Budgeting for legitimacy: The case of an Australian university

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A B S T R A C T

This paper reports a case study of budgeting at an Australian university to understand how accounting is involved in processes of legitimation. The university had been much enlarged and diversified in its educational offerings through a series of mergers. A response to the changes on the part of the vice-chancellor was to introduce a new budget system borrowed from the institutional environment. The intent was to convey to a key funding agency and to staff that the newly merged entity would be governed appropriately. We analyze a set of sequential and interlinked processes in which these aspirations were challenged repeatedly by senior academic and administrative staff. Finding the budget system to be inconsistent with their values and expectations for the university, staff undermined it through patterns of under- and over-spending. We show how these behaviors jeopardized the vice-chancellor’s efforts to legitimize the organization’s financial management practices for a key funding agency. A core contribution of our paper is to analyze empirically the importance of the institutional demands that an organization’s internal constituents may make of its accounting practices. We argue that managers, staff and other internal constituents should be seen as significant legitimating agents. We show how attention to their demands becomes all the more relevant when budget and accounting systems for internal use are loosely coupled from those used for external reporting. In such circumstances, conflicting demands by internal and external constituents may not be dealt with through the development of separate and compartmentalized systems. This makes it problematic to assume that adoption of accounting systems from an institutional field will result in a steady-state of organizational legitimacy.

Introduction

It is deemed critical to an organization’s survival and growth to seek legitimacy for its structures and practices, and the idea that accounting can be put to strategic use in that respect is well documented in the literature (Carruthers, 1995; Cooper, Hayes, & Wolf, 1981; Covaleski & Dirsmith, 1986, 1988; Richardson, 1987). The pursuit of legitimacy may depend upon managing expectations on the part of diverse organizational constituents (Pache & Santos, 2010). Research in accounting has often drawn on the repertoire of responses outlined by Oliver (1991) to understand such expectations and the various ways that organizations may respond to them (Abernethy & Chua, 1996; Carpenter & Feroz, 2001; Hopper & Major, 2007; Modell, 2001). Oliver’s framework comprises five possible responses. These range from acquiescence, in which an organization adopts the structures and practices favored by powerful constituents, to manipulation, whereby it seeks to change the content of institutional demands through exerting influence over the constituents that promote them (Oliver, 1991, p. 152). One of the more common responses that accounting scholars adopting this framework have observed is acquiescence, and, in particular, that organizations often choose to imitate
accounting systems and practices used elsewhere in an institutional field or environment (cf. Modell, 2001). This form of response is intended to indicate that the organization is managed using forms of action appropriate to its circumstances (Covaleski & Dirsmith, 1983; Covaleski, Dirsmith, & Michelman, 1993; Dirsmith, Fogarty, & Gupta, 2000). While representing only a small part of its operations, Meyer (1983, p. 235) argues that accounting systems may signal rationality and unity across an organization’s entire set of activities.

It has been argued that Oliver’s framework treats “organizations as unitary actors” that respond univocally to the demands of external constituents while “largely [ignoring] the role of intra-organizational dynamics” in determining how those demands are experienced, filtered and managed (Pache & Santos, 2010, p. 456). There is little recognition of legitimation as a process wherein external and internal constituents may continue to press differing and inconsistent demands without any clear or decisive end-point (Navis & Glyn, 2010). Our approach here is to shift the focus of accounting research to recognize the importance of more processual and micro-level aspects of legitimation. In doing so, we seek to address two gaps in the existing literature.

First, we pay particular attention to institutional demands made from within an organization in addition to those of external constituents. While there has been some reference to accounting as a way of dealing with institutional demands expressed internally (Richardson, 1987, p. 343), considerable accounting research has focused on its role in legitimating the organization to external constituents (Abernethy & Chua, 1996; Covaleski & Dirsmith, 1983, 1988; Covaleski et al., 1993). For instance, Abernethy and Chua (1996), using the framework of Oliver (1991), examined the factors influencing the choice of accounting and control systems for a large Australian hospital, and concluded that compliance with the state funding authority was a key determinant. Second, we consider that legitimation may take the form of an on-going and conflictual process wherein not all constituents accept the propriety of an organization’s accounting systems intended to satisfy external institutional demands (Pache & Santos, 2010, p. 456). Insofar as functional integration of systems is avoided, fewer trade-offs are taken to be “buffered from the inconsistencies and anomalies involved in technical activities” within an organization (Meyer & Rowan, 1977, p. 357). Insofar as functional integration of systems is avoided, fewer trade-offs may be required to resolve legitimacy problems (Meyer & Scott, 1992). In a case study of performance measurement practices in a Norwegian hospital, for example, Modell (2001) found that conflicting institutional demands were able to be addressed by developing multi-dimensional performance indicators that were decoupled from one another.

The claim that accounting systems can achieve an end result of legitimacy depends on an assumption that conflicting institutional demands may be satisfied separately from one another through the development of compartmentalized structures and practices. So, for instance, where such demands are made by external and internal constituents, systems borrowed from the institutional field are taken to be “buffered from the inconsistencies and anomalies involved in technical activities” within an organization (Meyer & Rowan, 1977, p. 357). Insofar as functional integration of systems is avoided, fewer trade-offs may be required to resolve legitimacy problems (Meyer & Scott, 1992). In a case study of performance measurement practices in a Norwegian hospital, for example, Modell (2001) found that conflicting institutional demands were able to be addressed by developing multi-dimensional performance indicators that were decoupled from one another.

However, Carruthers (1995) and Rautiainen (2010), among others, have argued against a general presumption that accounting systems intended to satisfy external institutional demands can be decoupled from those used in the internal management of an organization. Instead, they have understood accounting systems as being either tightly coupled or loosely coupled in ways that are given and determined. What this obscures is how organizations and their constituents may construct and re-construct systems, enabling them to be ‘simultaneously open and closed, indeterminate and rational, spontaneous and deliberate’ (Orton & Weick, 1990, pp. 204–205). A contribution of our study is to illustrate empirically this ‘dialectical’ construct of loose coupling in which systems may be made to retain their distinctiveness, yet also respond to one another (Orton & Weick, 1990, p. 205). We show how the interplay between elements of distinctiveness and responsiveness resulted in an inconclusive process of legitimation such that institutional demands of external and internal constituents were neither fully satisfied nor aligned.

Our specific empirical focus is on the links between budget systems and legitimation processes at an Australian university. The university had recently amalgamated with
several long-established higher education organizations that had the status of polytechnics. Its vice-chancellor installed a new budget system based on one in use by the federal government’s funding agency for universities. His intent was to convey to that agency, and to senior academic and administrative personnel within the university’s diverse set of campuses, that the newly merged entity was to be governed appropriately and with the use of suitable financial management practices. However, the academics and administrators were to have a significant role in undoing the vice-chancellor’s plans. We describe a process in which these internal constituents found the budget system to be seriously at odds with their values and expectations for the university. And we analyze the reactions in which they undermined the workings of the system through patterns of under- and over-spending, thus challenging repeatedly the vice-chancellor’s ability to present a good account of university management to the external funding agency.

It was not permissible under university funding rules for the vice-chancellor to develop compartmentalized budget systems for external reporting and internal management. As we argue, the systems were loosely coupled in that they entailed elements of responsiveness to and distinctiveness from one another (cf. Orton & Weick, 1990, p. 205). The systems were responsive to one another insofar as the vice-chancellor was obligated to provide government with year-end comparisons between budget and actual spending for the university as a whole, and summarized reports on its individual schools and other academic units. But, the vice-chancellor was not obligated to account in detail for his decisions to allocate and reallocate funds between academic units, giving rise to elements of distinctiveness between external and internal budgeting practices. We show how the vice-chancellor used that discretion in effecting ad hoc internal reallocations of funds in order to partially reverse the patterns of over- and under-spending by his managers and, crucially, to minimize the perception externally that his budget system was out of control. And we show how these interventions further convinced internal constituents of the lack of legitimacy of the budget system, provoking additional patterns of aberrant behavior and difficulties for the vice-chancellor in explaining results externally.

Our analysis points to the significance of examining how those in senior leadership roles in an organization go about seeking legitimacy for its practices. It is a task that becomes all the more challenging when repeated trade offs are seen to be needed between the demands of external and internal legitimating agents. We describe a context in which attempts to manage such demands were made by the university’s vice-chancellor in the face of time pressures and a wider set of organizational and personal considerations. Responses to demands for more appropriate practices were often crisis measures, quickly reversed, rather than well defined plans. And the conflicts themselves did not stem from clearly defined disputes regarding means or goals, but were often the unintended consequences of errors in defining and implementing a budget system.

As a prelude to a more detailed empirical case analysis, the next two sections of the paper provide an overview of the Australian higher education sector and of our research method, respectively.

The Australian higher education sector

Prior to 1988, the Australian higher education sector comprised two types of institutions: universities and colleges of advanced education. The Commonwealth Tertiary Education Commission, later renamed the Department of Education Science and Training (DEST), provided funding for 19 universities, but how it determined the amount each organization received was never disclosed. In comparison, 69 Colleges of Advanced Education were funded from state government higher education authorities according to the number of enrolments in approved courses (Marginson, 1987).

In 1988, Education Minister John Dawkins instigated a set of higher education reforms aimed at strengthening the accountability relations between the universities and the federal government, with the declared purpose of making the sector more efficient and competitive internationally (Johnson, 1993; Meek, 1993). Tuition fees were introduced in 1989 in the form of a ‘Higher Education Contribution Scheme’, allowing local students to make upfront payments or pay over time under a contingent loan scheme. The composition of the sector was also changed. By 1996 the Colleges of Advanced Education had ceased to exist, having been merged with universities.

A sector comprised of only universities meant that the government could use a common basis for allocating funding. The concept of an ‘educational profile’ was devised, acting as an agreement between the government and individual universities. The profile, submitted annually to the DEST, comprised an outline of the university’s strategic plan, a range of student and staffing statistics (such as student and staff numbers or shifts in the demand for programs), details of new programs, research and research training management plans, research performance measures, capital spending plans, provisions for indigenous populations, quality assurance systems, and web-based learning updates. The Higher Education Funding Act outlined Federal government expectations that audited financial statements be submitted to the DEST. In return, the university would be allocated an operating grant. This grant was calculated using a ‘Relative Funding Model’ (RFM), allocating funds equivalent to the number of full time students enrolled in particular programs (referred to as Full Time Equivalent Student Units or EFTSU). The DEST, in introducing the RFM, stressed that it was not a suitable budget model for use within universities because it was unable to account for the complex range of activities they were involved in. Despite this warning, a survey conducted by Gawthorne in 1993 reported an apparent form of isomorphism in which 86% of universities were using RFM or elements of it to budget (cf. Watts, 1996a, 1996b).

A university adhering to the provisions of the Higher Education Funding Act could use its funding to enact its own priorities. However, the universities were not permit-
ted to change the tuition fees or the number of EFTSU enrolments. Also, the DEST retained rights under the Act to reclaim funding that had not been fully expended, unless the university in question could justify and explain why it had built a surplus.

The Australian higher education system currently comprises 39 universities. Of these, two are private and four are self-accrediting, making the Australian higher education system one of the most public systems in the world (Nelson, 2002). The public universities are attended by more than 1 million students. The federal government investment in the sector for 2009 amounted to approximately A$8.6 billion or some 43% of the overall funding for individual institutions. State government and local government investment for that year was 3.8% of the total operating revenue. The remainder of the funding came from other sources such as university earnings, fees and external donations.

Research method

To examine how accounting is involved in processes of legitimation, we undertook a longitudinal case study of an Australian university. Four considerations explain why the university (hereafter Alpha) was identified as an appropriate site for the study: (1) the changing higher education landscape required increasing sophistication of its accounting and budgeting systems; (2) the budget appeared to be a dominant feature of its legitimation strategy in the face of these pressures; (3) as an organization it was considered to be politically and economically important in the region; and (4) accessibility.

Multiple data-collection techniques were employed including interviews, study of documents, and observation. All research procedures were reviewed and approved by the University Human Ethics Committee and the Strategic Portfolio Branch of the state education department.

The vice-chancellor and other senior managers including the pro-vice-chancellors and senior managers of administrative departments helped to identify individuals who were intimately involved with the organization's budget systems. Interviews lasting between 1 and 3 h were conducted with a total of 42 people across hierarchical levels and each of Alpha's five campuses (see Table 1; 41 were tape recorded). Our interview questions were deliberately open-ended in order to understand the participants' own budget experiences. Verbatim transcripts were produced of the interviews. Follow-up interviews were conducted over a 4-year period, tracking further budget modifications. Notes were kept of other interview observations (i.e. pre/post interview banter, non-verbal clues, researcher's interpretations) and of discussions that were held with five individuals who were unwilling to be involved formally in the study.

To understand the accounting demands that the university was exposed to by its institutional environment, we interviewed three managers in the state government education department who were responsible for higher education and one representative from a national tertiary education trade union. From these interviews we also gleaned insight into how the university was perceived by external constituents compared to its peers. Each interview was recorded and transcribed verbatim.

School meetings and other university events were attended as they provided opportunities for a more precise understanding of how internal constituents experienced and evaluated the budget system. Observing these events also helped to create an on-going dialogue with academic and managerial staff involved in the research and notes were kept of the issues discussed. Formal and informal communications including staff memos from the vice-chancellor(s), emails, operating budgets and associated narratives, annual reports, and university newspapers were useful for corroborating the interview data, building our knowledge of the organizational history, and providing technical details about the budget systems. DEST archives also provided a history of the sector and some insight to its relationship with Alpha.

We utilized the procedures outlined by Berg (2004) to undertake a latent content analysis of data. This method of analysis helped us to identify three separate but interlinked processes where the organization responded to legitimacy problems related to its budget practices. Through studying each of them, we were able to observe interactions between the budget system and issues of internal and external legitimation. Detailed excerpts from our data are reported providing support for the explanation of findings that we offer. For trustworthiness, drafts describing our interpretations were independently examined by two of Alpha's senior managers to ensure they were representative of their lived experiences.

Our case material on Alpha is described and analyzed in the next section of the paper.

Case study

Background of the case site

Alpha University was established on a single campus in 1971, in accordance with an Act of state parliament. When the study began, it had expanded, operating five campuses in three cities and employing 2870 academic and administrative staff to serve its 26,000 student population in a range of disciplines including nursing and health sciences, international business and politics, music, education, law and accounting. Three campuses (former colleges of advanced education) had been acquired as a consequence of the Dawkins reforms and the state government had funded a
fifth campus. Alpha competed with two other larger and older universities in the region for the DEST-funded student places.

The university is governed by a number of committees including the University Council and various subcommittees such as the Finance and Property Committee, the Academic Committee, and the Aboriginal and Torres Strait Islander Advisory Committee. Within Alpha there are four levels of academic management: school, faculty, group (arts, business, health, science), and the office of vice-chancellor.

Alpha University Act mandates that oversight of the financial management of the university resides with the University Council. The Finance and Property Committee advises Council on general accounting issues such as Alpha's financial position and its strategies relating to income, budget allocations, and capital expenditure on electronic and physical infrastructure. As in other Australian universities, the vice-chancellor is responsible for the financial management of the organization.

When we began the study, the organization undertook budgeting on an annual basis and the budget covered a 3-year period allowing annual balances to be carried forward for the purchase of irregular expenditure items. The allocation of resources to the faculties by the vice-chancellor signified the starting point in the process. In 1994, the vice-chancellor began allocating funds to faculties using an externally sourced method – that of the DEST. This approach involved allocating funds internally based on the number of students enrolled within the faculty multiplied by the estimated cost per student. The cost per student differed across disciplines. For example, the cost of a student enrolled in medicine was taken to be higher than in business, reflecting the staffing costs related to the smaller classes that were required and the medical equipment costs. Other universities in Australia had also adopted this approach (Gawthorne, 1993).

Managing in a newly merged university

Our first opportunity to study issues of legitimation occurred in the early months of 1997. It was in the context of a process initiated by the vice-chancellor to identify and address Alpha's problems as a much enlarged and multi-campus university, recently formed through a series of mergers at a time when DEST was intent on effecting funding cuts. He instructed the pro vice-chancellors to solicit the views of all levels of academic and senior administrative staff on how the mergers affected educational provision throughout Alpha.

Many staff expressed frustration at the separate structures, systems and programs associated with each of the campuses. The original Alpha university (hereafter, Omega campus) and the Delta campus both had schools of Accounting and Finance, Education, Nursing and Information Technology. Senior staff commented that such organization was "cost ineffective" and lacked "cohesion and integration" in ways that were highly visible to key external agencies, particularly the DEST. Not only did the provision of similar courses on two or more campuses with different syllabi waste staff time and increase operating costs, but also, in the comment of a dean:

It ran the risk of two uncoordinated schools having different standards and offering two faces to the world rather than one.

A head of school also explained that duplication gave the impression to external agencies that Alpha lacked appropriate structures:

It was very difficult to liaise with our [external] partners to say we were from different schools of nursing. We had to explain that we were not from the Alpha School of Nursing, but the Delta Campus School of Nursing at Alpha University.

Continuing to rely on systems that were developed in relation to the different educational missions, values and standards of each campus was seen to be a highly inappropriate way to manage the enlarged university.

Interviewees were thus troubled that impressions of inefficiency and of variable educational standards were being conveyed to external agencies. But they were also concerned that, internally, Alpha was failing to meet their own expectations and values for the university as a workplace. "Relations between campuses had deteriorated in some instances to the point of hatred," the university's academic registrar told us in an interview. She was referring to a pattern of hostile encounters between heads of schools that she had witnessed at executive-level meetings. Such hostility was viewed by many as fundamentally at odds with, and inappropriate to, their roles as academics or as university administrators. Fraught relations were linked to the diverse histories of the entities comprising Alpha, and to the fact that three of them had previously lacked university status. For instance, Delta campus had been a College of Advanced Education, leading staff positioned on Omega to label it as "academically inferior". Since Delta staff had been hired into teaching positions, and few possessed PhDs, Omega staff argued that many of them would struggle to adjust to the research requirements of a university environment.

Respondents perceived that structures and resource allocation practices of the merged university caused tension, and stood in the way of developing mutual respect and, where possible, shared academic values. Staff on campuses other than Omega expressed the view that it received favorable treatment in the form of a higher rate of funding per Equivalent Full Time Student Unit (EFTSU). Omega secured such privileges, it was argued, because it had the longest history of the campuses comprising Alpha, had university status prior to the merger, and because Alpha's headquarters were located there. Its staff had easier access to top university administrators. Resource allocations privileging Omega were seen to be enabled by an opaque university budget system that, as a head of school put it, was "irrational" and in need of "greater transparency".

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3 By 2003 Alpha had received A$64 million (46% of total state funding) for the development its campuses – $38 million of this was used to establish a fifth campus.

4 Federal government funding was to decrease from 63% of Alpha's total income in 1994 to 46% by 2000.
Staff at Omega were concerned that the resources they received might diminish now that Alpha was a multi-campus university. They believed that this would come about as a result of growth at Delta campus, whose staff and student numbers had increased by 90% and 45% respectively since 1994, and which they thought was already receiving a disproportionately high level of funding. And Delta seemed set to expand even further within a region that had strong growth potential for educational provision. The vice-chancellor was already involved in negotiations with the state and local governments in order for Alpha to purchase land adjoining the campus. By 1997, the student population at Delta matched that of Omega. With continued growth of Delta, Omega staff felt that the university would relocate its headquarters and this was seen as a threat to the amount of resources the campus would receive in the future. Delta, the former polytechnic, might come to house the vice-chancellor’s offices.

Reorganizing Alpha and establishing a new budget system

In July 1997, the vice-chancellor responded to the issues facing Alpha through a major reorganization, of which a new budget system was a central component.

Alpha was reorganized into four faculties straddling the five campuses. Duplicate academic units were either merged with related schools or shut down. Each pro vice-chancellor, who was previously responsible for campus-level administration, was reassigned to a faculty management responsibility such as developing web-based learning for the university or improving local community relationships.

The deans became responsible for formulating and operationalizing a set of research and teaching strategies that would enable their faculties to be more competitive. The structure of administration was to be simplified through the creation of new departments of Information Technology, Student Services, and Finance and Business Services (FBS). The FBS department was to provide a full set of resource management and strategic planning services to individual academic units and to the university as a whole.

The new budget system that was installed continued to adhere to the formulaic approach used by the DEST to administer funding to universities. Funding was allocated within the organization proportionate to full time equivalent student numbers (EFTSU). But funding was no longer allocated to the faculties before the schools. Budget authority was devolved instead to the heads of schools who could act independently of one another. This shift from a sequential to a wholly devolved approach meant that the co-ordination of spending that had occurred at the faculty level no longer existed.

Table 2 shows an overview of the new budget process. The heads of schools’ involvement in the budgeting process began when they met with an FBS representative to discuss their school’s budget allocation and spending plans for the following year. School budgets were to be authorized by a pro-vice chancellor. Once the budget was authorized, the heads of schools were given access to real-time accounts on the intranet. FBS also prepared reports on a monthly or bimonthly basis showing a pro-rata of the school’s costs compared to the budget and flagging any anomalies. No budget guidelines were provided. No training schemes were set up. No formal co-ordinating devices were developed to expose the heads of schools to the collective impacts of school budgeting processes on the university as a whole.

From the vice-chancellor’s perspective, these changes were intended to reassure external constituents that Alpha was adjusting to its new multi-campus environment, and without deviating from budgetary models used by DEST. That agency had provided Alpha with funding for 1998 that was similar to previous years’ levels, and this was taken by the vice-chancellor as an endorsement of the university’s management practices. Heads of schools contended that the reorganization could be successful also in leveraging support from other external constituents. A head of school from Delta campus explained:

The University is able to present to the marketplace a School of Marketing and Management that have the same courses but they are available on two campuses.

He went on to say,

The vice-chancellor wanted to bring together similar areas of the university for the external image.

Another head of school explained that she now found it easier to liaise with partners in the health industry. She explained the benefit in the following way:

We have the unique feature that we have been able to develop sub-specialties in nursing such as midwives or mental health nurses or orthopedic nurses. By having us all in one school we can say, “sure, we have somebody with a specialty in this area, and this area and this area.”

A pro vice-chancellor also offered a similar explanation of the reorganization.
The reorganization had been the desire of the current vice-chancellor, similar to other trends around Australia. He said, “We needed to get coherence and cohesion across all of the campuses, to get them working as one – so we realigned the disciplines so the public will understand Alpha better.”

Initially staff did not challenge the reorganization. They felt that the changes were positive contributions toward reconstructing Alpha as a workplace whose values might better fit those espoused by its staff. They seemed to address the longstanding hostilities between campuses that were caused by inequitable resource allocation decisions. The inequities were seen to stem in large part from the compromised positions of the deans who, although working at the Omega campus and closely associated with it, were nevertheless called upon to make impartial budget allocations for the university as a whole. The reorganization removed this role from the deans – the responsibilities were devolved to heads of schools, which meant the budget decisions were not coincident with a single campus. Instead, the deans were to have a more important strategic role in deciding the direction of faculties. One head of school described the change:

It was the vice-chancellor’s strategy. He wanted to have these cross campus faculties, but he was aware that more of the deans would be [Omega] based. So what he did was empower the heads of schools rather than the deans.

Allocating funds directly to the heads of schools was intended to make the budget process more transparent. It was seen by internal constituents as an appropriate way to lessen the risk that schools on any one campus would receive more favorable budget treatment. A senior manager explained:

[The] devolution of budget and restructuring… [allowed]… people on the Delta campus to see that they got the same rate of funding as the people at Omega in a similar school. So, the main aim of the restructure and the devolution was to address that issue – to show that there was no discrimination against different campuses.

Interviewees also saw potential in the reorganization to address the splintered academic cultures and value systems of Alpha’s individual campuses. By merging schools across campuses, it might encourage the gradual elaboration of shared sets of values, if only on the basis of individual disciplines:

[To] then have faculties that straddled campuses rather than [being] coincident to campuses, that … [meant] people in business schools down here [on Omega] would suddenly have to start talking to and mixing and collaborating with people from the same sorts of disciplines on other campuses.

If feelings of “ingroupness versus outgroupness” and even “hatred” had characterized relations between similar disciplines located on different campuses, the vice-chancellor’s new arrangements promised at least that members of integrated schools now had opportunity to debate, formulate and carry out their own academic strategies. As a head of school commented:

So, schools really became much more masters of their own destiny, because budgeting was now carried out at a school level, and schools could start planning for whatever sorts of initiatives suited them and their interest.

Because the formulaic approach lacked detail about how or when money should be spent, heads of schools were pleased with the level of autonomy promised in the vice-chancellor’s reorganization. As a pro-vice-chancellor commented:

It will enable heads of schools to be able to address the real organizational problems… those faced by those staff who teach the students.

The devolution also encouraged decisions to be made on a timelier basis than had occurred when deans held the budget responsibilities. On this point a head of school commented:

It is highly impossible for someone to look after four campuses. I have no problems with the budget going to the school level. If the faculty wants to retain the responsibility, then they should be at a campus level to be able to deal with the problems in a timely and sensitive fashion. Imagine how frustrated I get when I want to see the dean, but I have to wait until he comes to this campus – which isn’t very often. It wouldn’t be as much of a problem if the campuses were closer but it is at least a 45 minute drive and I don’t blame the deans for not wanting to sit in their cars for up to three hours to go between the campuses.

The vice-chancellor’s desire had been to convey to legitimating agents that Alpha was a well-managed entity. Once the new budget system was in use, however, academics and administrators found it to be seriously misaligned with their values and expectations for the university and for their roles within it. Their reactions brought about financial results that were unintended by the vice-chancellor. But elements of responsiveness between the budget as a managerial system and as a means of external reporting meant that the results could not be altogether shielded from government. It was in such circumstances that the vice-chancellor made the first of a set of ad hoc interventions on the workings of the new budget system. We describe and analyze that process of intervention in the next section of the paper.

Rationalizing unintended net surpluses

Three years after the reorganization, the vice-chancellor was faced with a potential crisis in legitimating Alpha’s management practices to the DEST. As an outcome of using the devolved budget system, some schools and administrative divisions were reporting large budget deficits, while others were reporting embarrassingly high and steadily increasing surplus cash balances. The university as a whole accumulated net financial surpluses far larger than those of

It was impossible for the vice-chancellor to explain to the DEST that we were carrying a surplus of [approximately] $16 million [in 1997]. Normally, the University would be carrying a $2 million surplus over the year and that is fair enough.

The problem of the surplus was raised forcibly by Alpha’s Finance and Property Committee in a report to the University Council. Its main concern was that

Schools in particular may not be fully utilizing their resources for the benefit of students.5

Such comments indicated a change in the Council’s attitude, whose members were concerned that reporting such a large surplus to the DEST would damage Alpha’s ability to secure further resources. In its annual review for 2000, the Council concluded that the vice-chancellor’s newly fashioned financial management system was “inadequate” advising him to rectify the situation as a matter of urgency.6 The need for significant amendment was a view shared by senior administrative and academic staff. For them, the vice-chancellor had failed on two counts. He had not developed the procedures for making the new budget system fully operational. He had failed also to provide an authoritative set of budget principles that could be perceived as legitimate for the internal management of a very diverse group of schools.

Those serving as heads of schools were professors with significant research expertise. They held the position for a period of 2 years. They were expected to carry out budget responsibilities and concomitant spending autonomy despite the lack of procedures and guidelines, as one head of school noted:

We basically have got schools that are given multi-million dollar income. We have a head who has no accounting training and I have a secretary with no accounting training and we are expected to somehow manage a couple of million bucks a year. It is a joke!

Also, since the heads of schools were not involved in deliberations at the vice-chancellor level, year-to-year shifts in university level budget expectations remained elusive to them. As a consequence, few shared budget priorities existed amongst schools, faculties, and the university.

In the absence of fully specified procedures and guidelines, the lack of an authoritative set of principles, and their own lack of budgeting expertise, many heads of schools said they depended on social interactions with peers to define appropriate budget behaviors. Two sub-cultures emerged, each improvising its own set of practices for making operational the newly devolved budget system, and each giving rise to serious unintended consequences. These were co-extensive with schools that projected deficits and those that projected surpluses.

Budgeting for schools in “deficit”

For the heads of schools that had projected budget deficits, the vice-chancellor’s budget system lacked internal legitimacy insofar as it was reinforcing a sense of their responsibility for outcomes beyond their control. For instance, they perceived the system as continuing to blame them for problems embedded in the histories of their academic units and for actions taken by their predecessors. This was particularly so because the budget system accumulated deficits from one financial year to the next. Two heads of schools explained their views in the following ways:

The school budget was in deficit when I became a head of school. That is hardly an incentive for me to try to manage it. We can’t take it so seriously because the budget is unrealistic. ... Your question about how you are doing budgeting is a joke. If you have responsibility for the budget you nearly always have some form of control or at least authority so you normally can control or at least put some effort into controlling things like prices and costs. The difficulty is we are trying to manage a budget where we don’t have any control over those elements and to some extent are really reducing the head of school to a similar position of an accountant rather than as a financial manager.

I said, “look I am a new head of school. This [budget] was prepared by FBS and the old head of school”. Because of the $700,000 deficit from the previous year he [pro vice-chancellor] said, “I am not going to let you appoint this [lecturer] and I want you to change [reduce] this figure [total salary] and that figure [total conference spend]”.

Implicit in the vice-chancellor’s devolved systems of budget and administration was that, even if heads of schools had little control over costs, they could reduce or eliminate deficits through pursuing additional revenues from existing or new program offerings. For instance, schools in deficit might seek to enroll greater numbers of international students whose fees were several times those paid by Australians. But, heads of schools responded, the vice-chancellor’s budget system had failed to establish equitable principles for resource allocation through matching the effort with the rewards.

International student enrolments were on the rise, increasing from as few as 800 in 1994 to almost 3000 by 2000. Schools received funding for these additional students on the basis of Equivalent Full Time Student Unit (EFTSU) calculations. However, the vice-chancellor’s budget system rewarded schools based on forecast rather than actual enrolments. So, for instance, as an FBS staff member pointed out, professional schools whose actual international enrolments persistently exceeded original estimates were being penalized by the budget system:

If they [actually] achieve 600 Equivalent Full Time Student Units they may only be funded for 500 [as originally estimated].

Over-enrolments often requiring additional classes and staffing were not accounted for in the budget that was

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6 Council minutes, April 2000.
allocated to the school. Neither were the schools reimbursed subsequently for the disparity between estimated and actual enrolments. This particularly aggrieved heads of schools who saw a budget system that seemed willfully to avoid a principle of matching effort with reward in an equitable way. Rather, it imparted responsibility without the provision of corresponding and necessary resources. As a head of school retorted:

We are 100 students overenrolled and that is about $200,000 worth that we are not funded for; take your budget and blow it out your ear because it is not going to work!

From her perspective, the resources allocated to her school by the vice-chancellor’s system were not paying for its teaching obligations. If her academic unit was to survive, she would have to make expenditure decisions from the vantage only of her own school and irrespective of the implications for the rest of Alpha. From the university’s standpoint, the issue with this mind-set was that it had become widespread among the deficit schools making it extremely difficult to co-ordinate Alpha’s budget.

The internal legitimacy of the budget system was further undermined as significant budget deficits were often regarded as unproblematic by senior university management. As one head of school commented:

There is only a minor degree of accountability for budget responsibility. I have seen schools engage in what could only be called derelict activities and run schools from million dollar surpluses into the red. People joke and laugh about it.

University management eliminated deficits for some schools using funds earned by others. Some heads of schools were conflicted as to what these actions signaled about the propriety of and lack of principles underlying Alpha’s budgetary practices. One head of school summed up the situation:

You don’t get rewarded for good budget management. You usually end up with less the next year. There is actually disincentive for being careful with the budget. Schools in the past that have overrun their budgets have been given more money.

From the deficit heads of schools’ point of view, they were forced into a position of being unconcerned about their financial positions or their spending.

**Budgeting for schools in “surplus”**

The heads of schools with projected surpluses responded differently to the vice-chancellor’s new budget system. Unlike peers in the deficit schools, they utilized the system in the day-to-day management of their academic units. They availed of the relative autonomy provided by the budget system to protect the financial positions of their schools through engaging in cost saving and income-generating activities. To build a surplus, they took steps initiatives that involved reductions in costs such as postponing full-time staff replacements and filling vacant positions with casual personnel. To them, a surplus measured adherence to insistent requests from the vice-chancellor and senior managers for the creation of viable, self-sustaining schools throughout Alpha. One academic reasoned:

Some heads of schools intentionally keep their full time staff down and employ sessionals or casuals [as lecturers]. It is cheaper to provide services on this basis and you may be able to have a little bit of surplus left over to do something with.

Other tactics aimed at reducing costs included lowering allocations to marketing and advertising activities, and increasing class sizes.\(^7\) One way in which heads of individual schools sought to boost revenue was by convincing students to complete most of their study within that school. They restricted the number of elective courses available to students enrolled in their schools’ degree programs and developed identical courses to those offered by other academic units. Some heads of schools sought also to improve their financial positions through restricting the co-supervision of PhD students with other academic units. A dean noted:

If you did a survey of PhD students before the new structure and compare it to now, just have a look at where the supervisors were from. About three years ago, there would have been a greater diversity of supervisors than what you will get now. I think that you will find that almost universally all of the supervisors will come from one school, whereas three years ago you would have had a good mixture of interdisciplinary type supervision.

This focus on out-competing one another for revenue was seen as risking renewed hostility between schools and campuses. It was a particularly disturbing development for many heads of schools, whose early support for the vice-chancellor’s devolved organizational and budget arrangements had been based on the belief that these would reinstate and reinforce values of collegiality between academic units. Senior managers told us that they had intervened on occasion, offering advice to heads of schools that were unresponsive to the broader set of issues Alpha was facing. In reflecting on the problems that university was experiencing during this period, the new vice-chancellor was to comment:

At present, due to several reasons (including single budget lines) there is an in-built competitive logic operating within faculties where schools and programs of studies have to vie for students in order to sustain their viability, both in programmatic and human resource terms. Synergies and economies of scale that might otherwise emerge in an alternate structure are lost because the current system encourages duplication, multiplication, and relatively “parcelled” forms of territorial operation, sovereignty and ownership. Cross-school and cross-campus collaborations and true sharing of resources are at present not realities; they are spoken about and for many desired but thus far not realistically attainable.\(^8\)

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The heads of schools argued that the new budget system forced them into a position of hoarding money. They did not necessarily believe in these improvised means of building surplus, nor did they see them to be legitimate and consistent with principles of budgeting appropriate to the management of a large-scale university. But, they were concerned that, in the absence of surplus, their units might be shutdown, or forced to merge with related units to the detriment of their academic programs. And it seemed to them that such mergers would be brought about with little interest in academic values or synergistic capabilities. As a senior administrator explained:

The weakness of the school budget model is that some of the budget units are too small to be viable. They didn’t design the model based on a minimum size for a school. It was for schools that had different reasons for existing like profiles and professional status.

The vice-chancellor’s system was thus seen as isolating academics who might previously have interacted with one another for scholarly reasons. The heads of surplus schools were concerned, too, at what they perceived as mixed and confusing messages emanating from higher university officers and the vice-chancellor. Even as large deficits were being eliminated for some schools, the heads of units in surplus were continually reminded of the urgency of maintaining and improving their financial positions. As a pro vice-chancellor commented:

Schools are constantly told that there is no bail out, so they tend to under spend if they can because they are worried that if they get into a problem that is going to mean jobs.

The budget conservatism of heads of schools was further exacerbated by the unreliability of the internet-based accounting statements by which budget data were communicated. These statements were seen to be inaccurate, often excluding items of revenue and cost, and often incomprehensible. Information needs of individual heads of schools were seen to be ignored, and this was a major source of annoyance for them. A common complaint was that the internet statements were too accountant-focused, such an idea how we are going under the different items. These sorts of things were jumbled up and there were school’s items with private [research grant] items.

The budget reports prepared by FBS were meant to identify any anomalies or areas of concern, yet many heads of schools considered this feedback to be suspect because the information provided was out-dated and the preselected oversimplified budget categories were not attuned to their requirements. One head of school explained how she improvised:

I want to know the amount of money spent of this year’s research grants, or whether money has been carried over that was not spent last year, or even whether we have money that is going towards starting to put up a new research proposal, but the categories the university uses are not helpful for ascertaining that kind of information. All you have is a research line and the whole bucket has to go in there. My secretary actually runs a fine grained budget system because I really need to have my head around these things.

Intervening in a crisis: reallocating funds from schools in surplus to ones in deficit

While the devolved budget system was seen initially as a necessary step in managing a multi-campus university, academics and staff soon came to view it as a flawed and illegitimate initiative. A new set of problems was articulated, namely, that the budget system entailed risks that viable academic programs would be curtailed arbitrarily, that interdisciplinary scholarship was being stunted in crucial areas such as doctoral supervision, that hostilities between schools were once again being exacerbated, and that inequities in resource allocation were being further entrenched.

The devolved arrangement lacked coordinative mechanisms to monitor the aggregate effects of budget behaviors across schools. As a deputy head of school commented:

Despite the best intentions in the world we have had all sort of abhorrent results among schools. Some have had massive surpluses; some have projected surpluses which have run into the millions. Now if you think about this, that is bad management from the head of school. It is also bad management from the senior people in the university. Is it a problem of the pro vice-chancellors monitoring the schools? Or [is it] that we are completely allocating resources in the wrong way, and this school shouldn’t be treated in the same way as others?

In the devolved budget system, the vice-chancellor had failed to consider how coordination that had been provided previously by four faculty deans could be achieved across the activities of some 40 schools. A consequence was that individually small surpluses at school level led to a wholly unacceptable aggregate result at university level. An FBS staff member noted:

You might think that if a school has a $300,000 surplus that is not a great amount. The problem is that when you multiply that by 40 schools that becomes around $12 million. That is a significant amount of money that is just lying around that is not being utilized.

If the new system thus lacked internal legitimacy, neither was it successful in enabling the vice-chancellor to demonstrate effective management of Alpha to external constituencies. Alpha’s excessively large surplus compared to peer universities would indicate poor financial management
to the DEST, which was permitted under the Higher Education Funding Act to recover any unspent funds from a university.

In his responses, the vice-chancellor availed of elements of distinctiveness between the budget system as used for external reporting and for internal management. First, he interpreted the results for external constituents in terms that were at very least distinct from, if not flatly contradictory to, those used within Alpha. He did so by maintaining that the large surplus reflected skillful rather than problematic university management. In the narrative to the budget for 2001–2003, a document intended significantly as a communication with government agencies, he rationalized the situation:

From one perspective, the achievement of surplus cash balances might be said to be a matter for congratulations to the budget managers rather than a matter of concern. … Part of the explanation for the substantial surplus cash balances lies in the fact that the University has been very successful in increasing revenue from [international] fee-paying students. Enrolments in this area have grown at a faster rate than projected even during the Asian currency crisis. There has also been a substantial increase in continuing education enrolments as a result of vigorous efforts by the Centre for Business Education and Development.

Importantly, the vice-chancellor’s highly summarized explanation did not draw attention to any concerns regarding the budget system he had established, the patterns of deliberate over- and under-spending of funds by individual schools, or the overall soundness of the university’s financial management practices. It sought only to dispel the net surplus problem for external constituents without altering the budget model itself.

Second, and relatedly, the vice-chancellor made two ad hoc interventions aimed at shifting funds arbitrarily from schools to central university administration. One of these interventions was to reduce the rate at which schools were rewarded for teaching international students, making it the same as that for Australian nationals. The other was a claw-back during 2000 of 50% of the cash balances of schools that were in surplus. A dean explained:

The Delta campus is younger and the schools tend to be in better financial positions so they had most of their funds clawed back. The ones in deficit were at Omega campus, and there were to be no transfers between campuses.

The funds taken back from the schools were given to the pro vice-chancellors for reallocation within the faculty. Notably, the vice-chancellor’s budget narrative and communications with the DEST did not provide any explanation for these interventions, nor were they required to do so. Rather, reallocations that were seen internally as deeply problematic were explained to external parties as no more than reasonable adjustments to educational priorities:

In order to provide for greater flexibility in targeting strategic initiatives and particular school needs, 50% of surplus cash balances as at the end of 2000 will revert to the relevant group pro-vice-chancellor for allocations within the group.

At the end of 2000, as a result of the claw-backs and redistributions effected by the vice-chancellor, Alpha’s schools were shown to have accumulated a net total surplus of just $0.4 million, down from $21.7 million at the end of the previous year. This was seen as a far more acceptable financial position for the university.

The vice-chancellor’s funding negotiations with DEST during 2001 did not result in any reduction in Alpha’s total operating grant for the following year, an outcome that would have seriously prejudiced its expansion plans for subsequent years. But, while his interventions had worked admirably in overcoming skepticism on the part of external stakeholders, they eroded further the internal legitimacy of Alpha’s financial management systems. This led to another set of unintended budget behaviors, the prospect of a large deficit, and a second set of interventions by the vice-chancellor on the workings of the new budget system.

The budget system had been presented to heads of schools as promising greater autonomy, thus respecting their judgments in the development of their academic units. The vice-chancellor’s subsequent interventions were seen largely to reverse that approach. What aggrieved heads of schools the most was the ad hoc, arbitrary and unsystematic character of the claw-back. The logic behind the 50% was never revealed to them. Withdrawding such a high proportion of the cash balances, which for many schools amounted to as much as $700,000, removed much of the discretion that heads of schools had relished, making no allowance for their longer term financial commitments. They felt that the amount withdrawn was far greater than what they individually had accumulated as budgetary slack. An FBS staff member explained:

The schools knew that there was going to be a claw-back but they thought it was going to be 10–20%. Everybody was astounded when it turned out to be 50%.

The response to these interventions by the heads of schools in surplus was to monitor much more closely the activities of those schools where deficits were continuing to increase with no evidence of plans to curtail spending. One head of school told us of an encounter he had had with a counterpart:

I was walking up to the car park with another head of school and he said “oh I just got my financial statements and I see my deficit has been wiped out. It is probably from your claw-back. Thanks!” So he realized that he was in deficit, but he wasn’t worried about it too much. At the end of the day central funds allocated money to cover the deficit.

Incidents such as these prompted the heads of the schools in surplus to disbelieve that the claw-back had been undertaken to facilitate a more “strategic” use of Alpha’s resources. Instead, they saw it as raiding funds from prudently managed schools to cover the growing deficits of others. In an interview, one head of school explained:
The reason this claw-back occurred was in fact to bail out some schools. The schools that were actually well managed and were in surplus were punished for that. So, the natural conclusion is spend and be damned.

While many heads of schools had experienced the shortcomings of the budget system, they accepted that there was little likelihood that these would be dealt with comprehensively by the vice-chancellor. They acknowledged his initial attempt to devise a budget system that devolved authority to them. But he had shown little subsequent interest in mediating between their concerns regarding the values reflected in the system’s mode of operation and his need to protect Alpha’s position vis-à-vis the DEST. Internal constituents felt that he had deliberately chosen to trade off their own concerns with those of DEST. Such inattention to mediation on the part of the vice-chancellor, and his seemingly abrupt and ad hoc interventions, were attributed by some interviewees to the time pressures under which he was working. A lengthy and complex process would have been called for to rebuild the internal legitimacy of Alpha’s budget system, but that was recognized as unlikely given that the vice-chancellor was less than a year from retirement. Instead, he prioritized imminent negotiations with the DEST and the risk that, at the limit, the government might reclaim Alpha’s surplus.

Heads of schools in surplus argued that, if the existing system were to remain unchanged, then the pro-vice-chancellors should be asked to undertake periodic reviews of each school’s budget. Such reviews would allow heads of individual schools to explain their budget behaviors, and would give central university administrators a better understanding of the factors giving rise to patterns of under- and over-spending. If individual reviews were not feasible, they argued, then Alpha should revert to a more centralized approach to budgeting with funds allocated first to the pro-vice-chancellors and then onward to the schools. While this would erode the new-found autonomy of heads of schools, they believed that it would at least result in better coordination of spending decisions, making it easier to ensure that core educational programs were being funded adequately and giving pro-vice chancellors means to curb the excessive spending of schools that were in deficit.

The vice-chancellor’s arbitrary and non-consultative intervention to claw-back funds thus caused grievance among heads of schools. So did his reduction in rates of funding for schools that had sought to increase their numbers of international students. Deans and pro vice-chancellors had openly indicated to heads of schools that these rates of funding would have remained unchanged had it not been for Alpha’s embarrassingly large net surplus. Yet, the vice-chancellor had justified the reduction on grounds that overseas students were no more expensive to teach than Australians. It was a claim that was widely disputed by staff who argued that recruiting foreign rather than domestic students was more costly for schools, as was teaching those who did not have English as a first language and so required additional tutoring. The vice-chancellor’s lack of candor disinclined heads of schools to pursue international student numbers aggressively. One head of school echoed the explanations of many others in saying:

If you take international money away from the schools that earn it you will almost certainly drive the total university income down. The schools will say, “well we have to do all the extra work with international students, but we are not getting the money”. So, the incentive to get money goes. At the same time, there is a mismatch between the needs of the schools and their earning capacity in some areas and this has not helped the surplus situation.

**Surplus schools follow the example of deficit ones**

These frustrations prompted the heads of schools that were in surplus to change their practices. They were no longer energetic about managing the schools’ finances. Many feared further claw-backs. For these heads of schools, the vice-chancellor’s budget preferences appeared unstable, unpredictable and inconsistent, and thus wholly lacking as a legitimate set of practices for university management. They felt also that the claw-back was counter-productive to the triennial nature of the budget that was supposed to provide them with greater flexibility. A head of school gave us his impressions of the turn of events:

Up until the end of last year, this school was one with a very significant surplus, which in my view equals good management. We only under-spent the budget slightly each year. At the end of last year we lost half our surplus. We had our funding rate changed and our target load changed. Now we will be basically in debt in 2 or 3 years. Now, I have really been caught in a quandary here. The prudent part of me says to fix some savings, try and manage it the best you can. But the other part of me, and even some direction I am getting from up the line and certainly within the school, is to spend it. I think the decisions made centrally have provided fewer incentives for schools to meet their budget targets.

Heads of schools in surplus were abandoning their budget responsibilities knowing that the claw-backs had been reallocated to deficit schools, many of which they regarded as poorly managed. A head of school noted:

There are a couple of schools with continuing deficits and there are no sanctions upon them from having that. They are bailed out year in and year out. And, at the end of last year, the schools that had a surplus had half of it taken back off them which was spent bailing other schools out of the deficit. So the question that one needs to raise is: should we just have a deficit school? I will be bailed out. Why should I be financially responsible? Those that aren’t are getting help. The only way that I can see to stay in surplus is to have staff not go to conferences and have crappy computers and crappy furniture, but other schools don’t appear to have this attitude and they get bailed out!
The budget approach of the heads of schools in surplus came to resemble that of their counterparts that were in deficit. One head of school explained that he had overspent deliberately during the current year to reduce the likelihood of budget reductions in future. He rationalized:

There are other schools in the University that have traded with significant deficits for 3 or 4 years and they are still here despite the threats that, oh, you are going to have to amalgamate, or whatever.

For these heads of schools, the claw-back of funds that properly belonged to them signified that the vice-chancellor had rescinded his previous decision to improve Alpha’s management through a devolved and more autonomous budget approach. Their reactions were informal ways of controlling the situation given their lack of formal involvement in the organization’s budgeting decisions.

Reversing the claw-back

Projections drawn up during the second quarter of 2001 indicated that some individual schools and the university as a whole would incur substantial operating deficits for the year. Anticipating the difficulty in explaining this to the DEST, the vice-chancellor intervened once again to order unallocated funds at university level to be returned to the schools.

Whatever tactical intent the vice-chancellor may have had, the intervention was seen to be wholly unsuitable by internal constituents because it was viewed to be yet another attempt to align the organization’s financial management with the DEST’s expectations only. The heads of schools continued to be concerned that budget allocations were not transparent nor were they fair. The return of funds was described by several heads of schools in terms similar to the following: “it was a post-hoc correction driven by the heads of schools’ frustration”, and a “blow-out of costs”. A pro vice-chancellor gave a blunt interpretation of events:

Frankly, all the claw-back did was make the budget situation worse for the schools. The money had to go straight back to the schools. It allowed me to fix a budget problem temporarily between two schools that were closely linked, but it didn’t do much.

In place of the anticipated deficit, and in light of the vice-chancellor’s action in returning claw-back funds, schools reported an exceptionally large net total surplus of $11.5 million at the end of 2001. In thus over-reacting to the budget behaviors of the heads of schools, the vice-chancellor had revealed once again his inability to put in place a system that would operate predictably.

Epilogue

Alpha’s staff anticipated that significant alterations to the budget system would be effected by the new vice-chancellor who was to take up office on January 1st 2002. A head of school echoed the comments of many others in saying:

We are expecting a new budget arrangement next year. We have a new vice-chancellor coming in, and we are all waiting with interest to see what he is going to do. I wouldn’t be surprised if we return to a faculty structure and more participative budgeting. That is what most staff are expecting.

The person appointed to the position was an Alpha professor who had been working at the university since 1985. During his first month, the vice-chancellor formed and then chaired a budget review taskforce comprised of three pro-vice-chancellors, the director of Finance and Business Services, three academic staff members, an external member, and the deputy secretary of the federal government’s Department of Finance and Administration. His brief to the taskforce was to:

provide options and/or recommendations for changes to the budget process and [to] also make recommendations on principles which should underpin the budget process in future.9

He cautioned avoidance of what he referred to as “the experience of 1997”, meaning the installation by his predecessor of the devolved, school-level system that was widely held to be malfunctioning. It was urgent to devise a budget system that would better meet the values and expectations of internal constituents, but, the vice-chancellor observed, it was “hard to find much appetite at [Alpha] for radical change”. He sensed a “more constrained desire for appropriate incremental amendments” that would “encourage schools to work together and clarify levels of management”.10

The taskforce invited deputy vice-chancellors, pro vice-chancellors, deans, heads of schools, office directors and directors of research centers to submit their views and these were published and disseminated to all staff in an internal document. An external consultant was commissioned to canvass data on the budget practices used for management in other Australian universities and throughout the public sector more widely.

The core recommendation was to reverse the direct allocation of funding to heads of schools. These were to go in the first instance to the pro vice-chancellors. Alpha’s practices were thus to more closely resemble those of its peer universities. In a sample of 17 of them, as the external consultant discovered, none transmitted funds directly from the center to individual schools. The taskforce recommended that the DEST approach of EFTSU should remain the basis for allocations to the pro vice-chancellors. But amounts allocated to the schools was to take account, also, of relative staff costs, rates of success in income generation and student retention, and differences in modes of delivery of programs and courses. Allocations were to be benchmarked where possible with funding rates for similar academic units in comparable universities.

10 Vice-chancellor, “Management structures at Alpha University”, intranet memo to staff, 24 June 2002.
In this return to a more centralized budget system, the taskforce sought to replace responsibility on the pro vice-chancellors for ensuring that the spending patterns of groups of schools would aggregate to an externally acceptable result for the university as a whole. But centralization was to be combined with protections aimed at ensuring the internal legitimacy of the systems. This was reflected in a call for “transparency” in all allocations that would:

make more visible the extent of the equity in budget allocations and discourage perceptions of political lobbying through clearer decision-making processes and accountability for outcomes.11

Such visibility was to be achieved organizationally by a senior level and standing budget advisory committee that would have overview of allocations. Allocative decisions were to be seen to follow from publicly stated principles. Once made, they were not to be subject to arbitrary interventions by the vice-chancellor that had characterized the previous administration, thus providing “predictability in budget allocations”. Accountability was to be promoted through ensuring that all “budget decision-makers should have access to all budget information” affecting the ways in which their allocations had been arrived at.

In being linked to EFTSU data, the proposed budgetary system was to continue to resemble the practices used by the DEST in funding Alpha. In its more centralized mode of operation, it was to reinstate the coordination of budget decisions across the university that was seen as wholly lacking in the previous devolved system. And through operationalizing the construct of transparency, it sought new ways to comply with external institutional pressures and administrative exigencies in ways that were consistent with the values and expectations of internal constituents. An attempt to find new ways to align competing institutional demands was under way, one that was itself cut short by the surprise departure of the new vice-chancellor at the end of 2004, only 2 years into his term of office.

Conclusions

For many years, scholars have assumed that mimicking externally derived accounting practices will lead to the achievement of legitimacy for an organization (cf. Modell, 2001; Richardson, 1987). These studies frequently portray legitimacy as an unproblematic outcome of leaders choosing a strategy from a set of well-articulated responses, such as those proposed by Oliver (1991). We argue that such an approach exaggerates the orderly nature of legitimation processes (Orton & Weick, 1990; Pache & Santos, 2010). Our contention is that in treating organizations as monolithic actors and their responses as being univocal there has been little progress in understanding the issues to be confronted when relying on accounting to achieve legitimacy.

To understand how an image of legitimate financial management may be upheld externally, we argue that one needs to examine the dynamics inside an organization. We describe how the vice-chancellor of an Australian university chose to respond to external constituent expectations that it was adapting to a new environment. The university had been much enlarged and expanded in scope through a series of mergers. First, the vice-chancellor assumed that it was desirable to introduce a new accounting system similar to that used by the government’s educational funding agency. This was aimed at creating a perception that the newly enlarged university would be managed appropriately and similarly to its peers.

Second, the vice-chancellor’s preference was that the university should manage its funds in ways that would enable the reporting of marginally positive annual surpluses. The intent was to convey externally a view that the university was integrating its newly acquired campuses and deploying resources effectively. A university operating with unusually large surpluses or deficits could expect government agencies to challenge its financial management practices. But achieving the desired financial result proved to be far more difficult than the vice-chancellor could have imagined, for it relied on how senior academic administrators inside the organization carried out their accounting responsibilities.

Our study analyses a spiral in which internal constituents’ disaffection with the values reflected in the workings of a budget system led them to engage deliberately in episodes of under- and over-spending. The vice-chancellor could not completely shield from the government’s funding agency the aggregate results of those behaviors. He was required legally to publish summary comparisons between actual and budgeted results for the university. It was perhaps fortuitous that elements of distinctiveness between systems for internal and external reporting gave him some scope to blunt the effects (cf. Orton & Weick, 1990). Not being required to publish detailed accounts of his internal resource allocation decisions enabled him to effect ad hoc reassignments of funds so that results for individual schools did not look particularly aberrant. And it allowed him to re-describe results creatively so that surpluses and deficits could be presented as the results of prudent policies rather than the aggregate effects of actions that he neither intended nor controlled fully.

A key contribution of our study is to illustrate empirically the significance of seeking internal legitimacy for an organization’s accounting systems. We argue that processes of legitimation may be rendered inherently unstable and fraught by the disputes among internal constituents about what accounting should and can do, and how it should operate. Internal constituents may expect that an accounting system should be capable of giving practical effect in the workplace to core social values. It is in the dynamic of practising accounting that these constituents acquire views about whether the system actually reproduces their social values. Their persistent involvement in accounting processes means that the legitimacy of a system evolves as internal constituents use it in diverse contexts and learn to exploit its features.

By contrast, external constituents who interact infrequently with an organization have a decontextualised view of its accounting systems. They may make legitimacy

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judgments based on the technical features of the systems, such as the formulaic nature of a budget model. However, what remains invisible to the external constituents is the extent of acceptance and use of the accounting systems on the part of internal constituents. This decontextualised image may make it significantly easier for organizational leaders to achieve legitimacy for its practices from external rather than internal agencies.

Our case material also responds to the debate on decoupling in accounting (cf. Basu, Dirsmith, & Gupta, 1999; Rautiainen, 2010). In particular, it illustrates the difficulties in managing institutional demands when systems for external reporting are loosely coupled from those used inside an organization. Internal legitimacy problems were mainly caused by decisions of the vice-chancellor in responding to the demands of external constituents. Such choices brought about reactive behaviors by those inside the organization who found them inconsistent with their values. And these behaviors, in turn, had unintended and adverse consequences for the vice-chancellor’s efforts to achieve legitimacy from external agencies. In particular, reporting a small surplus required a series of interventions by the vice-chancellor to reallocate funds between schools and other administrative units. And while these interventions proved successful in achieving that objective, they were usually devised under significant time pressures and consequently were not well thought out. The interventions also added further issues for internal constituents to dispute. This dynamic interplay between the internal and external aspects of legitimation has largely been bracketed in earlier accounting research exploring organizational responses to institutional pressures. Even where a more process-oriented perspective has been applied there has been relatively one-sided emphasis on external pressures (e.g. Abernethy & Chua, 1996; Carpenter & Feroz, 2001; Modell, 2001).

We conclude with a suggestion for follow on research. It may be interesting to examine contexts in which internal constituents’ rejections of the propriety of management and accounting practices are conveyed to external legitimating agencies in more direct and unmediated ways than in the case study reported here. One could envisage this to come about because of pressures for greater transparency of the internal governance of public organizations such as universities. Or it might come about, too, where internal constituents perceive resource allocation practices to so adversely impact the interests of an organization’s clients, whether these are students, patients, or consumers, that they bypass those in formal leadership roles to express their concerns publicly. How those in formal leadership roles address and seek to manage such tensions played out in a public arena would build upon the understanding of internal legitimation presented here.

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