

IS THE FAILURE CAUSED BY THE LOSS OF LOGIC OF APPROPRIATENESS?

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Abstract

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It is a puzzle that the institutionalization of institutions has not yet been well explained. The present study gives an answer by explaining why the accrual accounting (AA) practices introduced to public entities (PEs) in Sri Lanka failed through an empirical explanation of the loss of logic of appropriateness of the institution (i.e., AA practices) and the institutionalization (i.e., implementation process). Accordingly, institutional theory becomes the theoretical scope of this study. Engaging the longitudinal study for 26 years (1999–2025), the study espoused the interpretive stance, case study strategy, and theoretical deductive thematic analysis method. The data collection was carried out among the purposive sample cases. The sample cases selected are from the initiating agency, the implementing agency, the divergent voice, and the controlling agency. The study is significant since it explores that the logic of appropriateness has been lost at all the rostrum of institutionalization, causing an overall insignificant pressure to the PEs, and hence the AA reform failed in Sri Lanka. The study concludes that the failure of AA reforms is due to the loss of logic of appropriateness of the institution and the institutionalization.

Keywords: Institution, Institutionalization, AA Reform

Authors' individual contribution: Conceptualization — N.N. and N.S.J.; Methodology — N.N.; Software — N.S.J.; Validation — N.N.; Formal Analysis — N.N. and N.S.J.; Investigation — N.N.; Resources — N.S.J.; Data Curation — N.N. and N.S.J.; Writing — Original Draft — N.N.; Writing — Review & Editing — N.N. and N.S.J.; Project Administration — N.N.

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1. INTRODUCTION

A reliable public accounting system is essential for the proper dissemination of accounting information to all manner of users to aid in decision-making and accountability (Antwi et al., 2025). Developed countries, such as New Zealand, Australia, and the United Kingdom, as well as developing countries like Sri Lanka, Vietnam, Nigeria, and Taiwan, have introduced accrual accounting (AA) reforms in the public sector. There is a theoretical relationship between public sector accounting (PSA) reforms and fiscal governance outcomes, but empirical evidences indicate notable variation between the impact of

these reforms in various countries and regions (Antwi et al., 2025). Although Sri Lanka adopted the New Public Financial Management reforms during the 1990s, the AA reforms was introduced by the Institute of Chartered Accountants of Sri Lanka (ICASL) from 2009 by introducing the Sri Lanka Public Sector Accounting Standards (SLPSASs) (four in 2009, six in 2012, and 10 in 2018) connecting Association of Public Finance Accountants of Sri Lanka (APFASL) as its public sector wing (ICASL, 2009). However, increasing resistance to accounting changes is observed at the lower administrative level in less developed countries, including Sri Lanka (Adhikari et al., 2013). Furthermore, the reformation

practices in general have consistently failed in most of the countries (Camargo, 2025). Ordu et al. (2023) argue that to get the best of the reforms, an all-inclusive strategy and approaches must be adopted; otherwise, PSA reforms will continue to suffer.

The study proposes two research problems: one in the context of AA reform and the other in the context of institutional theory.

The literature argues that the adoption of AA practices in the public sector has not achieved the expected results. Furthermore, notwithstanding their significance, little is acknowledged about the institutionalization process of accrual-backed standards (Christiaens et al., 2014). PSA scholars are of the view that the way in which the AA practices are adopted in public entities (PEs) causes them to perform differently depending on country-specific factors (Nagendrakumar, 2018), and, therefore, the outcome of AA reforms is not identical in all cases (Buhr, 2012). They also emphasize that AA reforms do not have a consistent pattern, thus resulting in a misguided transfer of AA practices to the public sector (Soverchia, 2012; Grossi & Soverchia, 2011; Guthrie, 1998). Furthermore, the question concerning whether all countries have adopted a uniform implementation process also remains unanswered, and the studies in this field are quite silent about the implementation process of AA reforms. Overall, the institutionalization of the AA practices does not portray an established institutionalization process.

Three criticisms are important to the present study: first, it is argued that the institutional approach has not been well established (Tolbert & Zucker, 1996). Second, there is very little consensus on the definition of key concepts, measures, or methods within institutionalization tradition, and as a result, it has developed no central set of standard variables for institutionalizing a change (Tolbert & Zucker, 1996). Finally, there has been surprisingly little attention given to conceptualising the institutionalization process (Tolbert & Zucker, 1996). All three gaps have not been answered in line with the adoption of AA practices in the public sector.

The purpose of this study is to explore and explain the logic of appropriateness of institution (i.e., AA practices) and the institutionalization (i.e., implementation process) of the reforms that have been taking place during the past two decades in Sri Lanka.

The rest of the paper is organized into five distinct stages. Section 2 explains the literature review on the present topic and the institutional theory. Section 3 discusses the research methodology. Section 4 discusses the results. Section 5 reports the findings. Section 6 provides the conclusion of the study.

2. LITERATURE REVIEW

The literature review first looks at the glance of the AA reforms, second it analyses the developed countries' experience on AA reforms, third it analyses the developing countries' experience on AA reforms, third it analyses, fourth introduces the institutional theory, and finally it describes the institutional mechanism.

2.1. Overview of reforms

The New Public Management led neo-liberal thinking, and the financial crisis, during the latter part of the 19th century, resulted in various governments offering rescue packages. It led to the question of how the rescue measures provided by various supranational organizations are presented in the governmental financial statements. Further, the sovereign debt crisis (e.g., Sri Lanka, Greece, and Dubai) also resulted in questioning whether the financial reporting of Government interventions is sufficient to achieve accountability and transparency. As a result, the International Monetary Fund (IMF) and the International Public Sector Accounting Standards (IPSAS) Board (IPSASB) jointly tried to answer the question and came out with the accrual-based IPSASs (Abanyam & Angahar, 2015).

2.2. Developed countries' experience

Bellanca and Vandernoot (2014) argue that there are important disparities among the member states of the European Union, both for the application of IPSAS and for the type of accounting used. Bellanca and Vandernoot (2013) contend that the implementation of the AA reforms in Belgium varies greatly from one entity to another. In the process of AA reforms, the Brazilian Treasury has been required to adopt some sophisticated accounting policies that were beyond the capacity of the information technology platform already installed in both central governments (CGs) and local governments, and as a result, led to the postponement of IPSAS implementation (Cardoso et al., 2014).

The United Kingdom is the initiator of public service reforms, whereas New Zealand began as a late starter but became a renowned leader, especially in the adoption and development of AA (Ellwood & Newberry, 2007). As a result, New Zealand's shift to AA practices became a model for the rest of the world. The United Kingdom Government moved to AA practices in 2001–2002 and adopted AA practices first at the agency level, and was looking to produce aggregate consolidated financial statements for 2006. The United Kingdom planned to prepare consolidated financial statements in a stage-by-stage format: stage 1 — consolidation of the non-audited CG accounts using 2001–2002 national accounts information, stage 2 — consolidation of the accrual-based CG accounts during 2003–2004, and stage 3 — whole-of-government accounts consolidation for 2005–2006. Heald and Georgiou (2009) highlighted the complex issue of aggregating government accounts, especially about the definition of control in the public sector, as well as the difficult relationship between international and national financial accounting standards. Thus, the AA reforms have been fragmentary and lack uniformity across the public sector. The Australian public sector has undergone intense AA reforms, including a comprehensive overhaul of financial reporting policies. The major aspect of this reform is the involvement of the Australian accounting profession in the formulation of financial reporting standards (Ryan et al., 1999).

2.3. Developing countries' experience

The Indonesian Government launched public sector financial reforms as part of broader political and economic reforms aimed at improving the transparency and accountability of the Government (Harun, 2007). The continued lack of progress in AA reforms in Indonesia due to a lack of interest in and understanding of the issues among politicians, successive governments have been reluctant to push hard for accounting reforms. With the liberalization of the economy and developing closer links with the Western economies, Vietnam changed its system of accounting to a mixture of principle-based conceptual accounting patterns taken from the West and the rule-based formal accounting elements retained from the old Soviet-style system. However, this process has faced certain difficulties owing to Vietnam's specific national characteristics, such as its local economic system and accounting tradition (Phi Anh & Nguyen, 2013). Nepal CG has been using AA practices since the late 1980s, with the thrust coming from international agencies and the involvement of professional accounting. However, this turned out to be a failure, and the authorities took the necessary steps to replace accrual-based accounting with an improved version (modified) of cash-based accounting (Adhikari et al., 2015).

2.4. Institutional theory

Institutional theory analyses institutions as "multifaceted, durable social structures made up of symbolic elements, social activities, and material resources" (Scott, 2014). The researcher argues that AA reforms also align with the characteristics outlined by Scott. The theory provides useful insights into not only the persistence and the homogeneity of institutions but also institutional change and transformation (Dacin et al., 2002). Thus, institutional theory is not a coherent system of rules, but it is rather a collection of ideas that together form a somewhat consistent perspective of the mechanisms supporting and restricting social behavior (Bjorck, 2004). Therefore, institutional theory attempts to explore the deeper and more resilient aspects of social structure, and it considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior (Scott, 2014).

2.5. Institutionalization mechanism

The institutionalization mechanism (IM) is the process by which organizations strive to legitimate their functions (Agasisti et al., 2008). The IM, therefore, can cause increased stability among organizations within an organizational field, sometimes having interactive effects, and not necessarily resulting in increased efficiency, suggesting that organizational adaptation may be more compulsive than problem-solving (Selznick, 1996). Scott (2014), Bjorck (2004), and DiMaggio and Powell (1983) view this as coercive (i.e., constraining mechanism), mimetic (i.e., cloning mechanism), and normative (i.e., learning mechanism) mechanisms. Therefore, ultimately, they become the institutional

pressure. Thus, all IMs put forth pressures on the organizational field to legitimate or stabilize the behavior of another institution.

Coercive mechanism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function (DiMaggio & Powell, 1983). Mimetic mechanism points out that the uncertainty pressures the imitation. When organizational technologies are poorly understood, goals are ambiguous, and the environment creates uncertainty, then organizations may model themselves on other organizations (DiMaggio & Powell, 1983). The normative mechanism is the collective pressure of members of an occupation to define the conditions and methods of their work, to control "the production of producers", and to establish a cognitive base and legitimization for their occupational autonomy (DiMaggio & Powell, 1983).

The debate of the implementation of AA practices in PEs has existed since the 1970s. The Public Sector Accounting and Financial Reporting reforms must provide systematic evidence and understanding of practice that can convince policymakers and practitioners of the legitimacy of general concerns (Antwi et al., 2025; Ordu et al., 2023). However, though addressing the policy agenda is perhaps more significant, there is a notable deficit in this regard (Antwi et al., 2025; Ordu et al., 2023). The AA reforms were introduced and implemented in the absence of an empirically rooted conceptual framework, which resulted in implementers adapting an accounting system that is exclusively suitable for the private sector. It is highly criticised as inappropriate owing to the heterogeneous nature of the services provided by the PEs. The common claim in AA reforms is that cash and AA practices are not appropriate for the public sector. Also, the implementation of AA has not brought the expected results to the PEs. Further, the major focus of the AA reforms is the adoption of international accounting practices, regardless of the unique requirements of the local environment. Also, the question of whether the constituents of AA reforms become significant in deciding on pragmatic solutions for the issue, rather than standing on either side of the accounting practices, has not been sufficiently answered. Apart from that, the tension over whether the correct fit between the external and internal institutional capacity in building the effective AA reforms exists. Again, the implementation process and its uniform application have not been adequately explained. Furthermore, the institutional approach has not been well established in AA reforms, and the institutionalization process has not been conceptualised well. Thus, the public sectors in the world institutionalize the AA reforms without having due consideration for the logic of appropriateness to the end users.

3. RESEARCH METHODOLOGY

The present study co-creates the knowledge that is related to knowledge integration that assumes the knower and known acquire the knowledge and assign meaning to the knowledge, through participating in social practices (Regeer &

Bunders, 2009). The researcher had been engaging with the AA reforms in Sri Lanka since 1999. The researcher had done 75 participatory observations (15 training programmes, 40 Master of Public Finance Management participants' reports, and 20 meetings). In addition to the researcher's observation, a sound semi-structured interview guide was developed based on the theoretical positioning (Yin, 2014; Braun & Clarke, 2013) of the research propositions. There were 32 semi-structured interviews carried out with public sector accountants who are attached to the initiating agency (i.e., ICASL and APFASL), implementing agency (i.e., PEs), divergent voice (i.e., Chartered Institute of Management Accountants), and the controlling agency (i.e., the Treasury (T)).

The researchers hold Braun and Clarke's (2013) concept of "subjectivity", which refers to the idea that what we see and understand reflects our identities and experiences. Qualitative research, therefore, does not treat subjectivity as bias; instead, it incorporates it into the analysis (Braun & Clarke, 2013), and hence, it focuses on the construction of people's accounts as meanings. As a result, the study assumes that the researcher cannot disregard the social interactions and the subjective nature of AA reforms. Thus, in the present study, the researcher co-creates the knowledge with AA reform participants.

The secondary data was gathered through the SLPSAS manual, financial regulations, and circulars. The data analysis was carried out using the theoretical deductive thematic analysis method (Braun & Clarke, 2013), relying on pattern-matching logic (Yin, 2014) through coding the field data using NVivo. The rigor of the analysis has been strengthened by triangulating the theoretical positioning, theoretical thematic analysis, and pattern matching logic, and further, by data triangulation among the initiating agency, implementing agency, and divergent voice.

4. RESULTS

The ICASL has endeavored to initiate changes in the public sector financial management, especially the introduction of AA practices to the PEs, which has created a new trend in public sector accounting in Sri Lanka (Nagendrakumar et al., 2015a, 2015b). The recent developments in the AA practices implemented in the PEs in Sri Lanka are based on mimetic practices. Although the present study attempted to raise the above fact, it was found that both the public sector and the private sector in Sri Lanka mimic the international best accounting practices. Mimicking is performed by moderating the best international accounting practices to suit the local accounting environment. Thus, the ICASL has been used to mimic the International Financial Reporting Standards/International Accounting Standards (IFRS/IAS) in the Sri Lankan private sector, known as Sri Lanka Accounting Standards, from its inception as the national accounting body. Also, the study argues that the ICASL commenced mimicking the IPSAS in the SLPSAS from 2009 (Nagendrakumar et al., 2015a) through APFASL.

The uncertain environment causes mimicking and makes one organization model the best (Scott, 2014; Tolbert & Zucker, 1996; DiMaggio & Powell,

1983). Failure to benchmark the best practices causes the failing organization to be removed from the system. The study observed that although the ICASL faced the uncertain environment in the field of accounting and auditing practices, the government of Sri Lanka did not, and hence, mimicking the AA practices has not been a pressure on the government. Thus, the uncertain environment faced by the ICASL compelled it to mimic the IFRS and IPSAS, the failure of which might have caused severe damage to ICASL's existence. It was further found that the IPSASB also faced an uncertain environment, and as a result, they too mimicked the IFRS. Thus, it was found that the IFRS has become the route origin for the accounting practices for ICASL in Sri Lanka (Nagendrakumar et al., 2015a). However, neither the Sri Lankan government nor the Treasury faced the uncertain environment before 2022, and thus, they were not compelled to mimic the IFRS or IPSAS. However, the Sri Lankan government faced an uncertain environment after it was declared as bankrupt in 2022. It sought a rescue package from the IMF. The international investors too needed the confirmation of their debt repayment. Still, neither the government of Sri Lanka nor the Treasury faced the mimetic pressure of the AA practices. Overall, it was found that the PEs are not under compulsion to legitimize the IPSAS or SLPSAS through comprehending and recognizing them as appropriate for their environment. The mimicking is the force by which developments are brought into the private and public sector accounting field in Sri Lanka (Nagendrakumar et al., 2015a). The main reasons why Sri Lanka cannot initiate its own AA practices are: a) it does not have the skilled public sector accounting experts; b) it cannot afford the cost involved in doing research and development; c) lack of institutional capacity; d) ignorance among the academia on this area, and e) public sector accountants' inability to stand as an established professional body. Hence, mimicking the best accounting practices with slight changes to suit the Sri Lankan context is inevitable. In that direction, it was found that AA reforms in Sri Lanka had been initiated blindly with many flaws since the SLPSAS is based on flawed IPSAS.

The emergence of APFASL, on the one hand, created a great opportunity for public sector accountants to be recognized as members of the national premier in accounting — ICASL, but real sense, the study argues that even though one becomes a member of the APFASL, he/she will not be a member of the ICASL. While not being a member of the ICASL, on the other hand, the study observed that all the APFASL members are instructed to follow the SLPSASs. It is argued that for a normative mechanism to be effective, the members of a profession must be fully certified and accredited (Scott, 2014; Tolbert & Zucker, 1996; DiMaggio & Powell, 1983). Contrarily, the public sector accountants are not fully certified and accredited members of the ICASL. Therefore, the study argues that they are not bound to the code of conduct of the ICASL and hence, they are not obliged to follow the pronouncements made by the ICASL.

Even if the public sector accountants are full members of the ICASL, they are also not obliged to follow the AA reforms since the code of conduct of the ICASL does not include adherence to the SLPSAS

as a mandate. Also, the study argues that even when the public sector accountants are full members of the APFASL, they are also not obliged to follow the SLPSASs since the APFASL does not have a code of conduct for its members chartered by ICASL. Thus, members are not normatively bound to adopt the AA reforms. As a result, the study criticizes that the moral governance of the AA practices — which is a significant aspect in normative pressure — lacks in the AA reforms in Sri Lanka.

The researcher observed that the ICASL is a member of the International Federation of Accountants (IFAC) and the APFASL has been accredited by the ICASL and the Chartered Institute of Public Finance Accountants, London. However, the effort to make SLPSASs morally governed has failed since the ICASL and APFASL do not have the enforcing authority to establish the AA practices in the public sector. Furthermore, even though the public sector accountants have now been made as the public sector wing of the ICASL through APFASL, no one has a membership obligation to follow SLPSASs because the public sector accountants are duty-bound only to the treasury. Overall, the study found that the AA reforms have not achieved the status of moral governance as far as the public sector accountants are concerned. Thus, the ICASL is not legally empowered to deal with matters related to the AA practices in the public sector. So, a full member of the ICASL employed in the public sector, even under circumstances that the code of conduct mandates adherence to the SLPSAS, cannot abide by, since he/she needs to follow the treasury rules only. So, the coercive pressure from the Treasury plays the superior role (not the ICASL) as far as the AA reforms are concerned. Therefore, the study argues that the public sector accountants are obliged to the government and thus until the government legalizes and the Treasury officially instructs, the AA reforms will not get started. As a result, the ICASL was under compulsion to reserve the right to establish the public sector accounting standards and guidelines for the AA practices to the government (ICASL, 2009). Thus, the AA reforms have not been legitimized because they were not legally sanctioned by the government, and hence they failed.

It was observed that almost all the respondents agreed that the deinstitutionalization of the cash accounting practices is not significant for the successful implementation of AA reforms to the PEs. This claim contradicts the theory of deinstitutionalization. The contradiction is because the cash accounting practices, as the base for all other accounting practices becomes the fundamental aspect of the change. As a result, whatever accounting practices are introduced to the PEs, they would certainly include cash accounting practices. The researcher, therefore, argues that where the change is merely an additional element that is added to the “fundamentality”, then the fundamentality need not be discontinued. If, and only if, the change is a new dimension counteracting the existing “fundamentality”, then only discontinuation of the earlier one would be a must, and without which implementation of the new change becomes difficult.

However, it is argued that the cash accounting practices have been unconsciously rooted in the government sector. Therefore, the cash accounting practices have become the culture of the government sector. The accountants believe the present accounting practices are most suitable for the public sector. They argue that to record the important assets and liabilities, they have already adopted the modified cash accounting practices. Accordingly, they avoid the implementation of AA practices.

The implementation process was not sequential. Instead, the ICASL, being outside the government financial management hierarchy, tried to introduce the AA practices to the PEs due to the membership obligation towards the IFAC. Furthermore, it has been very clearly pointed out that the appropriateness of the AA practices to the PEs was a poor decision, and it was made very clear that the ICASL, being the outsider to the government financial management hierarchy, tried to directly influence the public sector accountants by introducing the membership through APFASL. However, it was brought to light that this did not work. Moreover, although the treasury has sent circulars to adopt the accrual accounting practices, they were not binding. As a result, it is argued that the PEs were confused and were not firmly grounded enough in the AA reforms.

5. DISCUSSION OF RESULTS

The logic of appropriateness of the institution (i.e., AA practices) to the public sector and the logic of appropriateness of the institutionalization (i.e., implementation process) of the institution in PEs are significant. The study found that due to the change in the country’s status, the AA practices inevitably became suitable for the “Centre” and not for the “Peripherals”. “Centre” is an entity that earns revenue, incurs expenditure, and participates in the international money and capital market. “Peripherals” are the agents of the “Centre”, which only spend. AA practices are suitable for the “Centre” because Sri Lanka must abide by the international best accounting practices in reporting, since it participates in the international money and capital market. Thus, the logic of appropriateness of AA practices for the public sector of the entire nation is concerned; a) “Centre” — logic of appropriateness prevails, b) “Peripherals” — logic of appropriateness does not prevail. It was further found that the provincial Treasury would also become a “Peripheral” when it operates as the “expenditure department”, which is the real fact in the Sri Lankan context.

Moreover, the study found that the Sri Lankan Public Sector Accounting profession has not been successful in standing as an institutionalized setup for the AA reforms. Although the early part of the 1990s, public sector accountants stood as an institutionalized set up as the “Institute of Public Finance and Development Accountancy”. But it was brought under the umbrella of ICASL as “APFASL”, which again lost the logic of appropriateness of creating the normative pressure on the public sector accountants. The pressure to mimic IFRS/IPSAS was there for ICASL, but the Sri Lankan government sector did not face any pressure to mimic. So,

the mimic pressure lost its logic of appropriateness as far as the Sri Lankan public sector is concerned. Coercive pressure to adopt IFRS/IPSAS was there for ICASL, but the Sri Lankan government did not face the coercive pressure to implement the AA practices for the PEs. So, coercive pressure lost the logic of appropriateness as far as the Sri Lankan public sector is concerned. Therefore, the actors' interplay and negotiation at the pull stage is positive, but the same at the pull stage is negative. Overall, the AA reforms underwent twin pressures, pull and push, and it was revealed that the second negated the first, leading to no impact on AA reforms and hence failed (Nagendrakumar, 2020).

6. CONCLUSION

The cash accounting practices have been unconsciously institutionalized and have become the accounting culture of the PEs in Sri Lanka. Given the fundamental nature, it is not necessary to deinstitutionalize the cash accounting practices to introduce AA practices.

The AA reforms in PEs in Sri Lanka have failed. The major reason for the failure is the loss of logic of appropriateness of "institution" and "institutionalization". The PEs can continue with

the cash accounting practices since they are the "expenditure departments" in general. To bring the assets and liabilities to the financial statements, they could adopt modified cash accounting practices. So, the hybrid accounting practices are the most appropriate method for the PEs, which are expenditure departments. On the other hand, the PEs that are business-like could adopt AA practices.

Finally, the study concludes that the CG must adopt the AA practices since it earns revenue, incurs expenditure, and borrows locally and internationally. In addition, the lesson taught by the recent bankruptcy reveals that building the investors' trust on Sri Lankan government is significantly important for: a) existing sovereign bond holders to believe that the Sri Lankan government will start to repay their dues, and b) to attract future investors. One of the ways of building trust among investors is by adopting AA practices at the centre level of the government.

The members of the divergent voice and initiating agency were from the private sector, and the members of the implementing agency were from the public sector. The views of the private sector and the public sector differ immensely.

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