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A processual view of institutional change of the budget process within an Australian government-owned electricity corporation

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Abstract

Purpose – Australian public sector organisations are faced with their greatest challenge in decades, as public sector reforms essentially re-examine the role of the State in the economy. These changes have led to a shift away from a traditional administrative approach of public sector organisations to one that fosters managerialism and economic rationalism, the underlying philosophies of new public management. Queensland, the Northeastern state of Australia, has experienced a period of government committed to change and reform specifically related to corporatisation and a national competition policy. Aims to address this issue.

Design/methodology/approach – To understand the effect of changes in budgeting, the researcher explores the processes of change over a period of time as they occur, through the use of a case study approach. The processual approach adopted for the study is consistent with old institutional economic theory, which is used to inform the findings.

Findings – It was found that indiscriminate changes to the budgeting process, together with the introduction of a transfer pricing system, caused considerable resistance. Streamlining was introduced late in the study, which, for the most part, despite the embeddedness of the earlier system, overcame many of the obstacles identified with relation to the budgeting process, while the conflict as a result of the transfer pricing system remained an unresolved and thorny issue.

Originality/value – The implications for organisational change management suggest the consideration of embedded institutions within an organisation, while determining the processes and directions of change. The implications for reform setters and the Queensland electricity supply industry are such that the short-term goal of cost-efficiency may not necessarily be in the best interest of the overall long-term benefits to the community.

Keywords Public sector reform, Economic theory, Organizational analysis, Budgetary control, Electricity industry, Australia

Paper type Research paper

Introduction

Australian public sector organisations are faced with their greatest challenge in decades as public sector reforms essentially re-examine the role of the State and alter the relationship between the public and private sectors of the economy. The reforms promote fundamental values such as freedom of the individual, consumer choice and greater initiative for the private sector in economic development. As such, there is a movement away from the focus of compliance and control towards one of efficiency, effectiveness and cost savings through the introduction of commercial business practices and competitive markets (Broadbent and Guthrie, 1992, p. 3; Lapsley, 1993). These changes have led to a shift away from a traditional administrative approach of public sector organisations to one that fosters managerialism and economic

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rationalism, the underlying philosophies of new public management (NPM) (Parker and Guthrie, 1993). The philosophies surrounding NPM involve the advocacy of formal rational management, an emphasis on the necessity for clear goals, corporate plans, and above all, internal and external accounting systems with clear responsibility lines for output performance measurement. Management technologies involved in promoting these changes have included:

- structural redesign;
- re-engineering of budget processes;
- responsibility centres;
- performance agreements covering performance targets for departments or their managers;
- contracting out of selected services and functions; and
- introducing competition (Guthrie, 1993; Hoque and Moll, 2001).

These changes have been central to work that has explored the role of accounting in recent public sector organisational reform (Broadbent and Guthrie, 1992; Dent, 1991; Goddard, 1997; Humphrey and Scapens, 1996; Siti-Nabiha and Scapens, 2005).

Much of the published literature of accounting change depicts the resistance to reforms that occur when external requirements for increased accountability clash with the obligation of public service, a conflict that is most evident in the public sector. Published cases are dominated by resistance from institutional elements within organisations, whose support or resentment is critical to the implementation of reforms (Collier, 2001). Some examples of the literature are a focus on time and cost recording that overlooked qualitative issues in the Probation Service (Humphrey, 1994), the impact on school education of LMS initiatives (Laughlin *et al.*, 1994), restrictions to clinical freedom in NHS hospitals (Preston *et al.*, 1992), and ABC and organisational change (Soin *et al.*, 2002).

The neo-conservative beliefs of neo-classical welfare economics pervade the linking of public sector efficiency to managerial ability and accountability by the implementation of managerialist private sector practices (Dixon *et al.*, 1998). The purpose of this implementation is to create the necessary structures, processes, and culture to deliver products and services efficiently whilst operating within outcome-centred budgets and public accountability systems. The managerialist belief is that there are sound management practices applicable to the private sector that are standard in their scope and therefore directly transferable to the public sector, subject to some cultural limitations. This belief maybe illusory, however, as a number of researchers suggest that reform of the public sector entails several risks (Considine, 1988, 1990; Guthrie, 1991, 1993; Johnston, 2000; Parker and Guthrie, 1990, 1993):

(1) Some cost-control focused notions of managerial efficiency may threaten effectiveness, representativeness, and responsiveness in public organisations, for which these characteristics are major objectives.

(2) The attempt to superimpose without modification private sector models on public sector operations may result in a less open and responsive form of government, which ultimately is rejected by the electorate.

(3) The tendency to emphasise the employment of quantitative performance data may result in seemingly insignificant qualitative factors that are crucial to performance going unattended due to their more qualitative nature.

(4) The application of new accountability systems imposed by the managerialist framework may result in considerable manager resistance unless their design and implementation include appropriate levels of consultation and participation.

(5) Any attempt to impose an unmodified private sector management philosophy may bring with it an attendant focus on single-index measures of performance inspired by private-sector bottom-line thinking. This runs the risk of losing vital performance information regarding quality aspects, as well as the risk of managers focusing all their attention on short-run performance rather than long-term objectives.

Overall, the consensus is that new models introduced into the public sector must consider economic and technical matters but they also need to consider the public sector ethos of political, ethical and social criteria, which NPM to date appears to neglect (Parker and Guthrie, 1993).

Johnston (2000) discusses the applicability of some components of NPM for Australia. First and foremost, the forecasted benefits resulting from support for the theories of contrived competition in practice have not been apparent in the actual market place (Johnston, 2000). Furthermore, government-owned corporations (GOC) that may be preparing for privatisation can easily fail at a great cost to the community and business, especially when the impact of market forces means that technical and engineering aspects of the business may be overlooked. This occurred in a privatised electricity generation company in New Zealand, whereby it was unable to provide supply to the central business district in the major trading city of Auckland for a period of well over a week due to poor maintenance and downsizing (Fox-Allen, 1998; West, 1998). It is in this respect that the basic assumptions of NPM, which claim that market forces are more efficient than government intervention, cannot, according to Johnston (2000), be sustained, regardless of which particular government is in power. Unfortunately, these problems have been evident in recent times in Queensland, with power shortages and blackouts causing quite a furore. There is continuing debate about the applicability of Queensland being part of the national electricity market (NEM)[1] as well as the Government's non-committal responses and denials when questioned about the deteriorated state of the State's electricity network and its involvement in the deterioration (Wardill and Odgers, 2004).

The recent developments in the public sector in Queensland, and especially in the electricity industry, have offered a context for the study of the role and importance of accounting technologies and whether changed processes are indeed effective. The changes that are being proposed for the electricity industry in Queensland involve extensive organisational rearrangements. Since 1996 electricity boards have been legally required to operate as successful businesses in a newly created (pseudo)marketplace. These rearrangements have required a large-scale investment in new accounting and control systems. From a research point of view, this period of change provided an excellent opportunity for studying the development of new accounting and control systems as an integral part of managerial processes in organisations.

This study is concerned primarily with budgeting process change within an individual organisation – that is, the intra-organisational process of change as a result public sector reform, specifically corporatisation[2] and competition policy. In recent years there has been increasing interest in institutional theory across the social sciences (see Scott, 1995). This study draws on institutional theory, specifically old institutional economic (OIE) theory, in order to understand the extent of change. OIE is concerned about micro institutions and institutional change. Budgeting is perceived as a routine, and a potentially institutionalised, organisational practice. In being institutionalised, budgeting can, over time, come to add force to taken-for-granted ways of thinking and doing (Burns and Scapens, 2000). OIE offers insights that are helpful for conceptualising budgeting change. It is particularly useful in the present context as it provides a focal point to examine organisational routines and their institutionalisation.

The objectives of this study are to explore what changes the budgeting process, as part of the management control system (MCS), has undergone. In doing so the study observes the interplay between this changing process and organisational members and how they use the concepts of power and politics in order to construct meaning and manipulate change through their interpretation of routines and institutions. To understand the effect of changes in budgeting, the researcher explores the processes of change over a period of time, as they occur through the use of a processual case study approach during the period 1997-2001. The researcher also explores the antecedents and the historical context prior to 1997, through which the processes of change emerge. Such an approach provides the researcher with a wider appreciation of the impact of reform on the budgeting process and its members.

The paper is organised into four parts. First, the distinctiveness of this case analysis is played out through an examination of the literature on accounting change and the power and politics involved in such change. The second part discusses the theoretical underpinnings of the study, followed by the research method and a brief introduction to the subject organisation. The findings of the study represent the fourth part of the paper, with discussion of these findings concluding the paper.

Literature review

Budgeting systems are universal and have been considered an essential tool for financial planning. These systems are meant to organise and encourage the performance of managers of small as well as large and complex organisations (Abernethy and Brownell, 1999). Traditionally in the public sector, budgets were seen as the primary planning document (Alam and Lawrence, 1994; Johnston, 1998). Guthrie (1999) states that corporatisation and the application of the National Competition Policy (NCP) meant that public sector enterprises should operate under the same commercial principles as the private sector, so as to become more economic, efficient and effective. However, in order for this to be achieved it is also necessary to be aware of the negative connotations should the budgeting process not be structured in such a way as to suit the structural and institutional environment of the organisation.

Studies in the public sector have identified a number of changes taking place as a result of recent reforms. For many of these studies, resistance to change is a core underlying concept. It appears that resistance is a result of the attempt to introduce new practices and technologies without considering the existing institutions or the political, social and ethical ethos of organisational functioning (Burns and Scapens, 2000; Schein, 1992; Siti-Nabiha and Scapens, 2005; Tool, 1993). A recent study of management accounting change in a gas processing company by Siti-Nabiha and Scapens (2005) found that even though there was much dissatisfaction with existing performance evaluation, there was considerable resistance to the introduction of new key performance indicators, and there was considerable anxiety and confusion regarding how the new performance management system would be implemented and used. At this organisation, the prevailing institutions were expressed in terms of a production orientation, and as such accounting was seen as an instrument for securing the means of production, not for financial control. These findings are consistent with institutional theorists who suggest that it is important to be aware of the existing organisational routines and their influence on organisational practices before changes are implemented. According to Modell (2002), the myth that organisational change in parts of the public sector may be accomplished by more forceful implementation of financial and efficiency-based control methods, emerging as a result of NPM, is under increasing attack and appears to have confronted considerable obstacles.

The impact of public sector reform on budgeting processes has further consequences when the issue of transfer pricing becomes involved. Transfer pricing has been the topic of research over many years (Perara *et al.*, 2003; Van der Meer-Kooistra, 1994). According to Ghosh (2000, p. 661), it is seen as being "at the heart of inter-profit centre relations" and as an invasive issue in the design and implementation of MCSs (Colbert and Spicer, 1995; Emmanuel *et al.*, 1990). Further, it is regarded as extremely important in terms of strategic and operational decisions, as well as having behavioural and performance appraisal consequences (Boyns *et al.*, 1999; Perara *et al.*, 2003; Van Helden *et al.*, 2001). Common to these studies are two assumptions:

(1) that transfer pricing systems and change can be understood through contingent relations and contextual factors including the economics of internal transactional factors; and

(2) that the transfer pricing system itself is determined by those factors.

Perara *et al.* (2003), in a study of a government-owned energy organisation, found that the choice of introducing transfer pricing was consistent with the internal organisational contextual factors of strategy and structure. Contemporary research also suggests that history, power and evolution must also be considered (Boyns *et al.*, 1999). Van Helden *et al.* (2001) note the importance of organisational learning in understanding the transfer pricing system and its linkages with organisational structural change and broader MCSs. Similarly, Spicer (1988) and Colbert and Spicer (1995) put forward that transfer pricing is dependent on diversification strategy and the intra-firm transactional context as well as on the organisation's structure and associated performance evaluation, reward and control systems. In this regard, the budgeting system, as a component of the internal transaction context, is affected by the transfer pricing system that is adopted. However, dysfunctional conflict effects could follow where the relationships discussed above are misaligned (Eccles, 1985). Perara *et al.* (2003) argue the importance of focusing on the subjective values, norms and past experiences and the organisational and social systems – that is, the institutions within which the transfer pricing will operate. Furthermore, Boyns *et al.* (1999), advises that an increase in power plays and political interplays can occur when there is a misalignment between transfer pricing choice and the organisational and social context.

Within the context of the public sector and its reforms, it is possible that the value of transfer pricing may be found not so much in its ability to model economic phenomena with any effect, but in its institutional impact, in its ability to construct a competitive environment and thus provide evidence to external constituencies of a seemingly commercial adaptation. It may also be a result of the plausible argument that transfer pricing increases the power of competitive pressures as such, acting as an incentive to reduce budget allocations. This is a familiar piece of rhetoric supporting the advancement of particular reform issues.

Transfer pricing is implicitly involved in interactions of power within the institutionalised environment. The conflict between MCSs with disorganised performance criteria, supported by potentially conflicting institutional and organisational rewards and constraints, emphasises the difficulties in advocating accounting change (Collier, 2001). Power means having the ability to be able to influence someone else's behaviour (Gordon, 1993; Hardy, 1996; Morgan, 1986; Pfeffer, 1993; Robbins, 1996). Morgan (1986, p. 158) claims that "[P]ower influences who gets what, when and how". Power is a potential that need not be actualised to be effective; it implies a dependency relationship. However, power exists largely in the eye of the beholder. It is not necessarily the resources or knowledge held that give someone power, but the belief by others that he or she has that power of control (Hardy, 1996).

Power can be defined as what is latent and political behaviour as the action. This includes those times when an individual or group seeks to influence the thoughts, attitudes or behaviours of another individual or group whenever those people get together. Politics, according to Hardy (1994, p. 200), is the "use of power". This is synonymous with Robbins's (1996, p. 477) suggestion that politics is "power in action".

Power and politics are also integral to any OIE-grounded explanation of life's ongoing processes (Burns, 2000). The contextual/processual approach to change (Pettigrew, 1973, 1987, 1988; Pettigrew *et al.*, 1992) explicitly recognises the significance of political factors in implementing organisational change in the public sector. Dawson (1994, 1996), whose guidelines form processual analyses of change, lends support for political issues. The contextual/processual perspective, in drawing attention to the non-linear dynamics of change and with a view to teasing out the complex characteristics of the processes of change through time, enables the essence of organisational politics and power mobilisation to be assumed. Through power imbalances, conflicts, challenges and confusion, the influence on the institutionalised budgeting process could be substantive. OIE in this context provides a useful platform to understand political agendas in the process of budgeting change.

Recent research into accounting change in the public sector (Burns, 2000; Dawson, 1994, 1996; Nelson and Dowling, 1998) are studies of broader aspects of organisational life which regard context as paramount and which explore change as process rather than through "snap-shot" examinations of outcomes (Burns, 2000, p. 568). In a study of the introduction of activity based costing (ABC) and organisational change, Soin *et al.* (2002) follow a processual approach encapsulating different time frames in order to examine changes in the organisation as the introduction of ABC was pursued. The application of OIE that emphasised the centrality of routines enabled them to pinpoint new characteristics of ABC implementation. They identified tension in the need to establish ABC as an organisational routine, thereby ensuring its reproduction. They observed that using OIE enabled them to explore the micro-processes of the organisation rather than the macro-level structures that are often associated with institutional theory.

As the reform process in Queensland is still in its infancy, newly corporatised business units are facing a whole range of issues, including the introduction of management autonomy, accountability for performance, performance monitoring and budgeting policies. The above discussion has addressed some of these issues, describing the implications of public sector reform to the budgeting process that might be considered as public sector organisations go through the process of change.

Theoretical framework

Management accounting provides information for management planning and control: such a portrayal is grounded in the neo-classical economic theory of the firm (see Scapens and Arnold, 1986). However, as neo-classical economic theory is based on the core economic supposition of rationality and equilibrium, it has difficulty in evaluating processes of change (Burns and Scapens, 2000). Neo-classical economic theory is more interested in forecasting the rational outcomes rather than explaining the unfurling processes of moving from one equilibrium state to another. However, studying the processes of budgeting change requires a conceptualisation of the ways in which new accounting practices evolve over time (Nelson and Winter, 1982).

Researchers are becoming increasingly aware of the importance of studying the relationship between accounting practices and other organisation routines so as to understand the institutionalisation of accounting practices, that is, where accounting practices become the norm and meanings are used to make sense of organisational activity (Burns and Scapens, 2000; Scapens, 1994). Burns and Scapens (2000), who apply OIE theory in their study, suggest that accounting practices can become routinised, and in time begin to constitute a part of the taken-for-granted assumptions and beliefs in an organisation. The main premise of OIE theory is that organisations and individual behaviour are influenced by the institutions in which they exist. A definition describing what an institution is was provided by Hamilton (1932, cited in Scapens, 1994, p. 306) as "a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of people". This definition, according to Scapens (1994), brings out the social and cultural character of an institution and emphasises the importance of habitual behaviour, or cognitive institutions, which characterises the underlying premise of institutional theory.

Hodgson and Screpanti (1991) suggest two principles as micro foundations of OIE:

(1) human behaviour cannot be reduced to the choices and decisions of isolated individuals alone – circumstances are, in part, a consequence of individual action and individuals are moulded by circumstances including their interaction with others; and

(2) factors sustaining human behaviour cannot be reduced to any *a priori*, abstract, general ahistorical hypotheses.

No assumption about rationality can remove the need for well-founded knowledge of human behaviour in its cultural and institutional context (Scapens, 1994). Old institutional economists view economic activity as a social phenomenon and they are interested in its relationship with social institutions. They regard the economic system as a micro-system of the larger societal or cultural system. In addition, they view human beings as cultural products influenced by and functioning in an evolving cultural process (Gruchy, 1984). Subsequently, institutions can shape the cognitive processes of individual actors (Hodgson, 1988).

Burns and Scapens (2000) suggest that the routines which emerge through change will be influenced to some extent by the existing routines and institutions. Thus, understanding budgeting change requires a thorough understanding of the context of the organisation, especially its routines and institutions. In order to understand this context, OIE attempts to explain phenomena in processual terms, teasing out why and how things become what they are or are not over time.

Methodology

Change is a dynamic process, with change in any one organisational dimension often resulting in compensatory change in others (Leavitt, 1964; Nadler, 1988). The processual approach permits change to be visualised as dynamic rather than static, having a temporal setting, with multiple causes acting as loops rather than simple lines. Dawson (1997) explains that the focus of contextualists and processualists is on longitudinal qualitative data; this enables change to be understood as a continuing phenomenon having the benefits, without the limitations, of rational contingency models.

Hopwood (1987) argues that accounting change depends on its interactions with other factors inside and outside the organisation, such as other organisational practices, owners, the social and external environment, and/or changes in regulation. Burns (2000) believes that processual studies of accounting have important implications for both researchers and managers through understanding the dynamics of change. Old institutional economic theory emphasises the ontological, epistemological, behavioural, and methodological assumptions that are consistent with the processual approach. Subsequently, the use of the processual approach for studying change in the subject organisation provides the relevant idiographicity as prescribed by OIE.

The primary objectives of this research are to explore what changes the budgeting process has undergone as a result of public sector reform and to also explore the interplay between this changing process and organisational members and how the concepts of power and politics are used in order to reconstruct the budget process. Subsequently, for this study it was important to construct a design that would enable the researcher to fully understand the process of change. A review of the literature revealed two alternative dimensions offered by Yin (1989) that were relevant:

(1) the single/multiple case dimension; and

(2) the holistic/embedded dimension.

The former relates to case studies of single and multiple organisations, while the latter can occur in combination with single or multiple case studies. The embedded dimension is focused – in a broad context – on organisational cohesiveness, where it looks to individual units within the organisation as well as the organisation as a whole. The holistic perspective emphasises the importance of linking parts of social systems to the larger systems of which they are a part. Yin (1984, 1989) also identifies three classifications of case studies:

(1) exploratory;

(2) descriptive; and

(3) explanatory.

Yin (1989) believes that the purpose of conducting field research is not to find relationships or causal factors among variables, but more so to interpret, describe or explain practices.

The purpose of conducting a case study in this instance was to understand the changing budgeting process itself and from the perspective of the organisational members. As such, in keeping with Yin's (1989) case study designs and design dimensions, this research can be classified as a single case-multiple unit design with both holistic and embedded dimensions. The main unit of analysis was the organisation as a whole and the smallest units were the respective individual members. Intermediary units were the divisional units. Ahrens and Dent (1998, p. 3) argue that small samples, i.e. a single case, "presupposes a deeper appreciation of accounting in organisational and social settings and of information more broadly". The approach adopted compliments the theoretical basis, which is devoted specifically to exploring and describing how the budgeting process changed in the subject organisation (Burns, 2000).

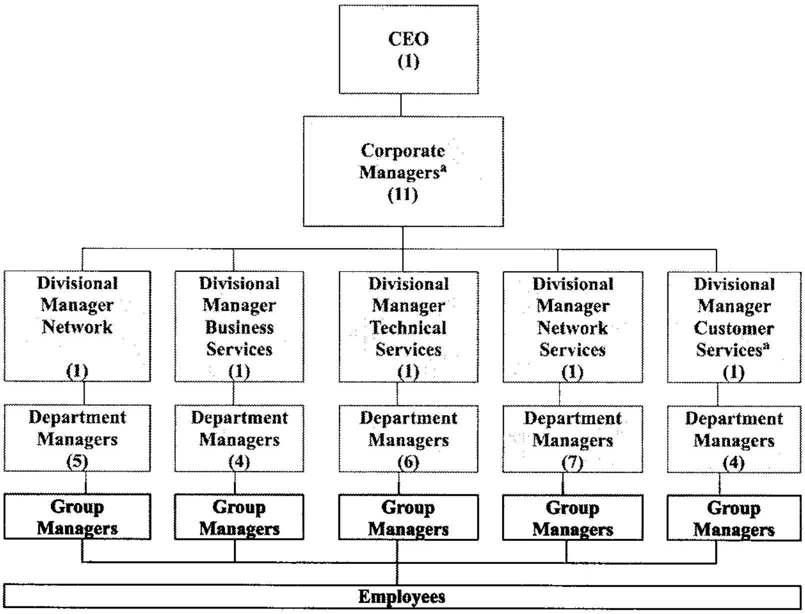
Increasingly, emergent research into areas of accounting change that have utilised a processual perspective for exploring and interpreting data use, what Langley (1999) describes as a narrative strategy (Burns, 2000; Dawson, 1994, 1997; Greenwood and Hinings, 1996; Johnson, 1987; Pettigrew, 1985, 1990; Pettigrew and Whipp, 1991). This strategy involves the construction of a detailed story of the phenomena under review from raw data (Langley, 1999). Similarly, this strategy will be used to describe the changing budget process and the implications of this in the subject organisation.

The organisation studied is an Australian Government owned Electricity Corporation in Queensland. The organisation distributes electricity-related products and services throughout Australia and exports energy management and technical consulting services to the Asia-Pacific Rim. The key areas of business are electricity retailing, network maintenance, asset management and technical services. The Corporation at the time of the study owned and operated approximately a $2 billion electricity distribution network. Furthermore, the organisation provided power to a population in excess of 2.2 million. The organisation services one of Australia's most vigorous growth regions, including six cities spread over a 24,830 square-kilometre area. The subject organisation, in order to preserve anonymity, will be termed The Electricity Corporation (TEC)[3].

Interviews were conducted during on-site visits at different locations of the organisation, i.e. branches and depots. The interviewees were selected from the various divisions of the organisation – Corporate[4], Network Services, Network, Technical Services, Business Services and Customer Services. For the purpose of this study, the latter three are classified as functional divisions, while the former three are classified as regional. Regional divisions, for the most part, had departments located outside the metropolitan area in regional locations. Within the functional divisions there were various departments, which branched into numerous smaller groups. In making the selections the researcher made use of the organisation hierarchy. To avoid any sampling bias, all managers from the departmental level up were selected[5], as it was believed that some managers may have decided not be involved in the study. Figure 1 presents an illustration of the organisation hierarchy used to determine selection. The numbers of managers representing the relevant levels are also included.

Managers were advised that participation was voluntary and should the manager wish to participate, the interview would take between one and two hours. During the course of the program, a total of 20 interviews with department managers and ten corporate and divisional managers together with the chief executive were interviewed, making 31 of 43 possible senior managers. Fifteen of these managers were visited more than once. These additional interviews were requested either by the researcher for confirmation, or as an express wish by the manager to add additional information. Furthermore, six group managers were also interviewed by their request, often after discussion with their manager (department) or upon reading an article placed in the internal newsletter regarding the research and purpose. Overall, a total of 52 interviews were conducted over the period of the study.

Interview techniques used with managers at the organisation varied from semi-structured, quantitatively oriented to semi-formal guided conversations and free-flowing informational exchanges. At the onset of all interviews the objectives were



Note: [a]The Corporate Division held executive management and was unrelated to the Divisions
Source: Developed by the author

Figure 1.
Graphical presentation of organisational hierarchical structure used to determine selection of interviewees

clearly defined, and assurance of total confidentiality was provided to the interviewee. Open discussion with managers at both levels covered factual information about background and demographic issues; and knowledge, experience and education issues. Also discussed were:

- culture and behaviour;
- opinions and values (i.e. what the manager thought about particular issues);
- feelings (how did the manager feel); and
- sensory issues (what had the manager heard or sensed in relation to particular issues).

Managers were also asked to offer explicit information about these areas prior to competition policy and corporatisation, as the actual interview process did not commence until shortly after corporatisation in 1998. All interviews were taped with the permission of the interviewee and transcribed later. However, at the express request of some interviewees when discussing sensitive information, the recorder was turned off until such time that the discussion moved on.

Document analysis and field notes of impressions were also undertaken. Field notes were made directly after interviews to capture, as Babbie (1989) puts forth, all the relevant aspects of the social process. The notes made in the field journal reported observations that included physical settings, interview reactions and body language, periods of extended silence, and sensitive issues that were discussed without being taped. Reflections on the outcomes of the interview were also recorded.

Background

Public sector reform in Australia

The principle being followed in the Australian public sector is one of exposing large parts of the public sector to competition and market mechanisms. Traditionally, public sector enterprises have been seen as essential to the fabric of our society as they provide utilities and services to the community, and as such, the effect of these changes has fuelled many diverse inquiries and debates (Broadbent and Guthrie, 1992), such as whether these reforms are truly effective in bringing about the objectives of effectiveness, efficiency and economy.

In 1992, competition policy became an important issue in Australia. Prime Minister Keating argued that "[T]he engine which drives efficiency is free and open competition" (Keating in *One Nation*, cited in Hughes, 1998, p. 90). The general theme of the NCP reforms was to develop a domestic market for goods and services that was open and integrated by eliminating non-essential barriers to trade and competition, and diminishing complicated and duplicated procedures and administrative processes (Hughes, 1998; Queensland Treasury Department, 1996).

In order to facilitate the introduction of the NCP, new guidelines provided a program of change to the management and structure of public business enterprises. The approach adopted was that of corporatisation. Its purpose was to make organisations more like private sector firms in all aspects except ownership (Coates, 1990; Guthrie, 1993; Halligan and Power, 1992; Hogbin, 1995; Hughes, 1998; Parker and Guthrie, 1993; Wanna *et al.*, 1992, 1999). Prior to corporatisation, the subject organisation was a statutory authority of the Queensland Government. Much of the process of corporatisation in Australia was designed to establish conditions for accountability, and in particular to create what is often referred to as an "arm's-length" relationship between the shareholding Ministers[6], the Board, and the CEO of the GOC (Hogbin, 1995, p. 44).

Queensland electricity supply industry (QESI)

Broadly, the electricity reform implementation involved a two-stage process, which in turn was reflected in a two-stage legislation program. The first stage centred on the structural reform and focused on corporatisation-related issues. The second stage of the process was to create a Queensland interim wholesale market to be operational by the end of 1997 and to establish a regulatory environment for the operation of this market and for the NEM.

In July 1999, the Queensland government further restructured the State-owned electricity sector, merging six of the seven regional distribution companies into one corporation and merging two retail corporations into one. This was Queensland's fifth restructure in 20 years. It also aligned the two retail franchise boundaries with those of the two remaining distribution companies. Figure 2 presents the structure of the QESI as of 1999.

Significant changes have taken place in the QESI, associated with the industry's participation in the NEM. These changes have been implemented to establish a

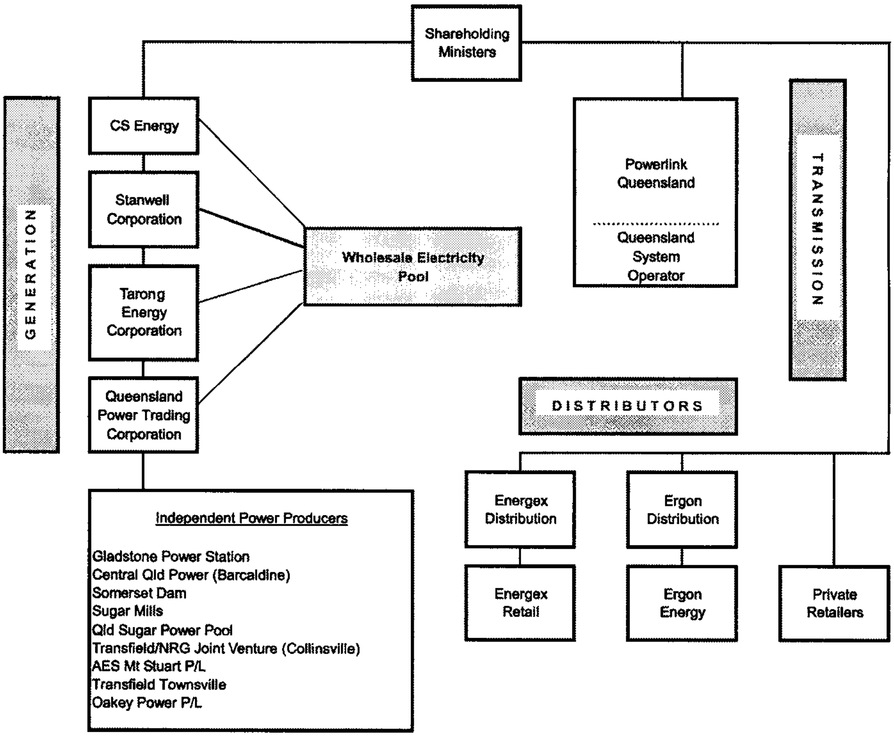


Figure 2.
Structure of the QESI, 1999

Source: Adapted by the author Electricity Reform Unit (2001) competitive electricity industry in Queensland. The aim is to promote sustainable efficiency and low prices to consumers and to enable the QESI to be a successful competitor in the NEM.

The processual tale

As institutionalisation is continuous (Tolbert and Zucker, 1996), processes of deinstitutionalisation[7] and institutionalisation were still unfolding at the time of the research, and the enactment and interpretation of meaning could be observed in practice. Using members' accounts, observation and archival records, the researcher tracked the process of change of the budgeting process. The early years (prior to corporatisation) according to members' accounts[8], were marked by a "traditional" public sector organisation where the budgeting process was the beginning and end of other accounting and control processes within the organisation. For example, strategic processes (where there were some), performance measurement and evaluation revolved around the initialisation, interpretation and action of the budgeting process. Corporatisation and the emergence of the new competitive market with the introduction of the NCP instigated the deinstitutionalisation of the "old" budgeting process, but not its complete replacement. Hence, at the time of the field work the new and old budgeting processes appeared to coexist and sometimes compete with one another through the meanings and routines interpreted by the members of the organisation.

Prior to corporatisation

The pre-corporatisation budgeting process was revealed through a review of archival records and interview comments about the budgeting process prior to corporatisation. This process began by instigating a budget review. It was explained that this was a review of the current year, around the month of December (the financial year end is the June 30). It was a bottom-up approach, i.e. it started with lower-level management and worked its way up the hierarchy. According to interview comments, it was a month-by-month process. This process was the same for both functional and regional divisions. The perceived rationality behind the process was that each of the branches and departments looked at their needs and put together individual budgets that were aggregated at the divisional level towards the end of January for the next financial year. This process was generally conducted over January, February, March and even sometimes spinning into April. Comments regarding this aggregation process varied between the functional and regional divisions. The functional divisions appeared to find this process simple and convenient, while for regional divisions the main theme was one of confusion as there appeared to be no unified format followed for budget preparation. Each branch formulated their own budget according to their own specific needs. One regional manager said:

> One of the problems I had was a dozen budgets from a dozen branches all put together on a different basis with different assumptions, and also, someone might want to spend ten times what another guy wanted to spend on a particular thing when there was no real justifiable quantitative basis for it.

After the aggregation of the branch and department budgets to divisional level, these budgets were then put to the General Manager (GM) to formulate an overall organisational budget and cash flow models. It was at this stage that the GM would determine spending allowances. This was achieved, according to an accounting manager, by reviewing the previous year's budget and checking the basis of the current budgets to ensure that all revenue and cost budgets reflected the current year's expected revenues and expenditures.

The overall budget would then be put forward at the Board meeting some time in May. For the most part the Board generally passed budgets. There was a general consensus among organisational members that the budgets had already been scrutinised by the GM, and therefore further scrutiny was deemed unnecessary. Each department and branch had an annual budget that was fixed after the Board had approved it. Monthly operational performance reports showed over- or under-expenditure against budget allocation and provided a basis for performance evaluation and achievement of strategic objectives.

Budgeting and planning

There were contrasting views as to the relationship of the financial planning process (budget process) and the strategic planning process. These contrasting views were not restricted to either functional or regional divisions, rather a mixture of both. First, at one end of a continuum it was believed that the strategic planning process consisted of high-level objectives and that the budget was a financial plan constructed to achieve those objectives. The budget was then formulated to achieve the objectives of the strategic plans by incorporating detailed financial and relevant information for decision-making. At the other end of the continuum, comments indicated that it was simply an annual ritual. Indeed, various comments were put forward to cement this view. For example, one manager suggested that the budgeting process was "a waste of time" and another manager said that "there was no link between strategic planning and budgeting".

The reforms of the late 1980s and early 1990s focused on performance accountability and efficiency among other things. However, discussions regarding how the budget process at TEC was conducted during this time revealed that efficiency gains may have been only incidental or even random. This conclusion is drawn in light of the ineffectiveness of the budget process prior to corporatisation. With the deregulation and the introduction of competition into the QESI, TEC was expected by its constituencies to improve its efficiency and performance.

The effectiveness of a budget process is not only reflected in the achievement of strategic objectives, but also in its ability to discover and resolve inefficiencies. Given the comments above, the general belief was that the budget process was not effective in regards to the achievement of strategic objectives and, as the following comments suggest, hid rather than pointed out inefficiencies. One manager is quoted as saying, "the budget process was not efficient really, especially from the bottom up, input based approach, it hid many inefficiencies". Furthermore, "branch managers were used to doing it [preparing the budget] the same way, their way, identifying all their expenses and that's their budget. The fact that it didn't relate back to the Plan or that it hid inefficiencies wasn't strong on their point of view". The following comment sums up some managers' views on the effectiveness of the budget process:

> ... having achieved all that [the budget process], everyone put it in the bottom drawer and went ahead and spent and did what they wanted to anyway.

Whether these views are a reflection of the entire organisation cannot be generalised. However, it would appear that for those interviewed, for the most part, there was little satisfaction either with the budget process or with its effectiveness in maintaining control prior to corporatisation.

Before corporatisation, managers at TEC had been insulated from markets and competition by the objectives and structure of the organisation and the centralised provision of support services. Performance was not tied to budgetary figures, and as such, there were no strong incentives for managers to consider the services they consumed on a cost/benefit basis. With corporatisation, TEC endeavoured to remove this insulation and to create competitive tensions inside the Corporation.

Post-corporatisation

At TEC, upon corporatisation, the operating divisions were given "bottom-lines" by setting them up as profit centres and charging internally for the transfer of goods and services to further the development of a competitive culture and to enable a focus on cost management in line with the objectives of public sector reform. Internal competition and increased contracting-out mechanisms were also introduced. The new arrangements were to provide economic incentives both to providers and purchasers. The potential for any efficiency was to be monitored and supported and a determination was made as to whether there were competent managerial skills available to carry out the changed routines. A discussion regarding the budgeting process after corporatisation, however, brought this response from one department manager:

> Budgeting, well quite frankly, I was hoping you wouldn't talk about budgeting because I feel I've done one budget, or two budgets too many in this organisation. They're very time consuming and resource hungry, and the complexity of our organisation makes them you know, quite an ordeal [...] Quite a complex dinosaur (Technical Services).

The budgeting process after corporatisation continued with a bottom-up approach with the inclusion of an internal transfer pricing mechanism, formally named the Service Level Partnership Agreement (SLPA). These were partnership agreements on costs for services between each division.

As explained by an accounting manager, the general meeting was held in October/November, but it was not technically a part of the budget process – it was more part of the planning process. Each year in the planning and budget process a five-year forecast was developed. The first year was then focused upon and a detailed financial plan formulated. The plan was a statement of objectives and the budget a financial representation of that plan. This was the higher-level cycle where effectively there was a plan review process. Senior management workshopped the plan and formulated strategies to achieve the objectives. From there, a drafted decision paper was constructed and ultimately the Board became involved in working through it as well. Once that was signed off some refinements would be made, corporate statements, statistical measures (financial and non-financial) and target dates set. In December a deployment process was made with the development of action plans, that was then respectively the last step before divisional and departmental managers entered the budget process proper. Departmental managers from both Technical and Network Services Divisions discuss the budget process proper as they describe their budget process:

> We start off with a zero based budget and then we have to sort out what work our various customers require [Network and other Divisions] and we estimate other areas where we are active in the market place and then we build our budget up from that zero base (Technical Services).

> We lay out a work plan [Action Plan] and then cost that work plan and part of their [Network Division] costs is our revenue so we take that revenue and look at what we think we can do externally and put together our budget on the basis of that (Network Services).

The operating budgets were primarily a financial representation of the Divisional and Action Plans, which were a subset of the Corporate Strategic Plan. Comments from managers indicated that the budget process looked to historical accounts for estimation to determine costs and revenues of future projections. For example, a departmental manager within the Business Services Division described their budget process:

> Our budget process here in this department is based on projections from the last 12 months or so, on what our costs will be to run our standard operations. We project what we believe the fee for services is going to be, we project what we believe our capital program is going to be and from those figures, we produce what are indicative SLPA charges. Those charges go out to our customers so that they have those figures to include in their budgets and then we go through the approval process where various divisional plans get refined according to the organisation's needs, we will review our budgets then and will issue both the budget and our SLPA charges that we project for the coming year.

Because the Customer Services Division was not created until 1997, it did not have any "historical" data from which to draw on for budget preparation. Subsequently, their costs were primarily drawn from trends. As a manager from this division explained:

> Our budget costs stem mainly from staffing and resourcing issues and their relationship with future growth, that's what has the biggest impact. It's a major part of the budget as it's our major expense and it's really sort of forward planning in terms of – what's our projected growth in calls? How many staff does that equate to? If we follow overseas trends in terms of deregulation, we can expect a 300% increase in calls".

As can be seen, initial changes saw the budget process, rather than becoming a unified process throughout the organisation, being varied to suit the alternative regional and functional divisions. Some divisions developed and followed Action Plans that stemmed from the corporate strategic plan, and formulated the budgeting accordingly. Others, though, examined historical costs to formulate budgets. Further, as described, one division looked to forecasts to formulate budget figures. When considering the institutionalised budget process prior to corporation and NCP, with regard to the various methods for preparing the budget throughout the organisation, it is possible to see that although TEC was restructured there was evidence of particular routines associated with the "pre" budget process still visible. As such, although managers appeared to adopt a new way of thinking and a new approach to budgeting, they were still following previous habits and routines.

Although the budgeting process was varied among the different divisions, changes to the budgeting process resulted in more rigorous examinations of expenditure requirements. Post corporatisation saw a change of attitude towards the role of budgeting and the information it provided because of these examinations. Further, with corporatisation and the onset of competition, an attempt was made to streamline the process much more with the planning process.

In the initial phase, members were keen to follow the new process, with gains in expenditure savings providing considerable motivation to cut costs even more. Incentives encouraged this motivation: as such, there was little resistance, particularly as the new process had not specifically altered how managers viewed the budget process. It was not until targets were continually reduced and performance criteria attached that members became frustrated with the continual push to cut costs, particularly when they were working to a skeleton budget as it was. This was exacerbated by the introduction of the transfer pricing system.

Transfer pricing
The scope and extent of services provided centrally within TEC were considerable, but prior to corporatisation and the introduction of the SLPAs, there was no mechanism of cost information to ensure that these services were provided efficiently. With the corporatisation and the reorganisation of TEC, many services provided centrally became the responsibility of profit-oriented business units. However, some services were still provided centrally. Internal charges were supposed to reflect the full cost of the provision of the service plus a return. Divisions were free to decide whether to use internal services on the basis of cost and quality. The rationale was that if the internal services were uneconomic or substandard, then they were not used.

Getting the internal charging system up and running smoothly was not accomplished without considerable argument and conflict. The conflict was triggered by the internal charging regime for the use of facilities and resources owned by the company and the fact that internal prices were based on negotiated market price, even when sometimes there was no market price (estimates were made on what the price would be). One manager is quoted as saying:

> We don't have enough competition to drive prices down, there needs to be more suppliers in the market (Network).

And another:

> It's intended to be a negotiated price but it's based on the market [...] but because we are coming from an uncompetitive position, we haven't been able to match the marketplace and we've been following the "price" brick road so to speak. It's intended to get us to a competitive position (Network Services).

Divisions often argued that the charges set for the use of internal facilities and resources were well above comparable market levels. Responses to these arguments indicated that the cost was justified because of the considerable infrastructure retained and maintained by TEC. These arguments and responses brought with them many discontents as these charges affected their own budgets and departments were now partly evaluated on meeting budget. A corporate manager advised that efforts were being made to reduce the conflict and "bullying" that had become evident as a result of the system:

> We're bogged down with the SLPAs and not achieving corporate objectives. The inferences and innuendoes and the negative aspects have gone too far. Where one part of the organisation says, "oh listen, if you're nice to me I'll give you some more work" and, "you better be on your best behaviour because I can source this from anywhere else in the organisation". We need to get back to partnering so they work together in the best interests of the organisation (Corporate).

Unfortunately, these negotiations and subsequent arguments delayed the budget process for up to six months each year up until 1999, when a new transformed budgeting process was implemented (discussed later). This delay occurred because the SLPAs were set, then forwarded to other relevant divisions, who would then contest the prices. The Agreement would be returned for review. This process went back and forth a number of times before satisfaction was reached (occasionally not being reached at all), consequently delaying the budget process. This was explained by the accounting manager:

> Costs are going to be driven by the budget, but the budgets are going to be driven by the SLPAs. We actually got ourselves into an interactive loop, so what was basically happening is that they [Managers] were saying, "I can't set my budget until I know what you're going to charge me". So then they get some charges, they work it through their own budget and subsequently that causes changes to their charges, which then go round and hit another division, who then say, "we have changed our charges because you have changed your charges". So that got itself into a bit of a spiral.

The following comment by a departmental manager was indicative of the majority of managers as they discussed the internal looping effect caused by the SLPAs:

> One's sort of dependent on the other, I say "How can I finalise my budget if I don't know what charges other people are going to levy on me?" And they say, "well how can we finalise ours until we know what you're charging us" (Technical Services).

Although initial changes to the budgeting process saw greater efficiencies being achieved with considerable cost savings, as budgets became tighter and tighter and with the introduction of transfer pricing, these efficiencies appeared to be at the cost of job satisfaction and motivation, for example:

> I've nearly reached the point of no return. I used to enjoy coming to work here, now it's a different story. We're always bickering and what we do is never enough (Network Services).

According to Hood (1991, 1995), public sector management encompassed by NPM is associated with approximately seven doctrines of change. These are generally mixed according to the specific public sector circumstances (Adcroft and Willis, 2005). In this instance, the doctrine that more contract-based competitive provision, with internal markets and term contracts, appears to be dominant in the discussion of transfer pricing. Hood explains that the justification for this doctrine is that rivalry is the key to lower costs and better standards and that contracts are the key to explicating performance standards. He suggests that there will be more stress on identifying costs and understanding cost structures, so cost data become commercially confidential. He also suggests, however, that cooperative behaviour becomes costly, which is what is evident at TEC. Furthermore, the values implied by the new transfer pricing system conflicted with existing norms and practices at TEC. The managers did not see the new system as aiding their daily activities but rather disrupting them, which is not surprising given the conflict and delays to the budgeting process. Although reluctantly, the managers accepted the directive to implement the system, as one manager explained:

> The CE has used it as a mechanism to drive some significant change in the organisation. He has strongly whetted the notion that it was the right thing to do given government directives. As we move to increasing regulation and the need for effective ring fencing between

regulated and unregulated businesses between distribution and retail then some mechanism like transfer pricing remains valid, however, the need for the complexity of ours is a mystery (Business Services).

Power and politics – let the games begin

According to interview comments, although operating budgets were structured with divisions, departments and groups as service providers, there was the belief amongst organisational members that the Network Division (the asset custodian division) actually set the scene for costings of the other divisions in that they were the income earners as a whole, whereas the other divisions only had a small amount of external income[9].

Network Division and Network Services Division were vertically integrated businesses, with only the Network Division having practical access to large outside markets for the sale or purchase of electricity. The Network Services Division relied on, for the most part, the sale of services to the Network Division for its income. Apart from a belief that competitive tension between these two divisions was philosophically appealing, there seems to have been no clear vision as to what transfer pricing between these two vertically integrated divisions was supposed to accomplish. One manager believed that the introduction of transfer pricing for competitive behaviour was necessary to drive costs down. However, at TEC, not only did it drive costs down, it also drove the organisation apart:

> We are driving costs down and a lot of things are happening internally and there is a lot of dissatisfaction with the current structure. We are generating lots of little companies within TEC, the divisions are becoming self-contained companies, this in itself is creating considerable opposition. We have always been a company that prided itself on internal support and camaraderie even as we grew in size, but now we even see segregation in the lunch room (Network).

The GM placed a great deal of stress on building quasi-competitive mechanisms into the organisation wherever possible, but it appears no consideration was given to the possibility that corporate and community objectives might be defeated by the ensuing conflict between divisions. This conflict stemmed from the fact that, in effect, the Network Division "controlled" the budget and internal pricing mechanism between these two divisions. A Network Division manager explained:

> The budget process for anything and everything to do with the property, the building, the environment, the management, the maintenance issues etc. all rests here. We put our budget together based on current trends, and past practices and what we are looking at securing; we are very rarely challenged on it. If we are asked to acquire another four substation sites or dispose of buildings, sell certain depots, it all rests here. The issues where I do get challenged on are the operational costs, if we need to reduce the operational costs in any shape or form through Network Services or any other division for that matter; I'm usually head of the pack by reducing the operational costs to a bare minimum at the time of budget preparation. I actually control the group, theoretically I am the landlord and environmental custodian for TEC, what that actually means is that I control the budget; it doesn't go to anyone else.
>
> You see Network Services prepare their budget but it all comes back into Network because they are a service provider to Network and it feeds up the food chain, so does mine but it is stand alone except for the capital side. The other side of the coin, Network Services say they want X squillions of dollars to go and replace all the poles. Now

Network the Network owner, doesn't want all these poles replaced because it is totally unnecessary, but Network Services budget to go and do that work because if they don't budget to do that work they've got nothing left to do. It ends up the bucket brigade again.

It was plain to see that the CE was pursuing a change program that mirrored politically driven suggestions in order to achieve the objectives of NPM. But as previously discussed, is this private sector motivation suitable for such an organisation as TEC? Yes, the organisation has succeeded in reducing costs and has attempted to shift the culture from publicly administrated to one that fosters commercialism. But have these successes been at the cost of efficient organisational functioning? We have seen improvements, but how long will these last as managers become further and further entangled in the budget web? A comment by a manager strengthens these observations:

It's a bit early to say what impact that this is going to have in the long run. Why I think we need more time is that you tend to cut things out of the organisation to provide a better service, like we won't be so active in planning, we'll try to extend the network a bit further, and those things take a little time to assess the impact. For example, we have a cut in our maintenance so we need to see whether things will start falling around our ears, but we need to wait and see what the impact is. We now have to offer deals to customers, so that means a less return (Network Services).

The relationship between the divisions was further discussed by the senior financing manager and an accounting manager who explained that the Network Division was the "owner" of all the assets, the network, and that the other divisions basically serviced the network. This is in contrast to the objectives of NPM, in that competitive relations, professional management, a focus on inputs and results are encouraged. At TEC there does not appear to be "competitive relations" but rather mutiny in the making.

The finance manager also explained that the income received by Network was a regulated income – that is, the price set by the government. They were also regulated in terms of how much income they could receive: this was the revenue that TEC could raise from electricity retailers based on their use of TEC's distribution assets, formally the Distribution Use of System (DUOS). Subsequently, any costs that the division incurred needed to be within an acceptable range given the income.

The Network Division was the owner and manager of the assets, and as such, directed what and how work was to be done. The Network Division also played a significant role in extending the negotiation process, given its dominance in accepting or rejecting costs put forward by the servicing divisions. Service divisions, in turn, faced negotiations with other divisions to drive their costs down.

Despite the disagreements and spiralling of the budget process, there was belief that the SLPAs did have the desired effect of reducing costs, although there was some scepticism to where all this was going to take the company, as the following comments portray:

Although there are problems with the SLPAs they have had the desired effect and I actually agree with them, because they have driven a lot of costs out of Network Services. It is the tie between the budget and the SLPA that is causing the problem. These have delayed budget cycles for months and months because of lack of agreement on SLPAs (Network Services).

It's a little tighter these days in that there's a lot more focus on what we're spending during the year and the next budget (Technical Services).

There were also favourable comments with regards to the effect on the "customer":

> From an overall organisational perspective, it has made us concentrate on customers a little bit more, i.e. what their needs are. The organisation in the past was very bureaucratic, very engineering oriented, we didn't have competitors at all so what we said was gospel. We ran the network to suit ourselves and customers came second because we didn't have competitors. So it has definitely given the organisation a focus on the issues that are important in this day and age and that is that the customer has some rights (Network Services).

> So all of this rolled up had a dramatic change on the culture of the organisation, and we are still coming to grips with things like that. What is a customer really, how we treat the customer and things like that, so in that respect it has been an improvement. It has definitely made us focus on those issues (Customer Service).

In considering the impact of budgeting process changes and transfer pricing, it is important to keep in mind the objectives of corporatisation and competition policy, which were effectively to reduce costs, which in turn would benefit the consumer. Initial observations indicate that the introduction of new budget processes and transfer pricing, as utilised in the private sector, has been beneficial to TEC in that it has served as a vehicle to reduce costs, encourage competitiveness and accentuate the changing commercialised view of the customer. However, competitive tensions were driving the organisation apart: focus on cost cutting was resulting in a very inefficient budget process. Delays such as these cost money through resources and managers' attention being diverted from "doing" business to revising what business was or should be. As such, as tensions escalate, initial successes may turn out to be simply short-term promises.

Buffering the effects of conflict

Some managers believed that there was far too much detail contained in the SLPAs, which subsequently resulted in the contesting of many insignificant facets of the pricing mechanism. Others commented on the necessity of detail and negotiation to ensure competitiveness, which in turn was supposed to foster efficiency.

Other comments suggest that given the lack of agreed prices, budgets were often prepared even without agreement and that "extra" cost or padding would be made to offset the uncertainty of internal charging. As a manager from the Technical Services Division explained, "I've included money in the budget at a higher level to counteract costs that I am not sure of". These extra or padded costs were used to deflect any possibility of an unfavourable budget variance or political questioning, as put forward by a group manager from the Network Services Division when discussing his budget variance, "It will certainly be favourable because I've added extra costs". According to Fisher *et al.* (2000), the effect of negotiation is not independent of whether superiors or subordinates have final budget authority. Budgetary padding is greater when subordinates agree to budgets and superiors have final budget authority than when superiors agree to budgets and subordinates have final budget authority. It seems then, unfortunately, what costs might have been reduced were then offset by significant padding to other costs. So where earlier we saw significant cost savings as a result of the changed budget process and transfer pricing, with the continuing emphasis on reducing costs and being held accountable for not meeting budget we now see a shift to a stabilisation of cost savings. However, this stabilisation may be a result of costs continuing to be reduced but being offset by padding to other cost estimates. Some managers were of the opinion that the current budget process was too rigid and not flexible enough to accommodate changing environmental conditions, and this is why there was an increasing urge to pad budgets. For example:

> What causes a lot of the pain is the … I'll say the word because no one can hear me "bureaucratic" style of budgeting in place. That this whole budget must agree to the last dollar no matter what, is the driver of a lot of the arguments. No flexibility. It is too strict, you have to explain variation. If you go out and say get another big contract and then you do a lot of work in overtime you have to explain why you're overspending the overtime so sometimes we add a little bit for leeway. It's just too strict. But our masters are politicians. Ha ha ha (Network Services).

Corporatisation and NCP are facilitators of the objectives of NPM. NPM involves the introduction and development of structures, processes and rules – in other words, institutions to improve public sector management and performance. So what has the continuing focus on the reduction of costs achieved at TEC? For all purposes it is suggested that early changes did indeed promote the philosophy of NPM. However, prevailing institutions and the inability of the reforms to consider public sector ethos resulted in a deterioration of the effectiveness of budget changes.

Possible solutions

Many attempts were made to overcome the problems associated with the budgeting process. Processes and procedures were changed a number of times, and over time these aspects increased in importance and needed to be reassessed. Consultants were brought in to determine appropriate action. However, the changes recommended served to amplify the existing problems rather than solve them, as volunteered by various managers. For example:

> The last few budget cycles caused disagreements that went on for months, this time they tried to stop it from happening but it happened again. They had a plan in place, they had a consultant come in who identified all the problems but it happened again.

Suggestions by managers themselves to overcome the problems tended to focus on one primary method: separate the budget process from the SLPAs and create standard prices for each product and service offered by the alternative divisions. It was believed that this would simplify budget costing and revenue projection and promote favourable information flows rather than critical constructions. Another suggestion also put forward was to create investment centres rather than profit centres with each division having their own balance sheet and removing the power from the Network Division with its custodian status. At the cessation of the research, neither of these suggestions had been implemented: however, they were not forgotten either. It was expected that these suggestions would be mentioned at management meetings for further consideration.

Budgeting, planning and timing

Before corporatisation, budgets did not specifically relate to Plans in that they were a separate process. However, with corporatisation came a more exact method for planning and budgeting, in that Plans were prepared prior to the budgeting and SLPA process. Although some managers did comment that, given the SLPAs, preliminary budgets were prepared prior to the development of Plans basically to get a head start on costings for SLPAs. Given this discrepancy, it is not surprising that some comments indicated that although the firm was performing well, objectives stated in the Plans were not necessarily met. A further issue, as one manager explained, was that more than once, particular jobs were delayed by government, and this also affected meeting budget deadlines and costs:

> You've got this ludicrous situation where we recently won a body of work in New Zealand. We hadn't budgeted for it as we didn't know we'd get it. In this instance we needed a stack of linesmen and jointers and working people on a plane and over to New Zealand as quick as possible to take over this contract. Not only did we get the *n*th degree about extra funding, but also problems from the ministers. You can imagine we were very keen to have a smooth and fast change over but under the new ministerial guidelines we have to put in the travel arrangements to the ministers and we've got a stack of guys sitting at the airport saying well are we going or what are we doing? That's a pretty minor issue but that is replicated through many of our overseas contracts, how can we budget for that? It's a bizarre situation brought about by a combination of political factors but it is certainly not sustainable. There seems to be a disconnect between our minister and our business plan (Business Services).

The timing of the budget preparation process also caused some concern, with many managers believing January/February to be much too early for forecasting next year's financial needs, as explained by a manager from Network Services:

> Budget deadline is February/March which is ridiculous again because they [Network] haven't got their maintenance plans in place for the next year so our budget cycle is way to early, but they've got some requirements from the government to get things done. We should be budgeting around May, which is when you normally would, not January.

It appeared that although the budget process did not commence until January/February, many were required to prepare preliminary budgets so as to gain and give more accurate pictures of projections in order to prepare costings for the SLPAs. This led to the budget being prepared in November/December, before the construction of Action Plans. A departmental manager from the Business Services Division explains:

> In my own case as a group head/department manager I have to start about now [November], in this somewhat ludicrous situation, and forecast my expenditure requirements for the next financial year. At the moment, I do that before I've done my business plan [Action Plan] for the next year, which I find confusing. I then have to apply those figures through to the consolidated [divisional level] before the end of December for Business Services because Business Services then have to allocate some pricing forecast to tell the other business units what costs they can expect to have to pay for the shared service provisions [SLPA]. I do a preliminary forecast, which gets translated into service level prices at this time of the year, and we refine that in January/February. Then we essentially ignore it for the rest of the year.

Some managers were rueful of the actual planning and budgeting process in that they were required to develop figures and budgets prior to the development of a financial plan. They were not given their bottom line until after their budgets had been prepared. Subsequently, there were often reviews of budgets that again were time consuming. According to an accounting manager, much work needed to be done on the actual budget process before it could actually reflect performance to budget. As he stated:

> Currently budgets are used as historical reporting tools, again I think it's a cultural thing, whereby the budget is set and the only real issue is meeting the budget, whether or not the

budget is sound or whether the budget in fact limits you rather than encourages you to excel isn't really the point, the point is that's the budget therefore you meet the budget.

A transformed budgeting process – 1999

In an effort to overcome the discrepancy in timing between budget preparation and SLPA conflict, a new budgeting process was introduced in 1999 that had been in the planning stages for some months by the Business Services Division and ultimately approved by the Chief Executive (CE)[10]. An intra-organisational memorandum was distributed to managers outlining a new planning and budgeting process. The memo identified that the Corporate Strategic Plan was the key and a necessary input into the budget process, and timetabled specific events leading up to the budget process proper. This is presented in Table I.

The memorandum also addressed particular barriers to the planning and budget cycle:

- limited deployment of strategic plan and business unit plans within the divisions;
- difficulties experienced at divisional level modelling five-year forecasts;
- targets not well communicated throughout the organisation;
- high-level SLPA negotiations left unresolved;
- changes in organisational structure; and
- confusion over budget requirements, particularly pertaining to detail required (Intra-organisational memorandum, 1999).

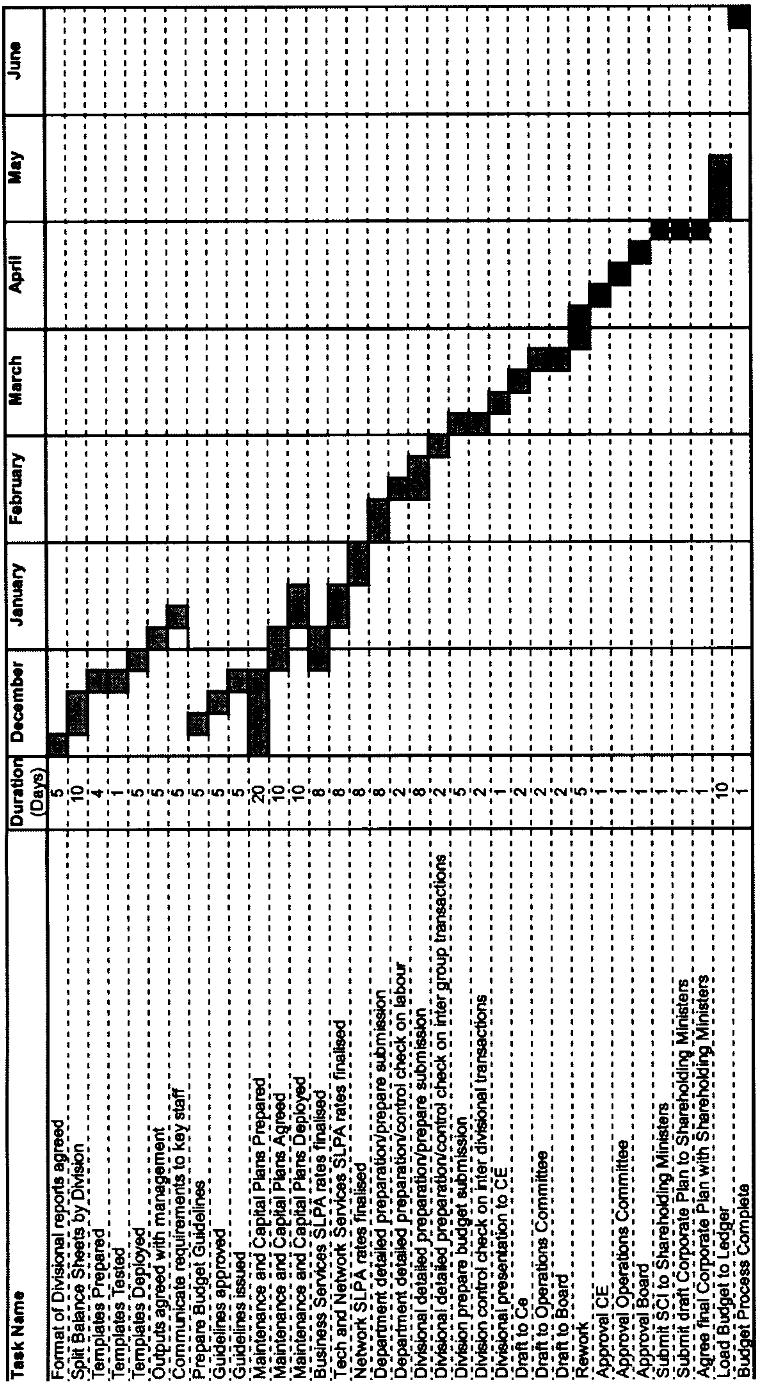
Within this memorandum was a chart mapping the intended budgeting process. The process was particularly detailed so as to overcome any confusion with processes, and is illustrated in Figure 3.

The objective of the budget process illustrated in Figure 3 was to produce the budget as a quantitative expression of the Corporate Strategic Plan and to be used as an aid to the coordination and implementation of the Plan. Furthermore, it was a

Date	Event
May/June	Mid-year Strategic and Business Plan review
August	Financial position review and update for Board
September	Workshops/strategic thinking/SWOT/scans. High-level strategic financial modelling. Draft Strategic Position Paper begun
October	Executive workshop considers Strategic Position Paper. Board workshop considers Strategic Position Paper
November	Strategic Plan sign-off by Board: words, measures, dates, broad accountabilities and high-level financials included
December	Communicate/cascade Strategic Plans to all divisions and senior managers

Source: Intra-organisational memorandum (1999)

Table I.
The planning process



Source: Adapted by the author

Figure 3.
Budgeting process from 1999

specific effort to coordinate the entire organisation into one method and timetable. It was believed that this would increase the effectiveness of the budget process.

To increase the efficacy of the new process, budget performance was monitored monthly by the CE, the Divisional Managers, all Corporate Executives, and the Board. Divisions reported monthly on progress towards meeting their financial and technical operational performance targets. In addition, management meetings of the CE, the Divisional Managers, Corporate Executives and the Manager of the Financial Department were held immediately after each Board meeting to report on Board decisions and identify issues which would require additional work and funding. Each manager had a list of action points, which were reviewed at each meeting. According to one divisional manager, "this focused the managers' attention and provided a means for the CE to monitor performance".

The accounting manager described the change as an organisation making its transition from a government organisation to a commercial enterprise:

> It's very much a quasi government or in fact a public service type organisation making its transition into a commercial organisation. Coming to grips with moving from an appropriation mentality in terms of budgeting to a profit centre mentality in terms of budgeting, so it's very much an organisation in flux in that matter.

Although this may be the case, it did not prevent "venting" of the frustration with the "interference" by Ministers. Although governmental politics was not an area specifically focused on in this study, it is an interesting point to bring to the fore, particularly during these current turbulent debates regarding electricity supply in Queensland. The following comments from various levels of management and divisions are noteworthy:

> If the politician says something everyone drops what they're doing to answer that politician's inquiry even it is a completely frivolous inquiry. Because we are government owned everything goes to the Minister and that generates an inefficient response system compared to what you would get with a private company, because of the politicians. At the end of the day, I can say that I'm increasingly a believer of the concept that competition and government ownership don't go together. You can't have your cake and eat it as well.

> There is more government control than there was before. Before it was a comfortable relationship, we were a statutory authority basically owned by the government and we knew exactly where we stood; now we don't, we're being told to act and be like a private company but we are constrained like a public service organisation. I think our political markers have too much power and control over where we go.

This is something of a dilemma, as the government is set towards encouraging GOCs to act as private organisations as part of the managerialism philosophy. However, the government is also required to implement policies that are in the best interest of the public and yet the members of TEC believed they could not act as a private organisation, that their hands were tied, as explained by these comments:

> Corporatisation is a bloody farce because it is under the direction of the minister (Network).

> It's worse than it was before; we now have two Ministers, Minister for Finance and Minister for Minerals and Energy. The Minister for Finance only looks at the money we can bring and he tells us what dividend we pay him which is a cash squeeze and the Minister for Minerals and Energy dictates where we go and what we do (Business Services).

> I think our ministers have too much power and control over where we go, I think they should exercise the big stick if we stuff up, but leave us be (Technical Services).
>
> Roll on privatisation as quick as we can now so we can get on with it. TEC is now being bound by the corporatised world and we've got the politics of Queensland to take into account (Network).

Discussion

Upon corporatisation, the operating divisions of TEC were given "bottom-lines" by setting them up as profit centres and charging internally for the transfer of goods and services to further the development of a competitive culture and to enable a focus on cost management. Initial changes saw the budget process, rather than becoming a unified process throughout the organisation, being varied to suit the alternative regional and functional divisions. The traditional taken-for-granted rules, i.e. conduct the budget the way it suits, were persistent and permeated what was to be the new streamlined commercialised budget process. Organisational members involved in processes of deinstitutionalisation, as with corporatisation and the introduction of competition, faced a situation that attempted to erode what was taken for granted. Organisational members who normally conformed to the rules found themselves breaking rules by their insistence on retaining old routines, for example through budget padding. For deinstitutionalisation to occur, previous taken-for-granted characteristics of the budget process at TEC needed to be challenged. Processes needed to be put in place that would promote the competitive focus, which is the underlying concept of NPM. Hence the introduction of transfer pricing. It is evident that the deinstitutionalisation of the "old" budgeting process had a significant way to go before the institutionalisation of a more commercially focused budget process would occur. Deinstitutionalisation would continue to bring with it significant conflict as organisational members resisted any change that would see their traditional beliefs and practices altered.

At TEC, the existing institutions influenced the way in which the transfer pricing was implemented. Explicit power by the CE, imposed on him by the changing public sector environment, was used to impose the new system but the power of the internal institutions resisted the imposed change. Hardy (1996, p. 8) calls this the "power of the system", which "is embedded deep within an organisational system that everyone takes for granted". Buchanan and Badham (1999) argue that power that lies in the taken-for-granted ways of doing things is more difficult to challenge as it is less visible and less tangible. Thus, the role of intra-organisational dynamics in accepting or rejecting institutionalised practices – in this instance the budgeting process – is critical. The ensuing conflict stemmed from the belief that the Network Division "controlled" the budget and internal pricing mechanism. At TEC, although each division in the eyes of the external constituencies was equal, in the eyes of the Network Division they were the more powerful. This view was reflected in its power to affect the negotiation and budget process, and this view was shared by the other divisions.

Organisations, according to Hinings and Greenwood (2002), are arenas of conflict with certain groups able to achieve dominance through their ability to control. The behaviour of organisational members is determined more by the conflict between opposing factional interests within an organisation than by any overarching goals or unified, legitimate structures. Indeed, such goals and structure are the work of powerful organisational members who have the ability to design structures and systems and manipulate incentive systems. The Network Division was the owner and manager of the assets, and as such directed what and how work was to be done. This resulted in conflict that had a double edge, first as a result of the Network Division refusing to accept the cost of services as put forward by the servicing divisions, and second as a result of the Network Division having the power to dictate what work and what level of maintenance should be carried out. Cyert and March (1963) have defined budgets as both the substance and the result of political bargaining processes that are useful for legitimising and maintaining systems of power and control within organisations. The Network Division's short-term vision of reducing costs at any expense played a significant role in extending the negotiation process given its dominance in accepting or rejecting costs put forward by the servicing divisions. Service divisions in turn faced negotiations with other divisions to drive their costs down. The costs, though, according to the servicing divisions, were reduced as far as possible without causing detriment to the network by reducing maintenance costs. Unfortunately, given the power of the Network Division, it was at the cost of maintenance that the servicing divisions were able to reduce the overall costs of the SLPAs. As such, it is arguable that resistance to the transfer pricing system was not entirely directed at the system itself, but also at the power that it gave to the Network Division to control the budget process and what work was to be done.

As has been illustrated at TEC, with a misalignment of existing organisational values with private sector instruments, conflict arose. Managers at TEC could not buffer their budgeting process from the transfer pricing system by separating the two processes due to the intricate relationship between them. By separating the transfer pricing from its budgeting process and day to day activities, organisational members may have been able to maintain stability, as was demonstrated in the early stages of post-corporatisation. Before transfer pricing was introduced managers could continue to undertake activities within the same norms and values while at the same time accepting directives with ultimate outcomes being economy, efficiency and effectiveness. However, it was not separated and, as such, existing institutionalised rules conflicted sharply with new efficiency criteria and the organisation's ability to coordinate and control activity in order to promote efficiency. The conflict at TEC that erupted is attributed to the deeply embedded pre-corporatisation budget philosophy and the control exhibited by the Network Division, which, through the negotiation process, undermined the attempt to achieve cost efficiency and greater accountability. Therefore, although there were indications of some success, this unfortunately reduced the efficacy of the budget process.

The analysis so far has demonstrated that TEC's budgeting process was a function of its institutional environment. Institutional pressure was exerted externally through pressure from government. These were powerful constituents in TEC's institutional environment and exerted pressure on the organisation through the corporatisation of the industry and the introduction of competition. Internal institutional pressure, however, provided a means for resistance, such as resistance to the implementation of transfer pricing, or more specifically, the method in which it was used.

The introduction of the transformed 1999 model for the budget process signified changing values, meanings and attitudes, attitudes that imminently reflected a new commercially oriented organisation through an emphasis on cost cutting and customer awareness. The new budgeting process is slowly coming to be recognised as a standardised process and neutral technique in order to pursue economic efficiency through the rational calculation of costs of providing products and services although the concept of the SLPAs still remains an unresolved issue. As argued by Hopwood (1990), in providing rational organisational accounts and decisive management procedures, TEC can communicate to the government and others that it accepts the functions of economic and technical procedures. Budgets and transfer pricing systems and the exercise of efficient management became signs of the organisation's willingness to commit to the public sector reform objectives of efficiency and accountability.

Concluding comments

A major outcome of NCP implementation (ICI, 1993), in line with NPM concepts discussed earlier (Self, 1993; Walsh, 1995), was cost cutting and the higher productivity that TEC obtained through competitive practices. As a result, there should be an overall net benefit to the community, a fostering of equitable services for consumers ,and – through market forces – a more efficient service outlay for TEC. As such, in neoclassical economic, theoretical terms, as the NCP implied, the introduction of private sector practices was initially a success, although not without organisational costs. However, as discussed these successes may simply turn out to be a redistribution of cost over time rather than actual cost cutting, i.e. a shifting of costs from today to tomorrow. But, as has been demonstrated by the recent failings of the Queensland electricity network, tomorrow never comes.

Reforming the Australian electricity industry as it stands has progressed slowly. Nevertheless, the efficiency gains in labour productivity have been outstanding, but we are yet to see the proposed benefit to the community: a slowing in price increases has been accompanied by an increase in power failures (Johnstone, 2004). Still, the reforms are not expected to stop at this point. As in all truly competitive markets, there will be a move to greater differentiation amongst suppliers as each target the different energy service needs of specific customer groups. This differentiation and niche marketing will see a range of different suppliers. Further, as utilities move into energy service businesses, there will be greater involvement in the development of end-use technology, especially in the industrial area, where new technologies can provide a competitive edge for manufacturers. Companies with new technology, investment, telecommunications and financial services will be able to "get in on the ground floor" of this new emerging industry.

Notes

1. The concept of a National Electricity Market (or NEM) refers to the potential multi-state market encompassing the Eastern and Southern States of Australia (New South Wales, Victoria, the Australian Capital Territory, South Australia, Queensland and Tasmania).
2. Corporatisation involves changing the legal status of a body, viz. from a department or statutory authority to a company, which is created in terms of the Commonwealth Corporations Law. Corporations have much less restrictive practices than departments or statutory authorities. For example, corporations are free of any legal restraints to operate within the limits of the resources appropriated to them by Parliament (Halligan and Power, 1992; Johnson and Rix, 1991; Parker and Guthrie, 1993; Wanna *et al.*, 1992).
3. All electricity organisations in Queensland were/are Electricity Boards/Corporations distinguished by their regions preceding this title, for example, Far North Queensland

Electricity Board (FNQEB). To avoid disclosure of the subject organisation, its name has been fabricated. All references made to this organisation are completely accurate except for the name(s) applied.

4. The Corporate Division is a level higher than the Functional Divisions and holds the executive managers.
5. One department manager resided in New Zealand and was excluded.
6. There are two shareholding ministers, The Minister for Mines and Energy, and the Treasurer.
7. Deinstitutionalisation is the erosion or discontinuity of an institutionalised practice or activity. As new ways of thinking become the norm, as routines become replaced, as some type of prevalence or permanence (which is embedded in the habits of a group or the customs of people) alters, we see the process of deinstitutionalisation taking place (Oliver, 1992).
8. Only managers who had been with the organisation for some time prior to corporatisation and introduction of NCP were asked questions about the pre-corporatised period.
9. Competition, as such, was introduced in phases, that is, by the size of electricity purchases. Full competition is not expected until 2002. Subsequently, an external competitive environment was not relevant in the early years at Electra for most Divisions.
10. With the onset of corporatisation, General Managers were referred to as Chief Executives; this paper reports the new terminology.

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