

Beyond Self-Evident: Recognising the Problematic Political Context of Accrual Accounting Adoption in South Korea

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Abstract: This paper responds to a recent call by researchers that we need to move beyond both advocacy of and technical arguments about the value of accrual accounting to more fully recognise the institutional forces, key change agents and the local political fields. We draw on elements of institutional theory and the practice theory of Pierre Bourdieu to explore the 'problematic' aspects of institutional forces, key organisational change agents and the local political field associated with the adoption of accrual accounting in the South Korean public sector. We found that accrual accounting was driven by many factors including a local financial scandal, the advocacy of a civil society group and the ambitions and the ideology of key actors. The contribution of this paper is that it shows how the practices of accounting cannot be separated from their political and personal context.

Keywords: accrual accounting, political context, local government, Korea

INTRODUCTION

Since the 1980s many countries have initiated public sector reforms with the stated objective of improving public sector efficiency with the adoption of accrual accounting being a prominent feature (Hood, 1995; and Groot and Budding, 2008). Both practitioners (McGregor, 1999) and academics (Micallef and Graham, 1997) have argued that accrual accounting would produce

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efficiency. Lapsley et al. (2009) described this depiction of the adoption of accrual accounting in the public sector organisations as 'self-evident' while Guthrie (1998) suggested that the perceived 'self-evident' link between accrual accounting and efficiency drove the adoption of accrual accounting in many OECD countries.

A number of authors have questioned the link between accrual accounting and efficiency and argued that accrual accounting is pursued in order to establish and enhance organisational legitimacy rather than improve efficiency (Hopwood, 1984; and Miller, 1994). However, it is recognised within the neo-institutional literature that while the broad legitimacy argument provides a powerful explanation for isomorphism it does not adequately explain changes and innovations. The danger is that the legitimacy could be another form of the 'self-evident' position where, as researchers, we take it as self-evident that a jurisdiction will copy the accrual accounting practices that are being used elsewhere. Yet this kind of change is not self-evident or inevitable, but highly dependent on the local contextual and political conditions. Lapsley et al. (2009) argued that there is a need to transcend the depiction of accrual accounting as self-evident and recognise the impact of political influences and contexts on the nature and implementation of accrual accounting practices. We argue that in order to address Lapsley et al.'s (2009) challenge there is a need for a more nuanced theoretical approach which recognises institutional forces, key organisational change agents and the local political fields. We seek to transcend both the self-evident claim of the merits of accrual accounting and the scholastic description of public sector accrual accounting as a self-evident mimetic transfer from other jurisdictions.

The research question addressed in this paper is how the practices of accrual accounting emerge in a given political jurisdiction. In this paper we present a case study of the early adopters of accrual accounting in South Korea and focus on the strategies adopted by these actors to influence and address their specific political context. We argue that there is a need to go beyond both the efficiency claims and the structural assumption of legitimacy generation to engage more fully in the logic of practice reflected in the specific actors and political and social contexts associated with the adoption of accrual accounting.

The Self Evident Adoption of Accrual Accounting

In 1992 when Osborne and Gaebler were calling for *Reinventing Government* and Al Gore (1993) suggested *Creating a Government that Works Better and Costs Less*, the introduction of accrual accounting in the public sector was seen as one part of an inevitable transfer of private sector 'entrepreneurial spirit' and accounting practices into the public sector. Key carriers of this agenda were the international development bodies and the emergent financial accounting standards entities.

Despite indicating that they would consider the costs and the benefits of both the cash and accrual accounting, the IFAC (2000) report on government financial reporting only highlighted the limitations of cash accounting and the benefits of accrual accounting. Other work by the IFAC public sector committee (IPSASB), such as their guidance on the transition to accrual accounting, strongly advocated public sector accrual accounting and directly influenced World Bank recommendations that many countries should transition to accrual accounting. Other multi-national entities such as the Asian Development Bank (Athukorala and Reid, 2003) and the OECD (OECE, 2002; and Blöndal, 2003) provided a somewhat more nuanced discussion of accrual accounting. However, the IPSASB issued 31 accrual based standards and only one cash based standard for, as they say, 'moving toward full accrual accounting' (<http://www.ifac.org/public-sector/about-ipsasb>, 3 November, 2011). They made their position clear with the statement that:

Governments that report on a cash basis do not account for significant liability, such as pensions and infrastructure development. The IPSASB encourages public sector entities to adopt the accrual basis of accounting — which will improve financial management and increase transparency resulting in a more comprehensive and accurate view of a government's financial position. Many governments, jurisdictions, and international institutions have already adopted IPSASs — many more are on the road to convergence (<http://www.ifac.org/public-sector/about-ipsasb>, 3 November, 2011).

Despite this advocacy of accrual accounting, the evidence for actual implementation is somewhat mixed. Blöndal (2003, p. 44) suggested that 'there is a major trend towards accruals . . . in member countries' and that 'about half of all member countries have adopted accrual accounting to one degree or another' (p. 54). Blöndal (2003) presented this as a progressive process that evolves from internal reporting in a few ministries and agencies to ultimately involve accrual based external reporting and whole-of-government reports. However, he noted that there are great variations in the extent to which different countries have adopted accrual accounting with some just adopting accruals in a few agencies, some for all financial reporting and whole-of-government reports and others also including accrual budgeting. Blöndal (2003, p. 56) only provided a few examples of accrual budgets (principally Australia, New Zealand and the UK, while Canada, Finland and Iceland present some elements on accrual basis) to support his claim of a major trend. Australia, Finland, New Zealand, Sweden and the US also prepare accrual based consolidated financial statements (while Canada and Iceland prepare accrual statements without capitalisation or depreciation of assets) (Blöndal, 2003, p. 58). However, this seems to be a weak base for the claims of the universality of accrual accounting. More recent work by Wynne (2008) showed that the trend towards accrual accounting is not so clear cut, as by 2006 relatively few countries (around 10 out of nearly 200) had adopted accrual accounting and even fewer had adopted accrual accounting as a basis for central government budgeting (Pina and Torres, 2003). In contrast to the advocacy of

IPSASB and the World Bank, Athukorala and Reid's (2003) ADB publication sounded a cautionary note on the implementation of accrual accounting in developing countries, suggesting that while many developing countries were considering a move to accrual accounting this needed to be done with caution, recognising the resources and expertise available.

Academics have taken a much more critical approach towards the introduction of accrual accounting when compared to the advocacy by development agency and regulators. Lapsley et al. (2009) suggested that the majority of these criticisms have been technical arguments based on the conceptual claim of commonality between the public and the private sector, particularly around the notion of assets. Examples of this kind of technical critique can be found in the work of Barton (2004) who critiqued the applicability of private sector accounting standards in the public sector by showing that under the private sector standards the Department of Defence was the most highly profitable business within the Australian public sector, which was self-evidently nonsense given that the Department of Defence is a cost rather than a profit centre. There is an extensive body of existing literature which follows this technical approach suggesting that accrual accounting does not fit the institutional setting or provide relevant performance measurement within the public sector (Ma and Matthews, 1993; Guthrie and Johnson, 1994; Lewis, 1995; Guthrie, 1998; and Carnegie and West, 2003) and that current accrual accounting applications lack a conceptual framework and represent a naive transfer of business concepts to non-business settings (Christiaens, 1999; Ellwood, 2001; McRae and Aiken, 1994; Carnegie and Wolnizer, 1995; Guthrie, 1998; and Stanton and Stanton, 1998).

There is a body of work which has taken a practical rather than a technical approach to examining the impact and purported benefits of accrual accounting. This work has explored Hopwood's (1984) claim that the link between accounting changes and efficiency was a 'persuasive dream' (pp. 173–75) and that:

[t]o date, accounting for efficiency and value for money have been advanced in the name of their presumed potential rather than their practical possibility or actual consequences (p. 176).

Anessi-Pessina and Steccolini (2007) and Ellwood (2009) respectively investigated Italian local governments and the British medical sector and found that accrual accounting did not fit the public sector. While accrual accounting does have some efficiency benefits for government business activities (Christiaens and Rommel, 2008), the efficiency benefits for core government activities are minimal (Carlin, 2006); accrual accounting does not produce more useful accounting information than cash accounting (Paulsson, 2006; Venieris and Cohen, 2004; and Monsen, 2008); and it does not prevent creative accounting and earnings management in the public sector (Vinnari and Näsi, 2008). Wynne (2008) suggested that the benefits are limited and, with hindsight, many of the governments which introduced accrual accounting might not have made the move.

However, rather than the focus on technical (and even practical) arguments, Lapsley et al. (2009) suggested that we more fully consider the impact of political influences and contexts on the nature and implementation of accrual accounting. Both Hopwood (1984) and Miller (1994) highlighted political influences and contexts by suggesting a political legitimacy motive for public sector accounting changes. A number of papers have explored the potential link between legitimacy and the implementation of accrual accounting, often adopting a neo-institutional theoretical approach. Carpenter and Feroz (1992) made a clear neo-institutional theory argument that the State of New York's adoption of generally accepted accounting principles (GAAP), which include accrual accounting practices, was driven by a need to gain legitimacy and did not significantly alter the state's financial management practices. Carpenter and Feroz (2001) made a similar argument that in four US states coercive and normative institutional pressures could drive the adoption of GAAP, but that over time the influences of these pressures can change and that changes in elected officials, fiscal conditions, the activities of professional associations, organisational 'imprinting of cash-based accounting rules' and even key accounting bureaucrats could significantly influence the nature of the accounting rule choice (p. 567). Carpenter and Feroz (2001, p. 565) also suggested that powerful interests can impede GAAP as the proposed legislation is expected to alter key power relations. Brorström (1998) adopted a particular focus on understanding the link between accrual accounting adoption and the political and institutional context of Swedish local government but outlined a number of alternative explanations for accounting systems change. Some of these explanations reflect the argument that accounting change will drive efficiency. However, Brorström (1998) also highlighted the institutional argument that accounting systems are driven by the need for the external legitimacy associated with private sector accounting practices, power and interests of key decision-makers and the influence of key decision makers.

Christensen (2005) reflected one of the arguments presented by Brorström (1998) with the claim that accrual accounting in Australia was driven by large private sector consulting firms and that legitimacy was generated by adopting the recommendations of these consultants rather than the symbolic value of the accounting practice itself. Christensen and Parker (2010) revisited the adoption of accrual accounting by the New South Wales (NSW) state government and extended the focus on consultants to argue that there were key actors within the government and within the accounting profession who were influential on the accounting systems adopted.

Hoque (2005) explored another argument presented by Brorström (1998) with the notion that public sector accounting initiatives in a large local government entity were a result of coercive isomorphism associated with the National Competition Policy legislation of the national government. He suggested that these coercive pressures led to a significant change in the internal management control process within the local government entity, although key actors within

the entity were influential on how and what accounting changes were actually implemented.

The key neo-institutional notions of legitimacy and isomorphism suggest that an organisation will conform to what is generally seen as rational practices and procedures in order to enhance legitimacy and thus increase its survivability, regardless of particular efficacy of the practice (Meyer and Rowan, 1977). This legitimacy can be secured through coercive isomorphism, conformity to rules and regulations such as government mandate, mimetic isomorphism where an organisation establishes/enhances their legitimacy by emulating the behaviours of other organisations in the field which are perceived to be successful and legitimate, and normative isomorphism which comes from compliance with normative rules (DiMaggio and Powell, 1983, pp. 150–52). Within the neo-institutional literature there has been recognition of the need to extend the framework away from an excessive focus on isomorphism (Lounsbury, 2008).

Lounsbury (2008, p. 349) suggested that neo-institutional theory has moved beyond isomorphism to consider heterogeneity, to account for actors and to recognise practice diversity. One example of these developments was the work of Oliver (1991) who set out to recognise the role of actors within the institutional framework and presented five strategic organisational responses (acquiesce, compromise, avoid, defy, and manipulate) to institutional and social pressures for conformity. In effect legitimacy-building strategies are dependent upon actors' responses to institutional pressures and this explains change and diversity. However, Oliver's (1991) understanding of actors is consistent with the general neo-institutional position that actors are organisations rather than individuals (Scott, 2008, p. 427). Indeed Scott (1987, p. 493) identified the state and professional bodies as 'the two primary types of actors shaping institutional environments in modern societies'.

DiMaggio (1988, p. 4) recognised that actors could be individuals or groups 'united in classes, organisations or organisational subunits, striving to attain their ends' and argued that existing approaches to institutional theory was limited by a weak conception of agency (individual and collective) and interests. He concluded that the ways that institutions emerge, are reproduced, and erode, cannot be explained without reference to interests and group conflict and proposed that institutions could be created, reproduced or destroyed when:

... organised actors [individual and collective] with sufficient resources (*institutional entrepreneurs*) see in them an opportunity to realise interests they value highly. (DiMaggio, 1988, p. 14).

Despite DiMaggio's (1988) point and work such as Hardy and Maguire (2008), institutional theory has largely continued with a weak engagement with and theorisation of individual agency and interests (see Scott, 2008). This is evident in Suddaby's (2010) review where he argued (reflecting the earlier concerns of DiMaggio) that there is a need to consider how individuals do the 'institutional work' of creation, reproduction and destruction and that 'institutional logics'

must have a perceptual element that operates at the level of individuals. Lounsbury (2008) suggested that this weak approach to agency and interests could be addressed by a stronger engagement in practice theorists such as Bourdieu and he commends Bourdieu's notions of actors, field and position. Emirbayer and Johnson (2008) argued that this should also include Bourdieu's notions of interests, capitals and habitus.

The applications of institutional theory to understand practices of accrual accounting highlight the same implicit structuralism evident in institutional theory literature more generally. This change has been theorised by reference to the structuralist notions of isomorphism and legitimacy while the significance of individual actors is clearly evident in the empirics. Despite adopting an institutional theory approach, Hoque (2005) illustrated the importance of actors (bureaucrats) in explaining public sector accounting reform, Christensen (2005) highlighted the influence of private-sector consultants and Christensen and Parker (2010) the agency of politicians and professional accountants. Modell (2001) found that the strategies of Norwegian hospital managers directly influenced the adoption of diagnosis-related group (DRG)-related performance measurements and Chang (2006) found that the UK local health authorities' managers' self-interests influenced their strategic responses to institutional performance targets.

We therefore propose to follow Oakes et al. (1998) and draw on both institutional theory and the work of Bourdieu which provides an enriched view of power, agency and practice as a framework to explore the 'problematic' aspects of institutional forces, key organisational change agents and the local political field associated with the adoption of accrual accounting in the South Korean public sector.

RESEARCH DESIGN

This paper explores the practices associated with the early adopters of accrual accounting in two South Korean local governments. Both DiMaggio (1988) and Suddaby (2010) highlighted the role of the individuals in the creation and the reproduction of institutions and the methods adopted in this paper are motivated by Lounsbury (2008), who suggested that neo-institutional theorists move their focus more on individual actors and their micro-processual dynamics. The introduction of accrual accounting practices in the first two local government entities represents an interesting example of this creation and reproduction process.

Bourdieu and Wacquant (1992) proposed an approach to 'mapping the field' in order to identify key actors, the positions they occupy, the capitals they hold (economic, social, cultural and symbolic) and their intrinsic interests. Bourdieu's conception of individual agency is best captured by the term 'strategy'. Practices emerge when individuals deploy strategies (rather than following rules) which reflect their particular imbedded dispositions (habitus) in order to pursue their

interests. However, dispositions are shaped by the taken-for-granted (doxic) practices of the current and previous fields. The nature of the taken-for-granted practices in a particular field is shaped (consciously or unconsciously) by the actors who occupy the dominant positions within that field and who do the work of institutional reproduction in order to maintain practices which underpin their dominance. Therefore notions of power and resistance are specific to a particular field and reflect the dominant positions within a field which is dependent on access to the capitals which are most highly valued in that field. From this perspective an institutional entrepreneur is an individual (or individuals) who either works to challenge the existing logics within a field (doxa) or seeks to define and dominate a new field where they have the power to shape the doxic logics (see Bourdieu and Wacquant, 1992).

From an initial mapping of the field of public sector accrual accounting practice and informed by existing literature we identified three categories of actors which we would expect to be significant within the field: bureaucrats (Hoque, 2005), professional accountants (Carpenter and Feroz, 2001; and Christensen and Parker, 2010) and elected politicians (Brorström, 1998; Ezzamel et al., 2005; and Christensen and Parker, 2010). Significant actors from these three groups were identified (based on perception and role) and interviewed (see Appendix A for additional information on the interviewees). The questions asked of participants were open-ended and involved an exploration of their involvement in the establishment of accrual accounting in their local government entities, their practices in the process, the processes of change, their understanding of the actors and the interests involved in the changes. Each person was asked to recount their experience and understanding of the adoption of accrual accounting. They were asked to reflect on their particular role, the role of other actors and the influence of significant institutional players or technical rules (particularly the possibility of coercive or mimetic influences). In conclusion they were asked to evaluate how the accrual accounting was actually used and what difference it made.

The field research sites are two South Korean local governments: Bucheon and Gangnam, which were the first adopters of accrual accounting in South Korea. Bucheon is a highly urbanised city located between two metropolitan cities, Seoul and Incheon. Gangnam is a municipality in Seoul and is well-known as the most affluent region in South Korea (see Appendix B for additional information on these two areas). These two local governments are chosen because they were early adopters and accrual accounting was not previously applied in South Korean government. Both Bucheon and Gangnam began to explore the use of accrual accounting in 1999, but it was not until the 2005 revision to the *Local Finance Act* that all local government entities were expected to use accrual accounting. Then why did these two local government entities adopt accrual accounting when others didn't?

While there is the possibility of international influences from accrual accounting practices in countries such as the US, the UK and Australia, we

argue that this is an empirical issue which we explore in greater detail in the two cases. There was no evident pressure for the adoption of accrual accounting from the Korean Institute of Certified Public Accountants (KICPA), nor among major accounting firms and therefore there was some evidence to discount the professions as being a primary actor in this case (Scott, 1987).

IMPLEMENTING ACCRUAL ACCOUNTING

Accrual accounting in South Korean local governments was developed in the political context of a local scandal and a national financial crisis. At a more micro level, the development and implementation of accrual accounting was not driven by consultants or accountants as was the case in Australia, but was a partnership between key local politicians and civil society activists. Within Korea there were international pressures for public sector accounting reforms associated with the financial crisis and the subsequent application for IMF bail-out money in November 1997, and there were public demands for greater public sector efficiency and improved transparency and accountability in government financial operations (driven at least in part by key civil society groups). It was into this environment that both Bucheon and Gangnam intended to introduce accrual accounting.

Adopting Accrual Accounting in Bucheon

Mr. Won has been attributed with the introduction of accrual accounting in Bucheon and therefore in South Korea. Mr. Won had been a Member of Parliament (MP) from 1992 to 1996. In June 1998, after failing to secure nomination within his party for the Parliamentary election in 1996, he was elected as the mayor in his home-town of Bucheon. However, the attribution of accrual accounting solely to Mr. Won is too simple. This was a more complex situation which reflected Mr. Won's skills and networks, the relationship between Mr. Won and a civil activist group, the Citizens' Coalition for Economic Justice (CCEJ)¹ and a financial scandal in Bucheon which was locally known as the 'tax theft scandal'. In 1994 many people were arrested on charges of embezzling the local tax in Bucheon. Press commentators and civil society groups were critical of the Bucheon's leadership and attributed this scandal to a failure in the local government accounting system. The scale of the embezzlement (over 85 cases) and the number of individuals involved (27 people) meant that this was seen as a systemic failure rather than individual cases of fraud and corruption. In this context many of the key players within Bucheon saw a need for reform and accrual accounting was promoted as a solution to issues of corruption, transparency and fraud. Mr. Harry who was the team leader of the double-entry bookkeeping team at Bucheon directly linked the 'tax theft scandal' and the introduction of accrual accounting:

It is true that the tax theft scandal played a role of priming for forming a social consensus that accuracy of budget and account needs to be enhanced by the adoption of a system that can reinforce self-verification such as double-entry bookkeeping ('Mr. Harry' – Local public servant at Bucheon).

The CCEJ took a direct interest in the financial situation in Bucheon, were active in the analysis of the scandal and in demanding that the scandal be investigated (Shin, 2002). By February 1998 this activism and lobbying had increased when an activist public administration academic (Prof. Yoon) became chairman of the Budget Surveillance Committee (BSC), a specialist group within CCEJ. This increased activity was a direct response to wider national financial issues associated with the 1997 Asian financial crises. CCEJ reflected a widespread public concern to make governmental financial management more efficient, transparent and accountable and it was taken for granted that accrual accounting would achieve these ends. Bucheon was identified by CCEJ as a starting point for the national implementation of accrual accounting and on 14 September, 1998, Prof. Yoon and some other BSC members visited Mr. Won and other high ranking officials of Bucheon city council and lobbied for the local introduction of accrual accounting. The BSC members suggested not only that accrual accounting would lead to efficiency benefits such as more effective asset management but that there would also be political benefits to Mr. Won if he was the first to introduce accrual accounting (Shin, 2002). While there was an efficiency element to the introduction of accrual accounting, early adoption was seen as a powerful symbolic political resource for the key actors.

Mr. Won accepted the arguments and began to act in partnership with CCEJ to advocate accrual accounting. However, the working relationship between Mr. Won and CCEJ also reflected a shared disposition or habitus as Mr. Won had a background as a civil activist within the student movement protesting against the military rule (and a prison record in 1975 and 1976), while CCEJ was established as a direct response to the removal of the ban on citizen groups at the end of the military rule. There was also a close working history between CCEJ activists and the Bucheon leadership as they had been jointly focusing on the accounting and financial management of Bucheon for five years since the tax scandal in 1994. The resulting social capital networks were a resource for all of the actors involved.

Once Mr. Won had committed to the CCEJ proposal to develop accrual accounting in Bucheon it was necessary to garner wider administrative, political and financial support so that it could be a 'pilot project' for the wider Korean public sector. The first challenge was to obtain the support of the two critical central government agencies, the Planning and Budgeting Committee (PBC)² which was in charge of national budgets, and the Ministry of Government Administration and Home Affairs (MoGAHA), which was in charge of local governments.

The first meeting was on 21 September, 1999, with the senior officials of the PBC. The meeting was successful as accrual accounting fitted the agenda of the

PBC to promote government reforms. Both parties agreed to work together to promote the adoption of accrual accounting in the government sector and on 1 October, 1998, CCEJ and the PBC organised a joint seminar on the 'adoption of commercial accounting in the government'.

The second department (MoGAHA) provided more of a challenge. On 18 November, 1998, Prof. Yoon and other CCEJ activists had a meeting with MoGAHA officials to promote the adoption of accrual accounting in the government and to highlight the efficiency benefits. However, MoGAHA officials were resistant and suggested that cash accounting was working well and that accrual accounting would be an expensive waste of money which would require staff re-training. Prof. Yoon recounted what the meeting with MoGAHA officials was like:

Their (MoGAHA officials') position was that single-entry bookkeeping and cash accounting worked very well. 'It is transparent, there is no corruption. Everything works well. Why do you try to adopt accrual accounting? If we adopt, it will cost a lot and we have to train people' . . . They had collected all the logics why they should not adopt accrual accounting. Their argument was that they should not adopt accrual accounting because of this, this and this reasons. It seemed that they already made that resolution before coming to the meeting (Prof. Yoon – then chairman of Budget Surveillance Committee, CCEJ).

MoGAHA staff and leadership had considerable personal investment in the existing financial management practices (*habitus*) and any significant change would render their existing knowledge worthless and undermine their position of power. However, despite their initial failure, Mr. Won and CCEJ proceeded to engage in the institutional work necessary to undermine the existing doxic commitment to cash accounting and to actively promote the introduction of accrual accounting. Mr. Won bypassed MoGAHA, and aided by CCEJ, utilised his social networks and connections he had as a former MP and his own understanding and skills with the political system to persuade Mr. Jin, the Minister of the PBC, to support the Bucheon's experiment with accrual accounting. As more widespread use of accrual accounting would require MoGAHA's support they asked Mr. Jin to exert pressure upon MoGAHA to allow Bucheon to be a pilot site for more widespread adoption of accrual accounting. In an interview Mr. Won recounts the following request to Mr. Jin:

This (accrual accounting) is really necessary for the public reforms in the Republic of Korea. Bucheon will be the first which adopts this. Please give us a budget. The guys in the MoGAHA do not listen. Please push them, because you can. This project should be supported by the MoGAHA, so that we can have a budget for this (Mr. Won – then mayor of Bucheon).

Instead of gaining ministerial approval (MoGAHA) and then seeking the Parliamentary approval, Mr. Won bypassed MoGAHA and actively lobbied his former colleagues in the Parliament to support the introduction of

accrual accounting. There was some resistance from MPs who said ‘*Why does Bucheon pilot accrual accounting? Are we a private company? Does the government need accrual accounting?*’ However, Mr. Won eventually secured the required support. Following the ministerial and the Parliamentary support for the adoption of accrual accounting, MoGAHA reversed their position and allowed Mr. Won to proceed with an accrual accounting pilot project. On the 27 May, 1999, MoGAHA approved KRW 1.75 billion of support for the project which exceeded the KRW 1 billion that was initially applied. Mr. Won attributed these changes to his political networks and persuasive powers:

But Bucheon could not do it (accrual accounting) by itself, because there was a budget problem and because local administration in terms of control and management was basically operated by the laws and institutions of the central government. So I needed to persuade the central government. For this I was able to make a contribution because I understood the accrual accounting and felt the necessity of it, and I had a political power from my prior experience of being a Member of Parliament. So I was able to explain to ministers and deputy ministers (Mr. Won – then mayor of Bucheon).

On 9 December, 1998, MoGAHA met with CCEJ members and senior officials from Bucheon to establish the financial and administrative arrangements for a pilot study of accrual accounting in Bucheon. However, MoGAHA encouraged other local governments to join the pilot project and Gangnam applied to MoGAHA for a pilot project in January 1999. On 12 February, 1999, MoGAHA approved the accrual accounting pilot projects at Bucheon and Gangnam.

The case for the pilot study of accrual accounting in Bucheon did include references to the expected efficiency benefits of accrual accounting but a major element of the process was the expected political benefits to the key actors involved and the use of personal political networks to challenge the established dispositions of dominant bureaucratic actors. Mr. Won and CCEJ adopted a strategy of using their knowledge and contacts to challenge MoGAHA. However, there was also a transformation of the doxic or ‘taken-for-granted’ approaches to public sector financial management where existing cash accounting was presented as dated and inefficient, while accrual accounting was efficient, transparent and accountable. This public and symbolic struggle was conducted in both the political and in the public fields. In an interview with a national daily newspaper Mr. Won challenged the inactivity of the central government and advocated for accrual accounting saying that:

Central government should support adopting the double-entry bookkeeping system which can enhance efficiency and transparency of public finance (*The Hankyereh*, 26 October, 1998).

MoGAHA’s announcement of an accrual accounting pilot project was a response to the demands of Mr. Won and the CCEJ and to the growing public pressure that these actors managed to generate. However, even after the decision of an accrual accounting pilot project was made, Mr. Won continued to

work as a public advocate and ‘evangelist,’ normalising and legitimising accrual accounting. Mr. Won worked to change the negative perceptions of the Bucheon local government bureaucrats towards accrual accounting by requiring that they attend seminars rendered by academics and professional accountants promoting the benefits of accrual accounting. In addition Mr. Won cooperated with civil society groups to promote accrual accounting at a national level. On 26 August, 1999, he made a presentation entitled ‘the necessity of government accounting reform and its further tasks’ at a national ‘policy debate on government accounting reform’ organised by the Citizens’ Coalition for Better Government (CCBG). In the presentation he argued that the whole government sector should adopt accrual accounting after the pilot project in his local government (*Maeil Business Newspaper*, 31 August, 1999).

Mr. Won’s activities positively influenced the attitudes of Bucheon’s bureaucrats towards accrual accounting creating a shared accrual accounting habitus which went beyond just the accrual accounting implementation team and succeeded in normalising accrual accounting. Mr. Harry who was the leader of the double-entry bookkeeping team suggested that:

We produced the first financial statements one year before Gangnam did. Producing the financial statements earlier than Gangnam means that our system was well established and all our staff helped us to achieve that. It was not only our team (the double-entry bookkeeping team), but all other departments, bureaus, and divisions put their information into the system which was transmitted to us (‘Mr. Harry’ – a local public servant at Bucheon).

The transformation of the field within Bucheon was substantially complete and the notion of accrual accounting became part of the taken-for-granted doxa. This process was illustrated by comments by Mr. Shelley who was a professional accountant seconded from a private sector accounting firm to support the development of accrual accounting at Bucheon. He saw high levels of support by the Bucheon bureaucrats for accrual accounting:

Bucheon was very interested in this (accrual accounting adoption). Also then Mayor Mr. Won, Hyeyoung was so interested in this, that Bucheon had tremendous drive. There was no obstacle. . . . It was not difficult for us to interview public servants from all the departments of Bucheon. We checked how they managed their assets, and they supportively answered us even though they were not legally obligated to (‘Mr. Shelley’ – a CPA who participated in the accrual accounting adoption project).

Accrual Accounting in Gangnam

In contrast to Bucheon, Gangnam did not have the same level of civil society support, issues with financial scandals or the same political activist stance. They had a dominant position among the Korean local municipalities being the richest and also politically conservative. They applied for involvement in the pilot study of the use of accrual accounting because their mayor, Mr. Kwon wanted to.

Mr. Kwon was the mayor of Gangnam between 1995 and 2006. Previously he was a high ranking bureaucrat within the central government and was elected as a mayor through his link with the conservative party in Korea. He had little personal or political common-ground with the civil society activists who had been critical of his actions and had publically accused him of financial waste. He responded with charges of defamation which he lost. Therefore, the relationship between Mr. Kwon and these groups was strained and he said in the interview that the 'civil activists dare not come near to me.'

While there was no single reason that Gangnam became an earlier adopter of accrual accounting there were both institutional and personal motivations. One explanation can be found in Mr. Kwon's neo-liberal political habitus. He believed that the government should be 'clean and small', and was keen to adopt accrual accounting because he believed that it would make his government 'clean and small' by eliminating any potential financial corruption (and associated scandal) and give him greater control over the actions and numbers of bureaucrats:

We needed to systematically cross-check. If we adopt accrual accounting, which brings double-entry bookkeeping, it is possible to check at the same time not only in the balance sheet, but also in the profit and loss statement. In that case, inconsistency in one side should be revealed in the other side. I tried to prevent financial corruption of public servants from bothering me any more by adopting accrual accounting. I applied for piloting accrual accounting because I did not want to worry about accounting scandals. That was the strongest purpose of my application (Mr. Kwon – then mayor of Gangnam).

When he was re-elected as the mayor in June 1998 on a platform of 'clean and small' government, he chose the adoption of accrual accounting as his major reform task in 1999 (Shin, 2002). Therefore, he had his personal and political reputation linked to the successful implementation of accrual accounting in Gangnam.

Gangnam had a dominant position in the South Korean political field as the richest municipality in South Korea. In short they were motivated to adopt accrual accounting in order to maintain their reputation as the leader at a local government level. To fail to do so would have risked a challenge to their perceived leadership.

Once Gangnam was approved as a pilot site Mr. Kwon's approach to the promotion of accrual accounting within the municipality was markedly different to Mr. Won. Rather than the approach of education and persuasion adopted by Mr. Won, Mr. Kwon relied upon financial incentives and promotion to 'motivate' staff who were otherwise negatively disposed towards accrual accounting. He suggested that promotions and money were a more powerful form of control than education and persuasion. One example was that he gave a salary bonus to the 'double-entry bookkeeping team' members and promoted them to higher ranks. However, despite these incentives and promotions the implementation of accrual accounting in Gangnam was delayed and the project took five years.

This strongly individualist approach provided some explanation for the difficulties experienced with implementation. The introduction of accrual accounting was seen as contrary to the existing dispositions and practices within the municipality and therefore individual bureaucrats (much like the bureaucrats in MoGAHA) were neither comfortable with nor supportive of the change in accounting practices. Mr. Shelly, who was involved in both the Bucheon and the Gangnam sites, found that it was difficult for the project team to interview Gangnam's public servants as part of the accrual accounting project because they continuously questioned the validity and the legality of the project, and when they did provide information, it was not complete:

In Gangnam it was difficult to interview, because they asked why they had to respond to the requests for materials and what the legal ground was for this. . . . After the interviews we requested materials required for financial information, but materials from Gangnam were not complete. If both Bucheon and Gangnam had provided us with materials of the same quality, Gangnam could have produced financial reports as early as Bucheon ('Mr. Shelley' – CPA who participated in the accrual accounting adoption project).

Beyond a Pilot Study

The first phase of the accrual accounting pilot project in Bucheon and Gangnam was called the '*Research project for double-entry bookkeeping accounting standards and computer program development*'.³³ The project was conducted between 1 December, 1999 and 18 March, 2001, by a team from San Tong (an accounting firm), Samsung SDS (a software developer), and the Korean Research Institute for Local Administration (KRILA) who had the goal of producing accounting standards and a computer system to support local government accrual accounting. The project was considered to be highly successful. By 28 July, 2000, the team has produced the primary project output—a draft local government 'accrual accounting standards' which was presented for discussions at public hearings. A revised standard was submitted in March 2001 together with a computerised accounting system to support local government accrual accounting (MoGAHA, 2001). Following the success of the 'standards and systems' phase, funding was extended in 2001 to run from November 2001 to September 2003. The second phase was entitled 'Application of double-entry bookkeeping accounting system' and was intended to implement the accrual accounting standards and computerised accounting system in Bucheon and Gangnam and produce accrual based financial reports. It was conducted by the same team who did the first phase. It was thought that this would identify any shortcomings in the standards and systems prior to the establishment of an accrual accounting standard and system for all South Korean local government entities (MoGAHA, 2002). Following initial applications the accounting standards were further revised in May 2002, and in September 2002 Bucheon produced their first accrual based financial statements for the 2001 fiscal year. Gangnam produced their

first accrual based financial statements in September 2003. The accounting standards were modified and the final draft was presented in May 2004 with a public hearing in September 2004.

In 2004 the accrual accounting project was extended to seven other jurisdictions: two provincial level, and five local level government entities. The goal was to further test and to develop the computerised accounting system. The project cost for this phase was not funded by the central government but was paid for by the entities involved. From 2007 accrual accounting was mandated for all local and provincial governments and from 2009 for all South Korean central government entities.

From an experimental application of accrual accounting which was resisted by key actors in the field, accrual accounting was transformed into the established and taken-for-granted doxa applied throughout the South Korean government. However, the primary motivation for this change was not the functional efficiencies delivered by the accrual accounting systems but by strategies developed by key actors within the wider political context.

THE IMPACT OF POLITICAL INFLUENCE AND CONTEXT ON ACCRUAL ACCOUNTING

While there may have been some minor rhetorical claims that the introduction of accrual accounting would improve the efficiency of the public sector, little evidence was found in the South Korean case for the 'efficiency' achieved. Since 2007 South Korean local governments have been producing cash based budgets and financial reports and accrual based financial statements as ancillary reports. Therefore, accrual based financial reports were seen as an extra burden and a waste of time by public servants, who did not believe that accrual accounting fitted the public sector and could not understand why they were required to produce them. Stakeholders such as local politicians (assembly members) were not interested in accrual based financial information, because they preferred cash based financial information.

Moreover, the claim that accrual accounting would lead to better asset management has not come true within South Korea. The traditional asset management system is still used and it is incompatible with the accrual accounting system, because the accrual accounting information was not integrated into the existing systems of asset management. The finding that there were limited efficiency gains is consistent with findings from other jurisdictions (e.g., Anessi-Pessina and Steccolini, 2007; and Ellwood, 2009).

While there were isomorphic pressures in South Korea, they do not provide a plausible explanation for adoption of accrual accounting at Bucheon and Gangnam. The 2005 revision to the *Local Finance Act* mandated that all the local governments in Korea adopt accrual accounting from 2007 onwards, but Bucheon and Gangnam had already decided to adopt accrual accounting in 1999. While there may have been some mimetic pressure from the adoption of accrual

accounting arising from financial management reforms in countries such as the US, the UK and Australia, there were no existing examples of the application of accrual accounting in Korea. Therefore, we would argue that any domestic legitimacy arising from mimetic isomorphism was minimal. Moreover, even if mimetic isomorphism had influenced the South Korean public sector, it would not explain why two local entities adopted accrual accounting while all other local governments did not. There was no evidence of normative isomorphism associated with professionalisation as the only professional body for Korean accountants, KICPA, and the major accounting firms took no particular interest in accounting in the government sector. Therefore, we argue that pursuit of legitimacy through isomorphism does not provide a plausible explanation for the early adoption of accrual accounting at Bucheon and Gangnam.

Both Bucheon and Gangnam illustrate that there are real political drivers and symbolic capital benefits to individuals and institutions that were seen as successful early innovators in governance and administrative reforms such as accrual accounting. Christiaens and De Wielemaker (2003) describe this as the need to be 'seen to do something' as much as 'doing something'. Despite being the mayor of Bucheon, Mr. Won was keen to be re-elected to the Parliament. In order to achieve that ambition he needed to improve his public profile and his standing within his own party (enhance his social and symbolic capital). He recognised the opportunity to achieve his goal when he was encouraged by CCEJ to support accrual accounting. Also CCEJ and key members of CCEJ (such as Prof. Yoon) needed to be seen by their membership to fulfil the mission to bringing about better financial management within the government. Accrual accounting had important political benefits to key actors involved in the change process.

Mr. Kwon had a strong political investment in accrual accounting as it was a major part of his electoral platform. However, success within his municipality would lay the foundation to run as the mayor of Seoul.⁴ This would not only provide the public profile to support his ambition but also garner the respect within his political party necessary to secure nomination. Despite a lack of specific accounting knowledge, the implementation of accrual accounting provided an important source of cultural capital, which provided symbolic evidence of both financial competence and innovation. Both of these men were motivated by the cultural capital legitimacy associated with early adoption of accrual accounting which they believed would directly benefit their political ambitions.

It would be easy to attribute the relative difference in success experienced by Mr. Won and Mr. Kwon to the differential social capital resources associated with the involvement of CCEJ and to the personal political networks of Mr. Won but this would be an oversimplification. There was also an important difference in the strategies deployed by the two men. Mr. Won engaged in a strategy of network building with CCEJ, within Parliament and within his own municipality to gain support for this project. However, he also engaged

in a process of transforming attitudes towards accrual accounting and building expertise within his municipality. In effect, cash accounting was displaced as the doxic norm and accrual accounting became the taken-for-granted practice. In contrast, Mr. Kwon did not engage in a process of network building or value change but relied instead on individual financial incentives, which were not as effective.

In terms of recognition for the introduction of accrual accounting in Korea, Mr. Won at Bucheon and Prof. Yoon at CCEJ are well-documented and well-known, while the contribution of Mr. Kwon at Gangnam is virtually unknown. Mr. Kwon was re-elected as mayor of Gangnam in 2002 but it is likely that the residents of Gangnam, the richest municipality in South Korea, would have supported whoever was nominated by the conservative political party.

When he ran for his party's nomination in 2006 as the mayor of metropolitan Seoul he was unsuccessful. In contrast, the political benefits of accrual accounting to Mr. Won were more obvious. He was re-elected as MP in 2004 and 2008 for the Bucheon area. Prof. Yoon was also elected as the president of the Korean Association for Local Finance (KALF), a leading academic society in the discipline of local public finance, in 2004 right after the successful adoption at Bucheon and Gangnam. There were real benefits from the introduction of accrual accounting for key actors in the field.

CONCLUSION

In this paper we respond to the call of Lapsley et al. (2009) to go beyond the notion that the adoption of accrual accounting in the public sector was 'self-evident' together with the rhetorical claims that the introduction of accrual accounting delivers greater public sector efficiency. But rather there is a need to adopt more nuanced theoretical approaches to recognise the link between institutional forces, key organisational changes and local political fields. The research question addressed in this paper is how the practices of accrual accounting emerge in a given political jurisdiction. We recognise the contribution of a body of work informed by institutional theory which suggested that the adoption of practices such as accrual accounting is an isomorphic process driven by the need to gain legitimacy. However, it has been recognised that isomorphism provides poor explanations for change and agency and there is a need to enhance institutional theory explanations with approaches which more fully recognise the impact of actors and agency.

In mapping the early adoption of accrual accounting in South Korea, two local municipalities are the dominant leaders – Bucheon and Gangnam. Of these two, the mayor of Bucheon, Mr. Won, is often credited with the introduction of accrual accounting in South Korea. However, we argue that this analysis is too simple. This change was not primarily driven by a concern with efficiency, and general claims of isomorphism provide little explanation for the early adoption of accrual accounting in specific municipalities. However, these changes can be

better understood as a product of both the political context and the activities of individual agents.

We argue that there was an institutional motivation for Bucheon to take the lead with the introduction of accrual accounting following a major financial scandal as they were told that accrual accounting would enhance transparency and reduce corruption and fraud. This change was also strongly promoted by the key civil society group which has established for itself a role in reviewing Bucheon's financial probity. However, there were personal political benefits to Mr. Won in taking leadership in the project which underpinned his eventual return to the Parliament. While the public recognition and the political rewards for the secondary site, Gangnam, were not so significant, there were also similar institutional and personal motivations for the accrual accounting project. Gangnam has a traditional leadership role among Korean municipalities which would have been threatened if they had not engaged in the early adoption of accrual accounting. However, the commitment to accrual accounting was a central part of the election platform of the Gangnam mayor, Mr. Kwon, and reflected his political commitment to 'clean and small government'. There was also an element of personal political motivation as the successful implementation of accrual accounting might enhance his standing within his own political party and therefore further his political career.

We therefore argue that Lapsley et al.'s (2009) 'problematic' aspects of political context associated with public sector reform identified the need to be understood from both an institutional and an individual perspective. While the two are related they are not the same: the danger is that institutional drives are seen as inevitable and that the agency work required to create and maintain those institutions is sidelined. Therefore, the question of how practices of accrual accounting emerge needs to recognise both the constraining influence of structure and the enabling influence of agency.

The power and importance of the individual work to create structure was evident in the work of Mr. Won to transform the habitus of civil servants within his municipality and the general public opinion towards accrual accounting. At Bucheon, Mr. Won worked to transform the attitudes of Bucheon's public servants toward accrual accounting, and jointly Mr. Won and the CCEJ worked to change public opinion so that when the Presidential election was held on 19 December, 2002, both the conservative and the progressive parties had the adoption of accrual accounting as part of their election platforms.

We would argue that further work is required to move beyond the self-evident and often rhetorical claims about the efficiency benefits of public sector accounting reforms to recognise that these claims reflect 'taken-for-granted' assumptions which are themselves socially constructed, thus unpicking the fabric underpinning Hopwood's (1984, p. 173) 'persuasive dream'. By exploring the work associated with creating and sustaining these doxic positions we will gain both a richer and fuller understanding of what accounting is and how it is practiced in the context of the public sector. However, to achieve this we

need theoretical lenses which recognise the influence of both structure and agency.

APPENDIX A

Participants⁵

- Group 1: Public servants
1. Linda: Local public servant, Bucheon (interviewed on 26 February, 2010)
 2. Leo: Central public servant, the Ministry of Public Administration and Security (MoPAS: previously the Ministry of Government Administration and Home Affairs (MoGAHA)) (interviewed on 3 March, 2010)
 3. Felix: Central public servant, MoGAHA (interviewed on 4 March, 2010)
 4. Harry: Local public servant, Bucheon (interviewed on 19 April, 2010)
 5. Naomi: Local public servant, Gangnam (interviewed on 20 April, 2010)
 6. Toby: Central public servant, MoGAHA (interviewed on 26 April, 2010)
- Group 2: Professional accountants
7. Max: CPA, who participated in the pilot project (interviewed on 7 April, 2010)
 8. Shelley: CPA, who participated in the pilot project (interviewed on 10 May, 2010)
 9. Wesley: CPA, PhD in accounting, who participated in the pilot project (interviewed on 26 May, 2010)
- Group 3: Elected politicians
10. WON, Hyeyoung: Member of Parliament (1992–1996 and 2004–2012), mayor of Bucheon (1998–2004) (interviewed on 21 June, 2010)
 11. KWON, Moonyoung: Mayor of Gangnam (1995–2006) (interviewed on 14 July, 2010)
- Group 4: Academics⁶
12. Aaron: PhD in accounting, accounting professor, advisor for the pilot project (interviewed on 10 March, 2010)

13. YOON, Youngjin: PhD in public administration, public administration professor, chairperson of Budget Surveillance Committee (BSC) within Citizens' Coalition for Economic Justice (CCEJ) from February 1998 to June 1999 (interviewed on 14 June, 2010)
14. Eldon: PhD in public administration, a researcher in Korean Research Institute for Local Administration (KRILA) who participated in the pilot project (interviewed on 7 July, 2010)

APPENDIX B

Additional Information on Bucheon and Gangnam

	<i>Bucheon</i>	<i>Gangnam</i>
Administrative district	City under Gyeonggi province (population : 11.5 million)	Municipality under metropolitan Seoul (population: 10 million)
Location	Between Seoul and Incheon (population : 2.7 million)	At the south-eastern part of Seoul
Population (2007)	877 thousand	561 thousand
Size	53.44 km ²	39.55 km ²
Budget size (2007)	KRW 560 billion (USD 509 million)	KRW 369 billion (USD 335 million)
Local tax (2009)	KRW 604 billion	KRW 1,837 billion
Local tax per capita (2009)	KRW 694 thousand	KRW 3,269 thousand
Political party membership of mayors since 1995 ⁷	- Conservative parties from 1995 to 1998 and from 2004 to 2010 - Progressive parties from 1998 to 2003 and from June 2010 to 2014	Conservative parties since 1995

NOTES

- 1 CCEJ is a citizens' movement in South Korea founded in 1989 which works for economic justice, protection of the environment and the reunification of Korea. It has over 35,000 members and has become a major political and social force in South Korea lobbying for economic and social change.
- 2 PBC was a central government organisation created in February 1998 as a result of NPM reforms against traditional bureaucratic structure and also as a means of NPM to drive public reforms. However, PBC did not have enough number of bureaucrats to implement their policies and thus was restructured to a bureaucratic department, that is, the Ministry of Planning and Budget in May 1999.

- 3 Interviewees in South Korea used 'accrual accounting' and 'double-entry bookkeeping' interchangeably.
- 4 Capital of South Korea with the population of ten million
- 5 All the names of interviewees are English pseudonyms except for ex-mayors and the chairman of BSC, CCEJ.
- 6 Academics were interviewed because the field work found that they were also key actors.
- 7 Since 1995 South Korean residents have elected their own mayors and governors at local and provincial level. Previously they were appointed by the central government.

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