Adoption and Implementation of EPICOR Accounting System in the Two Tanzanian Local Government Authorities: A New Institutional Sociology Perspective

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Abstract

This is one of the series of papers emanating from the study of accounting practices in the Tanzanian Local Government Authorities (LGAs). In particular, it traces the adoption and implementation of EPICOR accounting system in the two Tanzanian LGAs. The paper theorises the adoption process and subsequent implementation of the system to the studied organisations using data from multiple sources, including interviews, observations, and documents. The paper finds that the adoption and implementation of EPICOR accounting system was mainly influenced by the Government and donors. This was mainly motivated by an attempt to integrate public financial management systems and to enhance budgetary and financial controls at the LGAs. However, lack of supporting environment and limited functions of the system had forced LGAs' officials to maintain it in a loosely coupling state. In the light of New

Institutional Sociology (NIS), the findings support Oliver's (1991) assertion that actors are not passive adopters of the institutional pressure. Therefore, in order to ensure effective implementation of the adopted structures and systems in the institutionalised organisations like the studied LGAs, contextual factors and their related consequences need to be considered and modeled accordingly.

Keywords: *Accounting System, EPICOR, Local Governments, NIS, Tanzania*

1.0 Introduction

This paper traces the adoption and implementation of EPICOR accounting system in the two Local Government Authorities (LGAs) in Tanzania. The initiative to introduce the accounting system in the Tanzanian public sector in general and local governments in particular was pioneered by the Government of the United Republic of Tanzania (URT) and donors through public sector reform programmes. Since Tanzanian LGAs are both financially and administratively dependent on Central Government (Allers & Ishemoi, 2010; Goddard & Mzenzi, 2015), the latter's influence on the accounting system of the former is expected. In the same vein, the influence of donors is mainly attributed to their relatively high contributions in the overall Tanzanian development programmes. For instance, funds from various donors in the Government budget for the Financial Year

(FY) 2014/2015 were about 22% of the total budget (URT, 2014). Therefore, the Government and donors regarded accounting system as an appropriate means of tracking the usage of funds allocated to the LGAs. The accounting system known as EPICOR was adopted by the Tanzanian LGAs for the first time during the FY 1999/2000; since then, its implementation has been surrounded by various challenges which question the realisation of its objectives. In this context, the current study aims to analyse the adoption and implementation of the system using New Institutional Sociology (NIS) framework.

NIS is one of three branches of the institutional theory (the other two are Old Institutional Economics and New Institutional Economics) which mainly provides explanations as to why institutionalised organisations adopt specific external structures and procedures (Ribeiro & Scapens, 2006). In particular, NIS framework suggests that institutionalised organisations adopt external structures and procedures to appear legitimate to their broader constituencies in order to ensure the attainment of resources for survival (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This orientation has been widely used in the extant literature to understand the adoption and implementation of the accounting systems in the institutionalised organisations (see for example, Brignall & Modell, 2000; Collier, 2001; Covaleski, Dirsmith, & Michelman, 1993; Hoque & Hopper, 1994; Hussain & Hoque, 2002; Modell, 2002; Tsamenyi, Cullen, & Gonzalez, 2006). For instance, Modell (2002), using NIS framework, observed that the implementation of cost allocations was mainly influenced by the interaction of external institutional pressures, intra-organisational factors and technical environment. Also, the devolved budgeting systems which were introduced in the police force in the United Kingdom were mainly influenced by the institutional environment surrounding the police force (Collier, 2001). The current paper is expected to contribute to this body of literature.

NIS has become popular as it provides macro explanations of the institutional pressures imposed on the institutionalised organisations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This view regards internal actors as inactive agents who passively adopt external structures and procedures as taken for granted features of the institutionalised organisations (Meyer & Rowan, 1977). However, this position has been criticised by contemporary researchers that it lacks empirical evidences (see for example, Brignall & Modell, 2000; Modell, 2001; Modell, 2003; Nor-Aziah & Scapens, 2007; Oliver, 1991). For instance, Oliver (1991) argues that actors are normally responding to the institutional pressures strategically. She proposed five orderly types of strategic responses which are acquiescence, compromise, avoidance, defiance, and manipulation. These responses reflect purposeful behaviour that actors may take in response to the institutional pressures. Also, Modell (2001) noted that organisational members in Norwegian health care sector were more pro-active in responding to the institutional requirements. In particular, Modell (2001) found that inter-twinning of legitimacy-seeking and efficiency-enhancing were associated with more pro-active belief for internal efficiency than mere acquiescence behaviour suggested by Oliver (1991). This analysis extends NIS theoretical framework and enhances deeper understanding of the institutionalisation processes which take place within the organisational settings (Modell, 2003). Thus, in line with the current NIS extension, this paper analyses how intra-organisational factors and technical environment interact with external institutional pressures in the implementation of EPICOR accounting system in the Tanzanian LGAs. In particular, this study highlights institutional pressures put forth by the Government and donors on the adoption and implementation of EPICOR and responses of the Councils' officials on the system.

Therefore, the overall objective of this paper is to analyse how institutionally induced accounting systems in the public sector context in emerging economies work. This is achieved through the following general question: *How the adoption and implementation of EPICOR Accounting System in the Tanzanian LGAs is influenced by the interplay between institutional pressures, technical environment, and responses of the Councils' officials?* In answering this question, the paper addresses major criticisms of NIS by examining the interaction between institutional pressures, technical environment and intra-organisational factors surrounding the adoption and implementation of the system. The rest of the paper is structured as follows: Theoretical framework informing the empirical analysis is provided in section 2. Brief details about the context of the study are presented in section 3. This part is followed by the description of research methods in section 4. The findings of the study are presented in section 5. Section 6 discusses the emerged findings in the light of theoretical framework developed earlier. Conclusion finalises the paper.

2.0 Theoretical Framework

2.1 New Institutional Sociology (NIS) and Accounting Systems

Both NIS and its extension provide macro and micro level explanations pertaining to the adoption of specific structures and procedures in organisations that operates within the institutionalised environments (Ribeiro & Scapens, 2006). It emphasises the need for organisations to appear legitimate to their stakeholders for continued resources and survival (Scapens, 2006). Thus, it is the resource motive which forces organisations to meet the expectations of the resource providers by changing its current structures and procedures. DiMaggio and Powell (1983) identify three forces which explain why institutionalised organisations adopt certain structures or procedures, namely coercive, mimetic, and normative isomorphism. *Coercive isomorphism* occurs when adoption is driven by external pressures from organs such as Government, financiers, and societal cultural expectations. Changes from *mimetic isomorphism* arises when organisations adopts structures from other organisations which are perceived to be more successful in the industry. *Normative isomorphism* comes up when the adoption of the certain structures and procedures is influenced by professional bodies. In this paper, these institutional pressures are examined in detail in the subsequent subsections using NIS theoretical framework.

The use of NIS to explain adoption and subsequent implementation of accounting systems in this study is more akin to various studies in the extant literature (see for example, Collier, 2001; Hussain & Hoque, 2002; Kholeif, Abdel-Kader, & Sherer, 2007; Quattrone & Hopper, 2005; Tsamenyi *et al*., 2006). For instance, Hussain and Hoque (2002) used NIS theoretical framework to understand factors affecting the design and use of non-financial performance measurement systems in the studied banks. In particular, Hussain and Hoque (2002) revealed several institutional forces, such as economic, bank regulations, accounting standards, competition, and bank size which influenced the studied banks to implement a particular performance measurement system. Similarly, Tsamenyi *et al*. (2006) used NIS orientation to study changes in accounting and financial information system in a Spanish electricity Company (Sevillana). They found that accounting changes brought about by the financial information system were influenced by the interactions of institutional environment, market forces and intra-organisational power relations. NIS literature, such as the study by Kholeif *et al*.(2007) also records cases of failure of the accounting systems due to its inability to conform to institutional requirements. In this context, this paper analyses the interplays between the institutional pressures, technical environment and actors' responses.

2.2 Loose Coupling of Formal Structures and Actual Practices

Meyer and Rowan (1977) maintained that institutionalised organisations tend to adopt structures and procedures from the external environment in order to confer legitimacy and obtain resources for survival purposes. They further argued that the adopted structures normally create operational uncertainties which may threaten organisational legitimacy. Therefore, in order to portray a favourable image, organisations tend to cushion their formal structures from the operational uncertainties by 'loosely coupling' them with the actual day to day activities. This approach regards 'loose coupling' as a 'taken for granted' feature of institutionalised organisations. However, in the extant literature, this position has been a subject of debate (see for example, Brignall & Modell, 2000; Modell, 2003; Moll & Hoque, 2011; Nor-Aziah & Scapens, 2007). For instance, as opposed to 'taken for granted' feature, Brignall and Modell (2000) and Oliver (1991) viewed loose coupling as an intra-organisational form of resistance. They generally argued that actors are normally decoupled formal structures from daily routines as an attempt to resist the adopted structures. Also, Modell (2003) established that loose coupling may originate from resistance and passivity of centrally located actors which is manifested when higher organs fail to put more pressures to the institutionalised organisations to effectively integrate the adopted structures in the daily operations. This paper contributes and extends the concept of nature of loose coupling in the context of public sector entities in the emerging economies.

2.3 Inter-twinning Legitimacy and Efficiency

The issue whether or not organisational legitimacy and operating efficiency can be simultaneously achieved has attracted much attention in the extant literature (Modell, 2001; Ribeiro & Scapens, 2006; Scapens, 2006). Early institutional theorists such as DiMaggio and Powell (1983) and Meyer and Rowan (1977) are of the view that institutionalised organisations adopt external structures and procedures to enhance their legitimacy without necessarily considering technical operating environment. Various researchers have applied this insight to study accounting practices in the institutionalised organisations (see for example, Abernethy & Chua, 1996; Covaleski & Dirsmith, 1988; Covaleski *et al.*, 1993; Laine, 2009; Tuttle & Dillard, 2007). For instance, Tuttle and Dillard (2007) have observed that the exclusion of non-financial accounting topics in accounting research was a response to institutional pressure, rather than the outcome of competitive forces as efficiency criterion. However, viewing legitimacy and efficiency as two distinct dichotomies has been heavily criticised by various scholars (see for example, Basu, Dirsmith, & Gupta, 1999; Collier, 2001; Hopper & Major, 2007; Modell, 2001, 2002; Okike & Adegbite, 2012; Ribeiro & Scapens, 2006). These studies have generally established that institutionalised organisations can achieve both external legitimacy and technical efficiency. For instance, Järvinen (2006) found that the institutional pressures and an efficiency criterion were the driving forces behind the adoption of management accounting techniques in two Finish University Hospital. Similarly, Modell (2001) noted that the senior managers in the Norwegian health care sector had legitimacy seeking and efficiency enhancing views regarding the adoption of the Diagnosis Related Group (DRG) based performance measurement. Interestingly, Modell (2001) found that legitimacy and efficiency were more closely interlinked than it has been suggested in other studies. In a similar vein, this paper presents a case on the simultaneous achievement of legitimacy and efficiency criteria associated with the adoption of accounting system in the Tanzanian LGAs.

3.0 Context of the Study

This section presents the context of the study discussing the Tanzanian LGAs in general and the introduction of accounting system into the Tanzanian public sector overall. The Tanzanian LGAs received their establishment mandate from Article 145 (1) & (2) and Article 146 (1) & (2) of the Constitution of the United Republic of Tanzania (URT) of 1977. The Tanzanian LGA operations are guided by a number of Acts of Parliament including the principal one which include the Local Government (District Authorities) Act No. 7 of 1982 (as amended) and the Local Government (Urban Authorities) Act No. 8 of 1982 (as amended). Depending on the size, location, and population, there are four categories of LGAs in Tanzania, namely, city councils, municipal councils, district councils, and town councils. By the end of May, 2014, there were 163 LGAs in the country comprising of five (5) city councils, 18 municipal councils, 130 district councils, and ten (10) town councils. Of these, 23 LGAs were formed during the FY 2013/14 and all were district councils.

All Tanzanian LGAs fall under two main structures; administrative and political structures. Administratively, all LGAs are headed by executive director who is the overall in charge of daily operations of the Council through functional departments such as agriculture and livestock, education, health and sanitation, road and works, urban planning development, and finance. Politically, all LGAs fall under the Full Council made up of the councillors representing their constituencies located within the Council. In the government setting, all LGAs in the country report to the parent ministry (Prime Ministers' Office, Regional Administration and Local Government (PMO-RALG)) through Regional Administrative Secretaries (RASs) located in each region. Accounting functions in the all Tanzanian LGAs are under Council Treasurer (Head of Finance Department) and principally governed by the Local Government Finances Act No. 9 of 1982 (as amended). The LGAs' accounting arrangements are elaborated in the Local Authority Financial Memorandum (LAFM) and the detailed accounting procedures are specified in the Local Authority Accounting Manual (LAAM). Accounting system is operating within these accounting arrangements existing in all Tanzanian LGAs.

Processes to adopt and implement accounting system in the Tanzanian public sector in general started in 1998 when the office of the Accountant General's Department (ACGEN) in the Treasury started Government Accounts Development Project through Public Financial Management Reform Project (PFMRP). The project was financed through three main sources, namely Government of Tanzania (GoT), bi-lateral project fund from African Development Bank (AfDB) and World Bank (WB) as well as pooled funding mechanism (Basket Fund) from the Department of Foreign and International Development (DFID), Canadian International Development Agency (CIDA), Denmark, Ireland and *Kreditanstalt für Wiederaufbau (KFW)* ("Reconstruction Credit Institute"). The total project funds were contributed by the Government of Tanzania, Project fund and Basket fund in the ratio of 48.4%, 11.9% and 39.7% respectively (URT, 2013). The overall aim of the project was to control public spending; accounting system was one of the sub-components of the project. In the course of execution of the project, ACGEN formed a task force to search for suitable accounting system for the Government entities. The tender was advertised and Soft-Tech Group, a leading IT firm in the country, bid for and won. The Company offered EPICOR accounting software which is from EPICOR Software Corporation based in the United States of America (USA). Hailing the decision to select Soft-Tech group, the then Accountant General remarked;

> *We were not willing to compromise on our requirements. We wanted the best of both worlds-the best, most appropriate solution at the best*

> *price. The Soft-Tech Group and EPICOR partnership offered us value for money and peace of mind.*

In 1999, Soft-Tech Group and a team of 20 accountants from ACGEN set up an EPICOR enterprise financials pilot. The pilot was targeted on the management of funds and cash flow, controlling the resource allocation, commitments, payments and bank reconciliation. The EPICOR modules implemented during the pilot were general ledger, accounts payable, accounts receivable, cash management, purchase order and multi-currency. The pilot phase was undertaken for a period of six months and comprised the Ministry of Finance (Treasury) and other 11 ministries. The system ran on a Compaq 333MHz Pentium II, 1GB RAM, NT Server on SQL Server 6.5. The server was located at the Treasury and was connected with the 11 remote sites over the Wireless Radio Network (WRN). Both the consultant and the Government deemed the pilot phase a success. As a result, the system was rolled over to the remaining 36 Ministries, Departments and Agencies (MDAs) in the FY 1999/2000. Thus, at the end of 2000, all 47 MDAs at the Central Government had the system in place and operational.

Following successful implementation of the system at the Central Government, the Government and donors decided to introduce it in the LGAs beginning in the FY 1999/2000. The Government deemed it necessary to use the same accounting system in the

LGAs in order to minimise investment cost and to strengthen relationships and understanding already established between the Government and the Consultant. In the context of public sector reform initiatives, the introduction of EPICOR accounting system in the LGAs was part of the 'downstream reform component' of the PFMRP which focused on expenditure management at local levels and 'strengthening accountability component of the Local Government Reform Programme (LGRP). In this regard, the process of adopting the accounting system in the LGAs was spearheaded by two parallel reform programmes (PFMRP and LGRP). This plan was prompted by many factors, such as improving financial management at the Councils, enhancing financial integration and comparability among the public sector entities, and the Government intention to control overall public expenditure (URT, 2008). To ensure smooth operation of the system in the LGAs, the Zonal Reform Teams (ZRTs) were established to provide technical support and in-house training to all Councils.These teams were located in six regions, namely Arusha, Dar es Salaam, Dodoma, Mbeya, Mtwara, and Mwanza. Each team included Zonal Application System Specialists and Zonal Technical System Specialists. A more detailed explanation on the implementation of the system in the LGAs is offered in the Section 5. Next section presents research methods employed in this study.

4.0 Research Methods

This research was based on a longitudinal case study conducted in three years apart (2010, 2011, and 2014) in two Tanzanian LGAs (LGA A and LGA B)[2]. The longitudinal approach allowed to study and analyse institutional pressures in the studied organisations (Dacin, Goodstein, & Scott, 2002); it also helped to understand the adoption process as unfolding (Kasurinen, 2002). The approach also enabled the researcher to consider the interactions between external factors and intra-organisational specific issues (Tsamenyi *et al*., 2006). In order to clearly articulate issues involved in the adoption and implementation of the system, all selected LGAs were involved in using the system in all the three phases. Additionally, the study was extended to the parent ministry in order to understand the overall adoption and implementation process across all LGAs.

The study combined documentary sources, non-participant observations, and semi-structured interviews, in analysing the adoption and subsequent implementation of the accounting systems in the studied LGAs. The main documentary sources used include Parliamentary Acts, Policy Documents, LAAM, LAFM, and EPICOR operational manuals. Non-participant observation was carried out by researcher in three different periods. The first period covered seven months from July 2010 to January 2011 while the second was from August to November 2011. The third and last observation was made from September to December 2014. The observation allowed the analysis of the adequacy of the system and the manner in which it was run. Main issues noted

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[2] The actual names of the LGAs are withheld for confidential reasons.

during the observations were taken and expanded later and where applicable, clarifications were sought. The data from documents reviewed and observations made were used to inform the interviews conducted. In total, 21 semi-structured interviews with the LGAs and PMO-RALG's officials were conducted. The selected respondents were those who were directly involved in the implementation and supervision of the accounting system. Table 1 below shows the profile of the interviewees.

Table 1: Profile of Respondents

Interviewees	**LGA A**	**LGA B**	**Total**
Councils' Directors	1	1	2
Councils' Treasurers	1	1	2
Councils' Internal Auditors	1	1	2
Revenue Accountants	1	1	2
Final Accounts Accountants	1	1	2
Expenditure Accountants	1	1	2
Councils' Planning Officers	2	1	3
Head of EPICOR Section at the Councils	1	1	2
EPICOR system Specialists	1	1	2
Other Officials from PMO-RALG	N/A	N/A	2
Total	**10**	**9**	**21**

The longest interview took about 70 minutes while the shortest one lasted for about 40 minutes. The interviews focused on the issues related to the adoption and implementation of the system. For instance, during the interviews, questions such as 'what were the challenges associated with the implementation of the system' were asked. To ensure validity, cross interviews were undertaken where information from one respondent was checked against the other and differences (if any) were noted and integrated in the findings.

The triangulation of documentary sources, observation, and interview data took three stages. First, documentary sources were used to understand the context under which accounting system was adopted and implemented. The main issues related to the adoption and implementation of the system was noted for further analysis during observation and interviews. Second, information obtained from the reviewed documents was compared with actual implementation of the system in the studied LGAs during the observation. The important issues were highlighted and their implications were investigated. Third, interviews were conducted to seek clarification on the issues related to the adoption and implementation of the system. The responses of the respondents were analysed and when there were inconsistencies, additional interviews and documentary sources were consulted. The output of these three stages was the emergence of several issues which explain the adoption and implementation of EPICOR accounting system in the Tanzanian LGAs. NIS was then consulted to make sense of the emerged findings.

5.0 Findings

The findings suggest that the adoption and implementation of EPICOR accounting system in the Tanzanian LGAs can be loosely divided into three main phases. Therefore, this section presents issues which emerge under each of these phases.

5.1 Phase 1: 1998-2004

Computerised accounting system (EPICOR) was introduced in the Tanzanian LGAs during the FY 1999/2000 in which 38 LGAs were used as pilot cases. EPICOR Version 7.2 with 19 characters or Chart of Accounts was installed to the participating LGAs as stand-alone. The server was located at the Treasury and was connected with the 38 remote sites over the Wireless Radio Network. The overall administration of the system at the Government level was vested to the Accountant General Department (ACGEN) in the Treasury. On the other hand, the Consultant (Soft-Tech) was responsible for installation and maintenance of the system to all participating Councils. In order to ensure effective implementation of the system, training was provided to four users from each LGA. Initially, the technical support was provided by consultant (Soft-Tech) and subsequently (from 2003 onwards) it was undertaken by the technical teams which were introduced at ACGENs offices and in the five zones.

During this period, EPICOR accounting package had mainly covered general ledger, accounts receivable, and payment voucher. Despite the few notable achievements, such as improvement in financial reporting practices and introduction of computerised Medium Term Expenditure Framework (MTEF) which incorporated plans and budgets for LGAs, the overall implementation of the system in this period was encircled by many challenges. Some of these challenges included limited functions of the system, inadequate competence of local government staff to effectively run the system, unreliability of power supply, frequent disruption of the system network, and lack of required support from the LGAs' officials. As a result, at the end of 2004, the implementation of the system in the participating LGAs was very low and the manual system was predominantly used. These prompted the Government and donors to introduce the second phase.

5.2 Phase 2: 2004-2008

In this phase, the implementation of the system was rolled out to 47 LGAs. In order to incorporate more functions and increase system efficiency, a latest version (by then), EPICOR Version 7.3.5 (with 28 Chart of Accounts) was adopted. ACGEN was still a custodian of the system and in order to address the competence challenge, two system users from each LGA were selected for training. Together with the training, EPICOR implementation manual was also given as a guide. However, actual implementation of the system at Council level took very long time after the training. In some Councils, for instance, implementation of the system started one year after the training. This had affected effective implementation of the system at the LGA level.

In terms of supervision, day to day administration of the system was rests to the Councils. The Councils were responsible for the installation costs and system maintenance given that a server that control the system was located in each of the Councils. As one accountant from LGA B admitted, *"In case of technical problem, we used to phone them [system experts] and they advised us what to do. When the problem persisted, we had to pay transport costs and other allowances for them to come for a help".* As a result, there were many instances where the system failed to operate for number of days waiting for the system expert from the zonal level. These challenges together with the fact that majority of Councils had no sufficient internally generated funds to effectively finance system maintenance (Goddard & Mzenzi, 2015), led the prevalent application of manual system. Similarly, as was the case during the pilot phase, the decision to switch back to manual was also prompted by the unreliable power supply and the disruption of the system network. As a result, only very few LGAs effectively used the system. Most of the interviewees described the system as "*dead body*".

As an attempt to encourage Councils investing in the effective implementation of the system, evidence that the system is being or has been implemented properly was included as one of the performance measures in the formula based grants system to the LGAs commonly known as Local Government Capital and Development Grants (LGCDG) system. The system which was introduced by the Government and donors was used for allocation of discretionary grants to the LGAs in areas such as education, health, agriculture, roads, and water (PMO-RALG, 2006). The aim of the system was to award LGAs which had performed well and to sanction those which are not performing. In terms of EPICOR accounting system, the manual for the assessment of Councils against Minimum Conditions (MCs) and Performance Measures (PMs) criteria categorically stated that:

> *Review the status of Epicor implementation. If the Council is supposed to have completed implementation then: If parallel system discarded-score 5; If all financial reports are produced from the system-score 2; and If the council is implementing or has not started implementing-score 3…* (URT, 2006; p.21).

Despite the fact that the overall assessment exercise is challenging and can be generally described as 'rhetoric' (Gaspar & Mkasiwa, 2014, 2015), presence of the EPICOR as one of the performance measures had forced the Councils to superficially implement the system. This is attributed to the fact that discretionary grants contributed to the substantial proportion of the funds allocated to the Councils (see Mzenzi, 2013). Therefore, like other MCs and PMs, the Councils' officials were keen to ensure that they obtained required scores for grants purpose.

Also, during this period, the parent ministry was undergoing various reform programmes under LGRP II. For instance, the division responsible for supporting the system (ICT) was created and properly staffed at the Ministerial level. Also, ICT specialists were recruited through Institutional Support Programme for each RS;Capacity Building Grant (CBG) was partly used for retooling and training of LGAs on system. In June 2008, there were 12 Zonal Application System Specialists and eight Zonal Technical System Specialists saving 133 LGAs scattered all over the country. Despite these efforts, in June 2008, they were only 82 (62%) LGAs using the system at different levels. This, as the findings suggest, was mainly caused by three challenges. Firstly, there were very few LGAs with sufficient internal resources to effectively finance costs related to the system. In fact, there were variations in terms of the implementation of the system across Councils depending on the status of financial resources. Those with relatively higher own sources of income, especially the urban councils, were advanced in terms of implementation as opposed to the most district councils in remote areas. The former generally tend to accrue substantial own sources of income as opposed to the latter; these income are normally obtained from sources such as property taxes, and city service and hotel levies. Commenting on this situation, one interviewee from LGA B stated that *"Majority of the Councils struggled with the implementation of the system. They did not have sufficient own revenue to effectively run the system".*

Secondly, there were inadequate controls in the system. It failed to effectively control Councils' commitments and expenditures. As one accountant from LGA A commented;

> *The major problem of the old version [EPICOR 7.3.5] was that...It was not robust. There were no mechanisms to control expenditure over and above the budgeted ones. The system allowed more than what you have budgeted for.*

Also, all budgeted allocations were posted into the system by the Councils' officials themselves and they were at liberty to change any time without or with minimum scrutiny from the external organs. In this regard, one accounting staff from LGA A said that they frequently changed the allocations of funds from one item to another and sometime to the extent of even transferring funds from one Department to finance expenditure of another. Interferences from higher organs justified the practice:

> *It is very difficult to comply with budget. We have so many directives from the top and we are obliged to follow them. So if we have expenditures which were not budgeted for, we are forced to look for budgeted items in the system [EPICOR] which resemble with the item in question and put them there"....*(Accountant, LGA A)

In extreme cases, a new expenditure code would be created during the budget implementation without any approval of Councils' higher organs. Surprisingly, there was neither systematic system audit nor surprise check to examine whether the system is operating as planned throughout the year.

Thirdly, as was in the pilot phase, the system had limited functions. As at the end of the second phase, the system could only managed to generate payment vouchers, general ledgers, accounts receivable, cash management, accounts payable, and individual trial balance. In terms of reports, the system managed to generate monthly and quarterly progress reports and bank reconciliation statements. There were only few LGAs which managed to generate cheque list from the system. As in the pilot phase, the system neither produced final accounts nor managed to generate important documents such as Local Purchase Order (LPO). Because of these challenges, the Government through the parent ministry, ACGEN and Consultant (Soft-Tech Group) decided to embark on what was deemed to be the lasting solution (third phase) which would ensure effective financial management and controls in the Tanzanian LGAs.

5.3 Phase 3: 2008-2014

During phase three, the system was rolled out to all LGAs in the country. Actual implementation of the system in this phase involved various changes. Firstly, the EPICOR version 7.3.5 which was used in the second phase was upgraded to Version 9.05. As compared to the old system, the new system was able to generate cheque and some items were configured to comply with International Public Sector Accounting Standards (IPSAS). System controls were also enhanced and all budget items were entered and controlled by the responsible officials at the parent ministry in Dodoma where the central server is maintained. The Councils were only allowed to enter receipts for income and expenditure during the implementation period. As one interviewee commented, *"This arrangement is very good. It strengthens financial discipline and controls as it is not possible to spend more than allocated funds in the respective budget items"*. In terms of system administration, in September 2010, the custodianship and the overall administration of the system was shifted from ACGEN to the parent ministry where a steering committee was to oversee implementation of the system at LGAs was formed. The committee had representatives from ACGEN, National Audit Office of Tanzania (NAOT), Public Procurement Regulatory Authority (PPRA) and four Divisions from PMO-RALG and Directorate of Information and Communication Technology (DICT) was selected as a secretariat.

In this phase, decision was made to centralise the system infrastructure in Dodoma and connecting LGAs via NICT Broadband Backbone Infrastructure provided by Tanzania Telecommunication Company Limited (TTCL). Rationalising this decision, one interviewee argued that the decision to have one central server was taken to reduce maintenance costs and have controls in the system. To ensure effective implementation of the system, as was done in the previous two phases, training to two system users for each Council was conducted and operational manual and other supporting documents were given. In addition, each Council was given four laptops with the system installed on each of them. This was done to all 134 LGAs during the FY 2011/12. Further, in order to allow smooth implementation of the system in this phase, the LGAs were forced to maintain a maximum of six bank accounts from average of 32 bank accounts. The six bank accounts were for own source, Personnel Emoluments (PE), Other Charges (OC), Development (Dev), Miscellaneous deposits and Road Fund. At the end of the fieldwork in May 2014, 140 out of 163 LGAs had the system in place and operational. Those without the system were the new LGAs formed during the FY 2013/14 and there were on-going efforts to connect them with the system.

As in the other two preceding phases, the effective implementation of the system in this phase was also surrounded by a number of challenges. Firstly, the system had experienced a frequent network problem. One interviewee pointed out that;

> *The system network is a major obstacle. It takes more time to process very few transactions. In most cases, it takes about 15 minutes to process one voucher. In extreme cases, you may be able to produce only two vouchers for the whole day.*

In an attempt to address this problem, the system secretariat distributed modem to all LGAs so as to connect the laptops to wireless networks. Despite of this effort, network was still unreliable and this forced some LGAs requesting to be connected to the national fibre network system on the belief that it would improve the internet connection and enhance functioning of the system. However, the thrust of the matter was the high cost associated with the connection, which could not be easily afforded by all LGAs.

Secondly, the effective implementation of the EPICOR in this phase was constrained by the unreliability of power supply. As one system user commented, *"our electricity is very unreliable and sometimes it takes us the whole week without power"*. In order to counteract this problem, some LGAs, especially those with relatively higher own sources of income, managed to buy standby electric generators. However, in most cases, absence of power forced officials to use manual system. Given the circumstance, the use of manual system was viewed appropriate. "*In order to minimise claims from our stakeholders, especially suppliers, we normally switch to the manual system whenever there is no power"* (Expenditure Accountant, LGA B).

Also, the effective implementation of the system was limited by voluminous of the repetitive procedures needed during the processing of transactions. For instance, there were about 15 stages to be completed before payment voucher is printed and in some cases, 28 stages were required when processing payment voucher which involved Local Purchase Order (LPO). Despite the fact these stages were designed to strengthen system controls, most of the interviewees described them as *"too procedural, time consuming, and inappropriate"* to cope with the unreliable power supply and slow system network existing at the LGAs.

The major concern to most of the interviewees was the technical function of the system. At the end of (May 2014, the system was still unable to perform various functions. Despite having strong emphasis on the users that the system could help them in a number of accounting functions, the system was mainly used to generate payment vouchers, monthly progress reports, and performing bank reconciliations. In particular, the system had neither had asset management nor procurement modules, the situation which forced the use of manual in these areas. Also, the system had not yet been configured to generate IPSAS-accrual compliant final accounts and mainly it was used as cash commitment control mechanism. As recent audit report of the CAG (2015) stated:

> *EPICOR does not align with International Public Sector Accounting Standards (IPSAS)-accrual basis of accounting used by LGAs. The EPICOR accounting package operates as a cash-commitment control tool which captures cash transactions only and ignores the accrual*

> *transactions. Therefore, to finalise the Council's final accounts, manual adjustments and consolidation of accounts have to be done. (pp. xxviii-xxix).*

It should further be noted that the system was meant to be integrated with other systems such as Planning and Reporting (PLAN-REP); this a planning and budgeting database programme which is used by all LGAs for the preparation of the budgets. This was yet to happen. Similarly, the system was not yet been linked with the Comprehensive Council Health Plan (CCHP), which a planning instrument for all health related activities conducted at the LGA level. Despite all these, the expression *"Integrated Financial Management System (IFMS)"* was constantly repeated by the interviewees and in various documents and reports. The final report of LGRP II, for example, highlighted that "*rolling out the EPICOR-based IFMS system was a major priority for the LGRP Finance Team"* (URT, 2008, p. 156). Also, in a speech to mark the beginning of the implementation of the system to the LGAs, the then Accountant General pointed out that "*the Government will make sure that IFMS using EPICOR accounting package is rolled out to all Councils to ensure sound financial management*". Arguably, the word IFMS as related with the implementation of the EPICOR in the Tanzanian LGAs was full of 'rhetoric' than reality.

6.0 Adoption and Implementation of Epicor Accounting System-Theoretical View

This section offers analysis of the adoption and implementation of the EPICOR accounting system in the Tanzanian LGAs using NIS theoretical framework developed earlier in the paper. Specifically, the section analyses institutional pressures on the adoption and implementation of the system, the emerged loose-coupling phenomenon, and inter-twinning legitimacy and efficiency.

6.1 Institutional Pressures on the Adoption and Implementation of EPICOR

DiMaggio and Powell (1983) identified three forces which normally face institutionalised organisations. These are coercive, mimetic, and normative forces. In this study, the adoption of the EPICOR accounting system was characterised by the pressure from the Government and donors using mainly the ACGEN and later PMO-RALG to spearhead the process. Because LGAs lacked both political and financial autonomy (Goddard & Mzenzi, 2015), there was no evidence to suggest that they imitated the system as best practices. In a similar vein, there was no influence of the professional bodies such as National Board of Accountants and Auditors (NBAA) and Association of Local Authorities in Tanzania (ALAT) on the adoption of the accounting system in the LGAs. DiMaggio and Powell (1983) further argued that subsidiaries normally adopt accounting systems that are compatible with the parent company. This was the case in the

Tanzanian LGAs in that they adopted the same system implemented by the Central Government. This was deemed necessary in order to harmonise financial management and reporting mechanisms across Central Government, Executive Agencies and LGAs.

In order to ensure its implementation, the Government and donors included the system as one of the performance indicators which were used to determine the amount of discretionary grants to be allocated to the LGAs under LGCDG System. Bonuses, in terms of additional grants were given to the LGAs which implement the system fully and penalty in terms of reduced grants was applied to either those with no system or with limited applications. This forced the LGAs' officials to adopt and implement the system superficially for grant purposes. As a result, the formal EPICOR accounting system was used as a legitimating device to the Government and donors and the manual system was informally and predominantly used. This tendency brought about decoupling of the system with actual practices.

6.2 Loose Coupling/Decoupling of EPICOR System and Actual Practices

As discussed at greater length in this paper, the effective implementation of EPICOR accounting system in the studied LGAs was surrounded several challenges, the prime among them were unreliability of power supply, low network connectivity, and limited functions of the system. As a result, the system was mainly decoupled/loosely coupled with the actual practices at the Council level. As the findings indicate, loose coupling of the system observed in this study originated from three (3) main sources. First, and probably the most important reason provided by the Councils' officials, was the lack of supporting environment for effective implementation of the system. As discussed earlier in this paper, power outage and low network connectivity forced the Councils' officials to switch to the manual system:

> *Sometimes, power is not available for about a week and we don't have electric generators. So, what to do? In order to minimise complaints from our local communities and suppliers, we switch back to manual…*(Head of EPICOR Section, LGA A).

The fact that decision to buy stand-by generator and connected to the national fibre network system which would solve this problem was left to the Councils but most of them had no sufficient funds for these investments, reinforced the above tendency.

Second, the system was unable to undertake a number of accounting functions it was envisaged to perform. For instance, at the end of May 2014, the system was not able to generate consolidated trial balance as well as Fixed Asset Register. Also, the system was not configured to generate a number of source documents such as LPOs and these were prepared manually.

Related to these problems is the fact that even the latest version of the system failed to produce a complete set of final accounts let alone those which comply with IPSAS. As one accountant stated. "*You know, our system is not a complete accounting system. It cannot produce a complete set of final accounts".* In relation to IPSAS, another accountant further commented,*"our system is not configured to produce IPSAS-compliant. We normally export the records to the Excel [MS Excel] and then we prepare the final accounts as per requirements…* (Final Accounts' Accountant, LGA B).

The above explanations suggest that decoupling of EPICOR accounting system was necessary in order to enable the LGAs producing the required IPSAS' compliant financial statements. Thus, as the system was unable to undertake some of the important functions, it was automatically decoupled to compensate for the deficiencies and allow the smooth undertaking of the Councils' operations.

Third, maintenance of the system in a loosely coupled state was also contributed, though marginally, by the laxity of the LGAs' higher organs. In fact, the findings show that there was no effective and consistent monitoring of the implementation of the system at the LGA level. As frequently pointed out by interviewees, "*there were neither system audit nor surprise check*" to ensure that the system is functioning as intended throughout the year. Regarding this, one internal auditor stated clearly, "*I don't examine the system [EPICOR]. I don't have even the password which would allow me to check what is going on in the system*"… (Internal Auditor, LGA A).

The only time when the system came under minimum scrutiny was at the end of financial year, and this was carried out by the external auditors. And as the findings suggest, this is the time when the system was effectively implemented in order to minimise maximum pressure from the external auditors. This supports descriptions offered in the institutional theory literature that loose coupling may originate from regulatory passivity (see Modell, 2003).

Furthermore, the current study suggests that un-supportive environment for the effective implementation of the system was also a potential source of loose coupling. As discussed earlier, the absence of electric power and low network connectivity necessitated usage of parallel system. Decoupling of the system was also caused by its technical deficiencies. Since the system was unable to undertake some important functions, LGAs' officials were forced to use manual system to counteract the limited nature of the system. It can therefore be argued that loose coupling phenomenon observed in this study was mainly caused by the reactions of the Councils' officials to solve operational uncertainties caused by the introduced accounting system. In particular, as observed by Moll and Hoque (2011) in the Australian University, loose coupling of the accounting system found in the Tanzanian LGAs was mainly caused by the interaction between the environment surrounding the adoption and implementation of the system and responses of the Councils' officials on the same. This provides further evidence that actors are normally responding to the institutional pressures strategically as hypothesized by Oliver (1991).

6.3 Inter-twinning Legitimacy and Efficiency of EPICOR in the LGAs

Contrary to early NIS formulation, the findings of this study suggest that institutionalised organisations can simultaneously achieve legitimacy-seeking and efficiency-enhancing criteria. Because Tanzanian LGAs generally face financial constraints (Goddard & Mzenzi, 2015), there is no debate about the need to legitimize their operations to the various fund providers (see also, Gaspar & Mkasiwa, 2014, 2015). In this regard, the Tanzanian LGAs are usually implementing a number of initiatives in order to appear legitimate to the Government and donors. Adoption of EPICOR accounting system is one of such initiatives. However, apart from bringing legitimacy, adoption of EPICOR accounting system also resulted in organisational efficiency. Referring to the efficiency brought about by the system, one accountant said:

> *The system is still in its infant stage, however, it has somehow strengthened financial discipline at the Council level. You know, in the past, we used to spend whatever is available in the bank accounts. There were no attempts to match expenditure and*

> *budget allocations. However, with the system, and especially the last version [EPICOR 9.05], you cannot spend more than what you have allocated for. Therefore, as compared to the past, there is very high financial discipline at the moment…* (Revenue Accountant, LGA B).

Also, in terms of operations, despite the fact that the system was yet to generate a complete set of final accounts, it somehow simplified their preparation. For instance, following the implementation of the system, the time taken to prepare final accounts had generally reduced from nearly three months to less than three weeks. Additionally, currently, there is a substantial improvement in terms of financial record keeping and controls. As all records are centrally managed at the PMO-RALG in Dodoma where the central server is maintained, there were evidences which suggest that quality of financial records is improving and financial malpractices which were regarded as a 'norm' to the Councils tend to decline. Using the overall audit opinion as an indicator, for example, number of LGAs which obtained unqualified (clean) opinion increased from 66 (49%) in the FY 2009/10 to 104 (78%) in the FY 2011/12 and within the same period, number of LGAs with adverse opinion reduced from 4 (3%) to 0 (0%). Notwithstanding the quality and nature of external auditing of the Tanzanian LGAs (Mzenzi & Gaspar, 2015), implementation of the accounting system has played a significant role in the overall improvement of the audit opinion. In fact, the system, especially the latest version, helped to minimise unauthorised and un-budgeted expenditures, two major problems which were prevalent in the Councils (see Goddard & Mzenzi, 2015). In the main, these explanations suggest that despite the noted challenges, the adopted accounting system has marginally contributed to the operational efficiency in the studied LGAs. It can therefore be argued that the system has achieved organisational legitimacy and some limited technical efficiency.

7.0 Conclusion

This study reported the adoption and implementation of EPICOR accounting system in two (2) Tanzanian LGAs using NIS theoretical framework. It used data from multiple sources including interviews, observations, and documents to theorise the adoption and implementation of the system. In particular, the study examined coercive pressures put forth by the Government of Tanzania and donors on the adoption and implementation of the system as well as the reactions of the Councils' officials on the system. As discussed in detail in this paper, it is the interplay between the institutional pressures and operating environment at the Councils which shaped the actual implementation of the system. The analysis shows that the system was coercively introduced into the LGAs and the existing inherent problems such as unreliable electric power supply, low network connectivity, inability of the system to perform some important functions, and inadequate system monitoring, were partly responsible for its under-utilisation. As a result, the system was decoupled from the actual daily operations and manual system continued to be predominantly used.

Despite the fact that the system was maintained in a loosely coupling state, the findings show that it marginally contributed to the efficiency undertaking of the accounting functions. Specifically, the system reduced time used to prepare the LGAs' final accounts from three months to nearly three weeks. Additionally, it enhanced comparability and reliability of the financial information reported across all LGAs. More importantly, the system strengthened the financial systems at the Council level through controlling unauthorized expenditures. This is partly observed through the improved audit opinion of the Tanzanian LGAs overall (Mzenzi & Gaspar, 2015). These results partly support the argument that organisational legitimacy and technical efficiency should not be viewed as two strict dichotomies (Collier, 2001; Hopper & Major, 2007; Järvinen, 2006). However, the findings presented in this paper are at odd with Modell (2001) who found that legitimacy-seeking and efficiency-enhancing in the Norwegian health care sector were more closely intertwined. The marginal operating efficiency noted in the Tanzanian LGAs as a result of adoption of the accounting system occurred automatically in the course of its implementation. Given inherent problems existing at the LGAs, most of the Councils' officials did not believe that the system would result in operating efficiency. Instead, they regarded a system as additional burden which would increase complaints from the LGAs' suppliers.

As opposed to early NIS theorists who regarded actors within the institutionalised organisations as passive adopters of the institutional pressures, the findings presented in this study support Oliver's (1991) assertion that actors are strategic in their responses to the institutional pressures. In fact, as established by the contemporary NIS researchers (see for example, Nor-Aziah & Scapens, 2007; Ribeiro & Scapens, 2006), the study observed that Councils' officials, especially those involved in the running of the system, reacted purposely and sometime pro-actively to decouple the system from daily routines in order to counteract system implementation challenges. Because the internal reactions represent responses to the institutional pressures, they are not only providing a proof that actors are strategic in their responses (Oliver, 1991), but are also contributing to the analysis of interplay between the micro (internal) and macro (external) organisational arrangements (Moll & Hoque, 2011). Therefore, this is one of the few studies in the context of emerging economies which recognizes the role of the internal actors in the institutionalisation process. Similarly, this study represents an attempt to open a 'black box' (Ribeiro & Scapens, 2006), a path which is seldom taken by institutional theorists. It is important to note that the responses of the officials on the introduced system across the studied LGAs were the same. Given the homogeneity of the Tanzanian LGAs, anecdotal evidence suggests that officials of some LGAs had somewhat similar responses. However, further research is needed to establish whether actors across other public sector entities (such as Government Ministries, Departments and

Agencies) in which the system was introduced acted in the same manner as those in the LGAs. This would provide further evidence on the issues surrounding the implementation of the accounting system in other contexts.

In the context of emerging economies overall, the findings of this study provide empirical evidence to Hopper, Tsamenyi, Uddin, and Wickramasinghe (2009) framework of management accounting in less developed countries. In particular, Hopper *et al*. (2009) argued that the application of management accounting systems (MAS) was in existence in early traditional societies of less developed countries, and the advent of other modes of production such as colonialism and state capitalism forced traditional societies to adopt the modern MASs from their colonial master and/or their financial sponsors. The imported management accounting practices largely fail to take into account local contexts, and, as a result, they produced negative consequences (see also, Tambulasi, 2007; Uddin & Hopper, 2003; Uddin & Tsamenyi, 2005). In the context of this study, the Tanzanian LGAs coercively adopted EPICOR accounting system which was mainly spearheaded by donors without having sufficient and appropriate supporting environment. As a result, as Hopper *et al*. (2009) argued, the imported accounting system created operational uncertainties which forced the Councils' officials to maintain the system in a loosely coupling state in order to continue with normal operations. Therefore, it is paramount for the public sector reformers in the emerging economies to consider contextual factors before advocating appropriate financial management reforms.

At a practical level, the findings suggest that the system to some extent strengthened financial controls within the Councils. However, it could further strengthen financial controls by addressing its implementation challenges. Some of these challenges include unreliability of power supply, low network connectivity, and limited functions of the system. Similarly, enhancing financial autonomy of the LGAs could potentially enable them to finance some system operating costs. The fact that the system has proved to be an effective mechanism for enhancing financial management at the Council level, it is imperative for the Government (and PMO-RALG in particular) to ensure that it is timely rolled over to the remaining 23 LGAs. Moreover, since the system is intended to be integrated with other systems, it is appropriate time for the Government and donors to ensure that the envisaged integration is achieved. This has potential to minimise duplication of work and facilitate efficient retrieval of information across various systems.

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