management, other organisational members, and external constituencies. There are often deliberate departures from GAAPs, for example, because of the motivational and performance evaluative implications of some accounting and financial management procedures that organisations would have in place. In the public sector, this issue becomes even more complex because of the presence of a diversity of interest groups that constantly seek to impact on (or lobby) the management process in these organisations. The rules and procedures – including both financial and non-financial controls – within these settings are outcomes of negotiations and never immutable as often portrayed. As Strauss (1978, p. 5) observes; organisational rules and procedures have temporary limits and will be reviewed, revised, revoked, or renewed over time. This view is further echoed by Reed (1985, p. 54) when he notes that:

... [the negotiated order perspective] suggested a model of organisation in which the more stable elements expressed in the concept of formal organizational structure, hierarchy, rules, procedures, and regulatory codes, were seen as forming a background context against which the more ephemeral working relations constructed out of everyday interactions could be analysed. The structure was regarded as a temporary patterning of the ebb and flow of interactional processes which was always open to periodic appraisal and reconstruction through negotiated agreements.

Thus negotiations in social orders are continuous and do not end once an outcome (i.e. rule or procedure) is arrived at. Any outcome in the form of rules and procedures will surely be the subject matter for future negotiations as organisational actors interpret these outcomes in differing contexts over time. This view of the perspective is quite consistent with the cyclical model of negotiations elaborated by Gulliver (1979).

In laying the conceptual foundation(s) of the perspective, Strauss *et al.* note the importance of power in social orders. Power is depicted as an inherent and indispensable attribute/resource in all social interactions, necessary for progress to occur in any social order (see also Giddens, 1984). The perspective's conception of power, however, differs from other notions (e.g. Marxists, conceptualisations) of power because of its rejection of the core beliefs about powerlessness and excessive power. Strauss *et al.* maintain that all social actors have some power, albeit in different amounts.

Strauss *et al.* further argue that a necessary precondition for successful organisational interactions is a "balance of power" among organisational actors. This notion/conceptualisation of power suggests some form of relative equality among social or organisational actors. As Mastenbroek (1989, p. 12) notes:

Parties may be unequally interdependent, but negotiating assumes a certain equality between sides. Where there are clear power differences, different behaviour occurs: manipulating and exploitative on the one side and submissive and compliant on the other.

Indeed, it is this "balance of power" that actors always seek to shift in organisational or social interactions. This argument is particularly relevant, or even central, to accounting system design, maintenance and change within organisational contexts. For example, although management may have preference in terms of a particular approach to budgeting and could legally enforce this even if subordinate staff grossly disfavour the method, the effectiveness of such an approach to budgeting will depend, to a large extent, upon the operational staff members. Indeed, subordinate staff could easily undermine the budgeting system. For progress to occur (i.e. for a successful implementation of such a budgeting system) therefore, management would have to recognise the power of subordinates. Again, the position of the negotiated order perspective in this regard is similar to Giddens' dialectic of control in which subordinates are recognised as having some amount of power in organisational interactions (see Clark, 1990). It is important to note, however, that the amount of power which organisational actors wield, constantly shifts as events continue to unfold (leading to improved understanding of how the organisation is functioning and the possible quest for change) over time. The processes of influencing or shifting the balance of power are in some respects similar to Foucauldian conception of power. As Clegg (1993, p. 158) observes:

Central to Foucault's conception of power is *its shifting, inherently unstable expression in networks and alliances*. Rather than a monolithic view of power as invariably incorporating subjectivities, the focus is much closer to Machiavelli's (1958) strategic concerns or Gramsci's (1971) notion of hegemony not as structural ideology but as a "war of manoeuvre" . . .

Organisational interactions (i.e. negotiations) also bear strongly on the type of political, social and cultural setting within which the organisation functions. This view of the perspective is pivotal to the overall management process within public sector organisations and thus provides a useful lens for appreciating accounting and financial control practices within these settings. Indeed, one of the important considerations, which makes the negotiated order perspective our preferred mode of theorising public sector organizations, is the existence of strong formal political influence in their operations. In most public sector organisations, the objectives to be pursued are set by people who are independent of the management who run the day-to-day operations of the organisation. These objectives are quite often deliberated or even negotiated in parliament by people who know very little about the technical details of the organisation. The result is usually vaguely defined objectives which are subject to differing interpretations (see Wanna, 1992).

In addition, the internal organisational arrangements in most public sector organisations usually involve bureaucrats, politicians, and professionals (Wanna, 1992). While the bureaucrats and professionals are usually relatively permanent staff employed to advise the politicians who take responsibility for the management and performance of these organisations, evidence in the

literature shows that there are constant power struggles between these groups (Giroux, 1989; Wanna, 1992). Such power struggles are, in part, manifestations of the different interests pursued by these groups (see Adu (1969) for a detailed discussion on the situation in Commonwealth Africa during the immediate post-colonial period). As Stephenson and Pops (1990, p. 135) observe:

...the public sector manager, at all levels of the organisation but particularly at its higher levels, is a participant in the political process ... At the upper reaches of management, the relationship between politics/policy making and management is strong and even indistinguishable, but at the lower levels, the relationship weakens until, at the operational, technical level of the organisation, it is very weak but still present.

An additional dimension is the influence of pressure groups – societal members who have interests in the operations/functioning of the organisation but who do not form part of the internal structure of the organisation. This adds to the divergence of values and interests in the management of these organisations and the end product is a very complex arrangement. The divergences in:

...values, interest, resources, and methodology ... suggest the wide variety of influences that can separate both officials within the policy process and those outside the process who wish to shape its outcomes (Stephenson and Pops, 1990, p. 136).

Various researchers have sought to theorise interactions within such a complex environment (Dahl, 1955; Stephenson and Pops, 1990; Zartman, 1978). In spite of the differences in terminology, these theorisations tend to have very strong commonalities. For example, Dahl (1955) proposes “coalition, hierarchy, and bargaining” as alternative modes of explaining interactions within public sector organisations and between public sector organisations and external constituencies. This is similar to Zartman (1978) who chooses the terms “coalition, judication, and negotiation”. In a more recent exposition, Stephenson and Pops (1990) maintain that the alternative modes of understanding public sector organisational interactions include “coalition, judication, rational planning, and negotiation”.

In this paper we argue that negotiation provides the most convincing mode of explaining interactions within public sector organisations for two main reasons. First, “coalition” and “judication”, as described by Dahl (1955) and subsequently by Zartman (1978) and Stephenson and Pops (1990), are modes of dealing with conflict situations (those situations which have already arisen) rather than preventing impasse or explaining interactions in public sector organisations. Second, “hierarchy” and “rational planning” suggest “deterministic and structured immobility” as characterising the management process of public sector organisations (Stephenson and Pops, 1990). In our view, the suppositions implied in “hierarchy” and “rational planning” are extremely difficult to achieve not only because of the constant power struggles which tend to be inevitable in these organisations but also the existence of divergent notions of “rationality” (see Giroux, 1989). Such power struggles could lead to a prolonged impasse in public sector organisations if “values, interests, and resources” (Stephenson and Pops, 1990) were not constantly negotiated.

Further observations of the internal arrangements in these organisations and how these relate to wider socio-economic issues suggest that various interest groups have some amount of power, albeit in different amounts. For example, the tenured nature of most public sector positions, and the rigid bureaucratic procedures required for the termination of appointments, allows organisational actors as an interest group to wield a great deal of power (see Lawton and Rose, 1991; Wanna, 1992) which could only be relinquished partly through negotiations.

The negotiated order perspective and researching accounting praxis

There is little doubt that the approach to researching accounting in its organisational context (see Hopwood, 1979) is to a large extent a function of the lens through which the researcher sees or understands how reality is constituted and reproduced within organisations. We argue that the negotiated order perspective is a generic approach within which one finds already developed variants – including politicisation of accounting processes (Wildavsky, 1975; 1984; Covaleski and Dirsmith, 1986) and institutional theory (Ansari and Euske, 1987; Covaleski and Dirsmith, 1988). While studies grounded in these theoretical positions provide similar contentions, and make negotiations central to their arguments, they do not explicitly draw upon the richness of the negotiated order perspective as a theoretical lens. Our paper differs by recognising that negotiations in organisational settings are not tools for conflict resolution but rather a central element in organisational management, especially within public sector entities. By taking a stance that reality in organisations is socially constructed through negotiations, the negotiated order perspective allows us to appreciate that accounting system construction, maintenance, and change in these organisations are embedded in processes of negotiation. It concurs with the agenda setting work of Ryan (1998) which, following Miller and Napier (1993), recognises that accounting practices are historically contingent, emerge under particular conditions and need to be examined in their historical and geographical context. The agenda setting framework is useful for the examination of the emergence and possible resolution of particular issues, but for our purposes of exploring many interrelated issues, a more general perspective is needed.

The negotiated order perspective makes explicit recognition of the existence of a multiplicity of interests groups in the functioning of these organisations, and acknowledges the major constraints engendered by the conflicting interests that management constantly have to deal with in these organisations. Since accounting procedures and practices have the inherent character of rendering partial visibility (see Burchell *et al.*, 1980), the design of these procedures in public sector organisations would involve more complexity than in the private enterprise sector because of the diversity of constituencies which take close interest in public sector management. In seeking to gain an understanding of how these systems are designed, an appreciation of the specific historical context of the organisation becomes a very important

precondition[2]. This will not only assist in explaining how accounting systems and procedures arise through negotiations, but also clarify the underlying rationales for the systems (i.e. which interest group is most favoured by the outcome of these negotiated accounting systems).

The negotiated order perspective further allows us to delve deeper into gaining an enriched understanding of how the systems that guide the daily routines in public sector organisations arise. With the diversity of interest groups, multiplicity of objectives and constant power struggle, we agree with Hofstede (1981) that financial control procedures in public sector organisations could also be serving a ritualistic purpose. Hofstede (1981) notes that in such a complex environment:

The logical process for control is political control i.e. it is dependent on power structures and negotiation process which recognise the need to address conflicting values and the distribution of scarce resources

Indeed, financial control procedures would perform ritualistic functions that are reflective of the balance of power in the prevailing circumstances. But these procedures would only represent temporary structural conditions, as noted earlier. This is the case because, in practice, there is a strong possibility for the financial control procedures (which represent outcomes of prior negotiations) to mask the “underlying socio-political reality” at the organisation by being portrayed as best accounting practice (Covaleski *et al.*, 1996, p. 11; Ansari and Euske, 1987). As more information becomes available to organisational actors, the prevailing conditions are challenged leading to renegotiations culminating in another set of financial control systems/procedures.

As with “grounded theory” (Glaser and Strauss, 1967), the negotiated order perspective allows as open-minded an entrance to fieldwork as is possible. The only prior theorisation necessary is that reality is socially constructed through human interaction, of which negotiation is a prime vehicle. Indeed, structures may exist but they do so only as temporary, and re-negotiable, constraints on action. Such structures may also have elements of power, legitimation and normalisation (see Giddens, 1984). Only by grounded research is it possible to discern the nature of structures which affect human conduct, in particular social settings, and which can be seen in the rules, procedures and “accounting” that takes place. The visible surface phenomena always have to be understood against the shifting negotiated and negotiable structures.

In the next section we examine a case study of the Volta River Authority (VRA), a major electricity utility in Ghana, and show how, by looking beyond the technical façade of accounting systems, one can discern the complex negotiated order which underpins their operation. While there is much praise from international agencies for the financial control procedures at VRA (e.g. World Bank Official Report No. 8207-GH, 1990), we argue in this paper that the apparent sophistication of accounting practices has masked a power structure which has prevented the VRA from contributing as much as it might have to the development and wealth of the Ghanaian people. The reporting procedures,

based on profit generation and reflecting the organisation's unique historical circumstances, serve financial interests other than those of the local populations whom the organisations are ostensibly set up to serve. We draw upon the negotiated order perspective to uncover the negotiated political agreements that influence accounting procedures and the establishment of prices.

The negotiated order perspective and accounting in action: a case study of the Volta River Authority

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The Volta River Authority (VRA), a state-owned electricity corporation in Ghana, was established in 1961 after a series of negotiations between the Government of Ghana, the US and UK governments, the World Bank and two multinational corporations. The Government of Ghana required funding from these institutions to undertake the Volta Project that it perceived as a necessary vehicle for the rapid industrialisation of Ghana. The core of the negotiations preceding the establishment of the VRA centred on the need for the Government of Ghana to justify that the huge potential power to be generated from the project would be fully utilised. Such a justification was hard for the government because of the low domestic electricity demand at the time. Following recommendations of a committee commissioned by the government, it was agreed that an aluminium smelter be established to guarantee that electricity generated from the Volta Project would be fully utilised. While such a project was within the government's plans for integration of the aluminium industry, the additional capital requirement made it difficult for the government to invest in such a smelter. Thus a way around the problem was to invite private enterprises to build the smelter for this purpose. After a series of negotiations, agreements were signed between the Government of Ghana (acting on behalf of VRA) and Valco[3], guaranteeing the supply of a minimum amount of electricity to the smelter at a rate that was fixed in the early 1960s at 2.625 mills/kwh without any provision for escalation for a 30-year period and subject to an additional 20-year period if Valco opted to continue its operations in Ghana. This has become the most contentious issue in VRA's financial management since significant changes, engendered by the oil shocks in the 1970s, occurred in the world economy.

Research design and methods

The research method adopted involved three data collection methods; documentary evidence, observation, and open-ended interviews. The documents analysed included official records (corporate annual reports, contract documents, annual budgets, memos, and reports on important company meetings), government statistical reports, reports from chartered accountancy firms/auditors, reports from the World Bank, newspapers, periodicals and books written on the history of the VRA. Observation at VRA was conducted over a period of two and a half months (from March 1996 to May 1996) in order to gain first-hand experience of how the accounting and financial management systems operate in practice.

Interviews were conducted with 52 people, the majority of whom were in the finance and accounting department of VRA, as well as senior managers of other Divisions of VRA. Interviewees also included external parties such as a non-executive board member of the VRA and officials of the Ghana Public Services Commission. Each interviewee was provided with a summary of the research objectives prior to the actual interview. The interviews conducted could be categorised as exploratory, in-depth and follow-up interviews. Permission was sought and granted for all three categories to be recorded on tape and later transcribed. In addition, notes were taken of significant points to facilitate follow-up probing questions. The exploratory interviews began with eight general (unstructured but focused) questions on VRA and its accounting and financial management systems. Interviews in this category lasted between 30 minutes and one hour, depending on the issues raised by the respondent. In-depth interviews were conducted with the Director of Finance and his staff at central headquarters and in area offices at Akuse, Akosombo and Tamale.

The in-depth interviews had two objectives: to obtain a descriptive account of the accounting and financial management systems; and to understand why the systems are what they are today. The latter objective required probing questions on issues that were both controversial and susceptible to differing interpretations (e.g. the VALCO renegotiations). During the fieldwork, the tape recordings made during the day were played back in the evening in order to reflect on the day's work. This invariably resulted in the need to seek clarification on certain issues which were either unclear or required a substantive support. Follow-up interviews therefore became necessary for such issues. During follow-up interviews, most interviewees produced documents including memos to support their statements. This allowed a form of triangulation of research evidence. Interviews were conducted from March 1996 to May 1996, although some follow-up telephone interviews were conducted from August 1996 to March 1998 during the data analysis stage of the research.

We conducted a thematic analysis of the evidence collected involving two main dimensions (themes) – technical accounting issues and socio-political issues. The analysis of the evidence collected is thus presented at two levels. The first focuses on providing thick descriptions of the technical procedures for accounting and financial management at VRA. We also draw upon the perspectives of external agencies such as the World Bank and the Authority's multinational external auditors at this level. The concern is not merely to find evidence of the existence of particular procedures but to gather detailed descriptions of how these procedures actually function in the financial resource management process. This analysis is a prelude for an interpretive analysis informed by social theory (the negotiated order perspective). At the second level of analysis, the negotiated order perspective is employed to gain a richer and deeper understanding of how accounting and financial management systems arise at VRA. Of particular importance in this regard are the historical

circumstances of the organisation and how these enable an understanding of current systems.

Accounting systems at the VRA: the technical façade

The thick descriptions provided by organisational participants covered technical procedures including the planning model, budgetary control procedures, pricing formulae, financial reporting policies, internal and external audit procedures, cash management practices, use of computerised information systems, and issues of decentralisation of the accounting and financial management function. These formal control procedures are referred to in this paper as the “technical façade”. The technical façade is that view which outsiders are presented with; the official, formal, and technical/rational aspects of accounting procedures. The procedures are well documented and supported by authoritative regulations, such as those of the Volta River Development Act, 1961. This Act provided the guiding principles for accounting and financial management in the organisation. These principles were reproduced in the *Finance and Accounting Manual* which details the procedures for interactions between various Divisions of the Finance Department.

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Contrary to the belief that developing countries have deficient accounting systems, both internal participants and external authorities believed the systems at the Volta River Authority to be up to world class standards. Evidence collected supported the view that the VRA had sound planning and control procedures and a highly trained and expert staff to administer them. Senior accounting staff had been trained at Harvard Business School and some had spent periods “on attachment” at Ontario Hydro, an electricity generating utility in Canada. As an interviewee stated:

The World Bank and other financiers of VRA have always insisted on the adequacy of our systems.

In its evaluation of VRA’s accounting and financial management systems the World Bank (1990) noted:

VRA’s accounting and budgeting systems are generally satisfactory and provide timely and reliable financial information. It has an independent internal auditing department which forms part of its system of internal control . . . Improved financial systems and reporting are expected following the full computerisation of VRA’s accounts, and other improvements are expected as a result of the full integration of financial management . . . Each year its fixed assets are revalued . . . VRA’s auditors have never had occasion to qualify VRA’s accounts (World Bank, 1990, p. 11).

The accounting system was continually being refined and improved and the computerisation referred to in the World Bank’s Report was successfully accomplished. The Internal Audit Department has designed Information Technology Controls to ensure that the accounting and control procedures carried out by the computer programs are appropriately designed, implemented and operated. Reports produced are timely and accurate as evidenced from an officer at the Ghana Public Services Commission:

Since I returned from the UK after qualifying as a Management Accountant [CIMA] a couple of years ago, I have been in charge of Performance Contracts between the VRA and the Ghana Public Services Commission. I have never had any delays in reports from VRA.

So, the conclusion from the first level of analysis is that technically the systems at VRA are satisfactory and continually being improved. The systems are claimed also to provide financial information for both short-term and long-term financial decision making.

So why is there a need to probe further into accounting systems? It is because there is socio-political aspect of their functioning which a purely technical evaluation ignores. According to Scott (1987, p. 507) there is "growing awareness that no organisation is just a technical system". And as Miller (1994, p. 4) points out, "the technical practice of accounting is intrinsically and irredeemably social".

In order to understand more fully the accounting systems at the Volta River Authority, one needs to know how those systems arose and how they are sustained through being taken for granted as "facts". As Hines (1988) argues, too close an attention to facts leaves unquestioned how the facts arise – leaves us bereft of deep explanation. Drawing from the institutional perspective, Ansari and Euske (1987) maintain that public sector organisations use accounting and accounting information to document institutional compliance. From this perspective, the technical procedures for the management of financial resources at the VRA could be represented as tools designed to seek external legitimation or to mask underlying socio-political reality (Covaleski *et al.*, 1996). So there are convincing theoretical arguments to go beyond the technical façade of procedures as depicted by organisational actors and as observed, to gain a deeper understanding of how these procedures arise and what purposes they serve. The second level of analysis of the fieldwork evidence seeks to discover the socio-historical appreciation of VRA's accounting and financial management systems.

Applying the negotiated order perspective to understand accounting and financial management practice at the VRA

In line with these foregoing arguments, in the second level of analysis of the VRA, we use the negotiated order perspective to look beyond the descriptions of the technical systems and question the taken-for-granted applications. We have to discover the historical circumstances of the organisation which have created a particular negotiated socio-political structure. This structure underpins any formal procedures and affects an understanding of the current technical accounting systems. For purposes of illustration, we focus on a controversial aspect of the use of accounting information – its use in pricing. We will show how accounting procedures are used to legitimise price changes and promote a pricing structure which conforms to political agreements. So accounting is part of the socio-political process. The issue of pricing is one of the most important aspects of managing electricity companies and it is in this activity that political influences and the structural conditions created by past negotiations are most evident. A senior member of the Finance Department remarked:

Pricing has always been a controversial issue in the financial management process of the Authority since its establishment in the early 60s... and there is sufficient evidence that it will continue to be our major financial management issue because of the constraints that we have to work within.

Another observed:

The systems in place allow us to provide up-to-date information to make pricing decisions... not all these are incorporated into the pricing formulas for the various categories of customers. In some cases we are limited in what we can do.

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The three categories of customers referred to are: Valco; Burkina Faso and other foreign customers; and local domestic and industrial consumers. Each is charged at different rates. In the case of Valco the VRA has to abide by previous agreements which were signed by the Government of Ghana and Valco at the time of establishing the VRA. A respondent in the Finance Department observed that:

The rate VRA charges to Valco can only be understood if you have a firm grasp of the history of the Volta River Project . . . In the very early days we had no problem at all with the rate paid by Valco for power supplied to it . . . But now it is the most contentious issue in the management of the VRA.

A common view among respondents (both internal and external to the VRA) was that due to its historical circumstances negotiations are central to its financial management practices. For example, allocations of overhead costs have to reflect past agreements rather than help determine rates charged to various customers. Unfortunately for the people of Ghana, the past agreements limit increasing prices to Valco even when they are uneconomic for VRA. Yet the VRA, by another agreement with its financier, the World Bank, has to make an adequate return on its assets. To do so, accounting calculations indicate that the indigenous population must pay higher prices. Contrary to the received view in the accounting literature that overhead allocation has a crucial role in electricity rate setting (see Lal, 1982), at the VRA, overhead allocation procedures have very little role to play in tariff setting, or customer account profitability analysis. Activity based costing, though familiar to the accountants, is not used. Overhead allocations follow prices already established. As a respondent noted:

Our current system of overhead allocation does not provide any basis for pricing to the various customers. Pricing is determined through negotiations.

Rates charged to the major customer cannot be altered because of the prior contractual agreements. The overhead allocations hide rather than make visible the economics of electricity provision to various customers. They are used to justify increases to local customers deflecting attention from the political structures.

Another interviewee stated:

Most of [our financial management] decisions involve negotiations. We negotiate with the World Bank and other international financial institutions for loans, we negotiate with Valco for change in rates, we negotiate with the government for local rates . . .

So accounting takes place in a context of a negotiated order and the accounting procedures do not relate to conventional notions of economic rationality.

Accounting procedures such as allocations of cost are used to justify and legitimise agreements made with external parties in a continuous round of negotiations.

Such negotiations, particularly with Valco, have often been difficult and on some occasions involved government intervention. Indeed, the military government of the early 1980s wrote a letter indicating the unacceptable nature of the VRA's contract with Valco. The government's letter was prompted by the reluctance of Valco to engage in an arm's length negotiation with VRA when significant changes to cost of electricity production, in the early 1980s, left VRA with little option but to seek price increases. Traditionally, when changes occur leading to higher cost of production, in any industry, the most feasible action for management to take involves a revision of selling prices. However, this has never been possible at VRA because of the constraints posed by the fixed power rate in the 1962 agreement. Since the agreement is legally binding for 50 years, the only feasible way of seeking to change the rate charged to Valco is through negotiations. With pressure from the Government of Ghana and the World Bank, Valco finally agreed to engage in renegotiation of the power rate. The negotiation with Valco involved five negotiation rounds spanning three years from early 1982 to 1984 and culminated in a power rate which was to move up and down at two-thirds of the movement of primary aluminium as quoted on the London Metal Exchange. Similarly, in 1997, after a severe drought in Ghana resulted in a very low production level, VRA requested renegotiations with Valco for an adjustment of the guaranteed minimum quantity of power supply to Valco as well as the rate. As with previous attempts, Valco was reluctant to negotiate and delayed for almost two years. A telephone interview with a senior organisational participant at the VRA reveals that Valco intends to offer a one-off rate increase rather than agree on a new pricing formula that will, in their view, be restrictive.

The intransigence of the original partner, Valco, means that the rates paid by Valco are insufficient to guarantee a return on assets that the VRA must achieve in order to satisfy its major financier, the World Bank. Costs increase for many reasons – there was a severe drought in 1997, assets are revalued every five years, and other costs may increase. Such cost increases cannot be incorporated into the overall pricing structure because of the Valco agreement. Instead, the result of accounting procedures demanded by the World Bank, which require a return on revalued assets, means price increases to domestic consumers have to be justified. If costs are allocated not to Valco but to the remainder of the customer base, it is clear there will be price differentials. The result of the political negotiations and negotiated technical accounting procedures lead to the proposal for a 300 per cent increase in rates charged to Ghanaian consumers in 1997. The local population does not have the same political influence over the accounting procedures of the VRA which lead to such prices. In the past the Ghanaian population has frequently mounted protests against VRA's power rates. Such protest has often resulted in the

Government engaging in negotiations with the VRA to agree on acceptable power prices for the people.

The result of such negotiations still mean that the rates paid by Valco are a fraction (one-fifth) of those paid by domestic electricity consumers. The latter are least protected by past contractual negotiations, such as those agreements with Valco at the time of establishing the organisation. This is evidenced in a statement from an Executive Member of the Consumer Association:

We shall vehemently oppose the 300 percent proposed increase in the electricity tariff which the VRA . . . have been talking about. We do not see any reason whatsoever for them to talk about increasing tariffs. I want to ask Mr Addo to tell the Ghanaian public whose business it is that he is running. Is it private business he established or he is talking about state property? He should be told that the VRA project is the peoples' project and that the \$300m that was used in constructing the project was paid for by the people. We'll protest (*Public Agenda*, 1997).

The VRA is caught in the middle of political agreements. It is encouraged to be a self-sufficient financially independent corporate entity which earns an adequate return on assets. This accords with the views of the market-orientated philosophy of its financiers. Yet it is clearly unable to use its accounting processes to charge economic prices to its customers. The technical accounting procedures, so admired internally and externally, are a façade. Behind the façade is a complex web of negotiated agreements which prevent the use of its accounting for "rational" economic calculation and decision.

The above discussion illustrates the argument pursued in this paper that the accounting and financial management issues constitute a part of routine organisational negotiation processes at the VRA. The pricing rules and procedures are impacted upon by various interest groups (including the Government of Ghana, Valco, and the Ghanaian public) with varying amounts of power. Any prevailing pricing procedures constitute temporary structural conditions and become the subject for negotiation as changes occur in the VRA's environment. Going behind the technical façade of accounting, enabled by the negotiated order perspective, reveals the historical and political contexts within which the systems function, but which they also mask.

Conclusion

The paper has illustrated how the theory of organisations as negotiated orders has a potential for exploring accounting systems, especially within a public sector setting. We observed that the conditions which prevail in the traditional public sector make the negotiated order perspective a useful theoretical lens for contextual analysis of accounting and financial control practices.

By utilising this perspective, accounting researchers would better appreciate how the systems that guide the daily routines arise. It would enable us to address such concerns as those raised by Hopwood (1990, p. 9) in the following quote:

Which group has the power to influence the patterns of visibility prevailing in the organisation? What bodies of knowledge and sets of organisational practices are involved in

making some things more visible and other things not? How contested are dominant patterns of visibility? And from where have new visibilities emerged?

Studies informed by the negotiated order perspective would seek to uncover the processes which lead to (in)visibility of certain accounting procedures through an appreciation of the processes of interactions both within and outside organisational boundaries. What becomes (in)visible is a product of negotiation and forms a basis for further negotiations. This makes any prevailing visibility only a temporary structural condition that would be reviewed, revised and renewed (Strauss, 1978) over time. In addition, accounting researchers would be able to investigate how these visibilities change over time as the balance of power shifts from time to time in an organisation's history. Studies informed by the negotiated order perspective would appreciate that there cannot be a single dominant visibility because of the excessive power of a select few in society. As the balance of power swings from time to time, prevailing visibilities are bound to become the subject matter for negotiation, as illustrated in tariff-setting process at the VRA.

The main conclusion of the paper is that future empirical research in accounting and financial control would be greatly enhanced through recognising that accounting systems design, maintenance and change processes are interwoven in organisational negotiation processes. Such processes lead to agreements which result in structural conditions or negotiated orders. Such recognition will require accounting researchers to draw explicitly upon the negotiated order perspective as illustrated in the paper. This is particularly appropriate for the study of public sector organisations since negotiations characterise much of the interactions within and between such organisations. Structures as reflected in rules and procedures that persist over time are both the medium and outcome of negotiation processes.

Notes

1. Burchell *et al.* (1980) note that financial control techniques are usually central to organisational interactions.
2. This view is also shared by critical accounting studies which draw on Habermas (see for example, Laughlin, 1988).
3. An aluminium smelter to be built by Kaiser and Reynolds, two giant, US aluminium companies.

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