

EGPA STUDY GROUP ON PUBLIC SECTOR FINANCIAL MANAGEMENT

Objectives and planning 2007-2009

In this document the EGPA Study Group on Public Sector Financial Management defines its research strategy and outlines a preliminary planning of its: a) aims and relative research activities in the three-year period 2007-2009, b) meeting strategy and c) publication strategy.

1. CONTEXT AND THEORETICAL FRAMEWORK OF REFERENCE

During the past decades, Public Administrations (PAs) have undergone a profound restructuring process in order to renew organisational, managerial and accounting aspects. This has been an international phenomenon, as the reflection on rationalisation and evaluation of public intervention has regarded, and still today continues to involve, many of the so-called western countries.

Certainly, in western countries, the necessity for reform of the “public machine” was particularly felt in consideration of the persistent lack of efficiency and effectiveness that characterised its activity and by the strong impulse induced by some changes in the socio-economic environment. The crisis of the model of the welfare state, the need to pursue policies for balancing public budget, the demand for a growing quantity and quality of services supplied, and the demand for public participation are some of the signals of the need to find accounting tools suitable for adequately answering these needs. Nevertheless, public financial management systems of western countries are still characterised by a significant heterogeneity. This can be verified even though PAs have been involved in important reform processes oriented by homogeneous principles, that can generally be traced back to the so-called New Public Management (NPM) (Bozeman, 1979; Hughes, 2003; Barzelay, 1992 - 2001; Hood, 1995; Pollitt and Bouckaert, 2000; Osborne and Gaebler, 1992; Lynn, 1996; Jones and Schedler, 1997¹).

¹ HUGHES OWEN E. (2003), *Public Management and Administration*, 3rd edition, New York.

HOOD C. (1995), “The ‘New Public Management’ in the 1980s: variations on a theme”, *Accounting Organization and Society*, vol. 20, n. 2/3, pp. 93-109.

BARZELAY M. (1992), *Breaking Through Bureaucracy: A New Vision for Managing in Government*, University of California Press, Berkeley.

BARZELAY M. (2001), *The New Public Management. Improving Research and Policy Dialogue*, Russell Sage Foundation, New York.

BOZEMAN B. (1979), *Public Management and Policy*, St Martin’s Press, New York.

POLLITT C., BOUCKAERT G. (2000), *Public Management Reform: A Comparative Analysis*, Oxford University Press, Oxford. OSBORNE D., GAEBLER T. (1992), *Reinventing Government: How the*

In particular, the NPM reform process has interested the following aspects:

- a) changes to institutional and political system;
- b) interventions in the provision of public goods and services;
- c) introduction of managerial techniques and mentality.

With reference to the first reform area, legislators and experts in the field aimed at re-distributing powers within public institutions in terms of their dealings with other social and economic players and the articulation of these powers within a framework. The reasoning underpinning the reform concentrates on the progressive decentralization of public institutional duties, transferring a part of these, which were traditionally the State's (the so-called vertical subsidiarity), to territorial governments (regional, provincial and municipal governments). The aim was to increase the level of positive public opinion and legitimacy for local policy choices by giving more importance to governments that deal directly with citizen-clients, that is, those governments that deal with the daily needs of citizens, empowering them to respond to these needs autonomously and thus, holding them accountable for the results they achieve.

The second area of reform has been re-defined by public intervention in areas such as regulation as well as in the direct provision of public services. In short, this area of reform includes interventions, such as privatisation, outsourcing, and other mechanisms aimed at increasing competition in the provision of public services. As a consequence, a spirit of competition is replacing the traditional monopolistic mentality of public services provision and as such the provision of public services, which was once strictly within the government domain, has been partially transferred to private companies (profit and non profit) that adhere to competitive marketplace principles or at least adhere to the principles of market efficiency and economical management mechanisms (horizontal subsidiarity).

The third area of reform has concerned PAs models of operational activities; in this case, the objective of reform is to identify technical and organisational solutions and operative and management methods (often adopted and adjusted from private companies) through which PAs may improve their performance. Their goal is to improve the internal efficiency of the operations and increase the level of customer satisfaction. What generally happens and naturally so because of the norms and regulations at hand, is that PAs tend to introduce managerial techniques, keeping their attention focused on management activities and the connection between goals and results as well as how to use new technologies for improving efficiency and effectiveness. Furthermore, some scholars have argued that this development to a large extent has been oriented towards the introduction of financially oriented managerial techniques (e.g. Olson, et. al, 1998²)

Entrepreneurial Spirit is Transforming the Public Sector, Addison-Wesley, Reading, MA. LYNN L. E. JR (1996), *Public Management as Art, Science and Profession*, Chatman House, Chatman, New Jersey.

JONES L. R. and SCHEDLER K. (1997), *International Perspectives On The New Public Management*, Jai Press, London.

² OLSON O., GUTHRIE, J. and HUMPHREY, C. (eds) (1998) *Global Warning*. Cappelen Akademisk Forlag, Oslo

As a consequence of the reform process, much has changed over the past few years regarding the information PAs publish and how that information is disseminated.

PAs have been releasing a number of financial and not financial data according to the norms and regulations set out at the national level and as part of their own autonomous initiatives. Owing to the wide proliferation of this trend, it is evident that its causes and effects should be thoroughly studied.

In conclusion, it is evident that PAs need to be evaluated by looking at the management of the financial resources at their disposal. Yet, this kind of analysis of accountability would be too limited. PAs and top political players are called upon to integrate their professional, financial and technological energies for the proper functioning of PAs, the public owned group of companies and other economic partners to guarantee, within the pre-requisites of the budget, an adequate and appropriate social and economic development of the area/issue under their governance.

2. OVERALL OBJECTIVES AND SUB-THEMES

Overall objectives of the Study Group is to systematise and (re)theorise an important field of study in the public sector: financial management. This last has been interested by a vast reform process that has totally changed its content and structure. Therefore, on the basis of the context described in the previous paragraph, overall objectives of the Study Group is to explore the changing process and to forecast future development of public financial management (PFM) systems in order to (re)define both its theoretical structure and practical implementation. Even if at the beginning the Study Group will have a more theoretical orientation, it doesn't mean there is no room for implications for practitioners. Theoretical results of the Study Group will be very important for practitioners mainly for two reasons. Firstly, systematising and (re)theorising PFM field of study will generate new knowledge able to enlighten practitioners' activities. Secondly, from new theoretical frameworks it could be extrapolated sets of "practices" suitable for practitioners to effectively operate in the new challenging and complex network structure of the PAs.

Public financial management, as stated by Guthrie, Olson and Humphrey (1999³), has been interested by almost five categories of reform:

1. changes to financial reporting systems, including the promotion of accrual-based financial statements and a reliance on professionally accounting set accounting standards;
2. development of commercially minded, market oriented management system and structure to deal with the pricing and the provision of public services;

³ GUTHRIE J., OLSON O. and HUMPHREY C. (1999), "Debating Developments in New Public Financial Management: the Limits of Global Theorising and Some New Ways Forward", *Financial Accountability & Management*, vol. 15 (3-4), pp. 209-228.

3. development of a performance measurement approach (techniques such as financial and non-financial performance indicators, output and outcome performance measures and benchmarking);
4. devolvement/decentralisation or delegation of budgets;
5. changes to internal and external public sector audits.

As a consequence of the above mentioned reform process, during the three-year period 2007-2009, the Study Group on Public Sector Financial Management will first try to define Public Financial Management as field of research and then will particularly focus its research activities on some aspects of budgeting process, auditing and performance measurement and reporting. All this particular aspect will have to be studied from an accounting and managerial point of view. Furthermore, these issues have to be explored from a theoretical as well as an empirical standpoint. In particular, three broad area of research have been defined as illustrated subsequently:

A) Content and impact of budgeting reform process on and between politicians, managers and citizenry

With reference to budgeting process, both academics and practitioners have underlined the advantages of passing from an input-based to a programme budgeting process. There are several advantages in the programme budgeting approach over the traditional, line-item approach. Firstly, the former aims to direct funding more towards the achievement of actual policy objectives or outputs. Under programme budgeting, PAs activities are divided into the hierarchical structure of programme, sub-programme, activity and component (if necessary). Appropriations can then be made to particular programmes according to the priorities of the actual PAs political leadership. Therefore, it allows a better allocation of resources and politicians can to some extent reassert its control over budgeting. In this sense, at the same time the budgeting reform process has given more power both to political leadership and public managers. Secondly, with a programme budgeting process forward planning is enhanced. Thirdly, people operating within PAs have more incentives for implementing better management practices. Finally, a programme budget is a document in which PAs are more accountable and transparent for the money advanced to them by taxpayers (Hughes, 2003; Beauchamp and Hicks, 2004; Jones and Pendlebury, 2000⁴)

However, scholars and practitioners have also questioned the appropriateness of using techniques adopted from the private sector in a public sector context (Bromwich and

⁴ HUGHES OWEN E. (2003), *op. cit.*;

BEAUCHAMP S. and HICKS C. (2004), "Financial Management and Effectiveness in Public Service Organizations: The CIPFA FM Model", *Public Money & Management*, June, pp. 185-191;

JONES R. and PENDLEBURY M. (2000), *Public Sector Accounting*, Prentice Hall, Essex.

Lapsley, 1997 and Broström, 1998⁵). One common argument is that e.g., a programme budgeting approach is too technical and too rationalistic to function well in an organisation that is inherently political (e.g. Jones, 1997⁶).

Even if many analysis have stressed the importance, advantages and disadvantages of implementing new budgeting systems, few research has been directed to thoroughly (re)define its impact on the structure/process and content of the relationship between political and managerial part within PAs. It is also possible that this relationship depends on the level occupied by the administrative personnel within PAs. These are all aspects need to be thoroughly analysed by the Study Group. Furthermore, as outlined in the previous paragraph many budget authorities have been devolved facing NPM reform process. Although many public policies/services are defined/delivered by a more or less complex network of public/private subjects, few studies have stressed the impact of the devolving process on the budgeting one. In this new operational context the Study Group research activity should aim to answer at some questions as: a) what are budget functions?; b) Which is the role of public managers?; c) How do network members participate to budgeting process?; What are the conditions for a programme budgeting approach in a political organisation?

Finally, many scholars have stressed the importance of the citizenry participation in the budgeting process but few studies have tried to (re)define new budgeting process and the relative theoretical framework. It is very important to define a participation theoretical framework in order to single out most efficient and effective modalities of participation. In other words, the Study Group should try to answer the following questions: a) who is able to participate in a budgeting process and why?; b) Which is the added value of the participation process outlined?; c) Can citizenry participate in every aspect of the budgeting process? This aspects could also be practically useful for practitioners and managers in order to maximise the impact of their activity within and outward PAs, mainly the perception citizenry has of PAs activities.

B) What is a public performance and how are performance measures and reports produced and used within PAs?

Under the NPM reform, many scholars and practitioners have outlined the important role of performance measurement and reporting. Many advantages have been ascribed to the implementation of these kind of managerial techniques (Pollitt and Bouckaert, 2000; Jones

⁵ BROMWICH, M and LAPSLEY, I. (1997) Decentralisation and management accounting in central government: Recycling of old ideas? *Financial Accountability & Management*, 13(2), May, pp. 181-201.

BROSTRÖM, B. (1998) Accrual accounting, politics and politicians. *Financial Accountability & Management*, 14(4), November, pp. 319-333.

⁶ JONES, G. (1997) Resource accounting and budgeting: Another false trail? IFAC Occasional paper 3 Perspectives on Accrual Accounting, International Federation of Accountants, New York.

and Pendlebury, 2000; Mussari and Caperchione, 1999⁷). Although these last are really important for effectively and efficiently managing PAs, in practice managerial techniques and information produced by using them are still considered as the final goal of the reform process. The most important object of the reform process seems to be the production of new information and not its use. This consideration doesn't change the position of public managers in the input-output public production process but it totally changes managers' role and functions.

New public managers status has been widely analysed but still few we know about their economic behaviour (Ingraham and Kneedler, 2000; Chan, 2003⁸). As stated in the paragraph regarding the context of the Study Group, because the devolution process has generated an enlargement of the sphere of action of public institutions, it is necessary to (re)define the concept of public performance and therefore to use a different financial management system. Taking into consideration public institutions' new sphere of action, the concept of public performance needs to be more explored both from a theoretical and operational point of view and it is particularly important to analyse both its content and the "space" within which public performance are produced.

From a research point of view, it is possible to point out at least three big changes and areas of research:

- 1) the extension of areas where PAs results are produced;
- 2) the different definitions of the term "result" or "performance" that are generally correlated to the areas identified;
- 3) more appropriate technical solutions for reporting those results.

Different areas require different performance measurements and consequently different ways to communicate them (Behn, 2003; Pallot, 2003⁹).

In correspondence with the Study Group structure and aims, this sub-themes of research will be investigate from both a theoretical and practical point of view.

After defined the concept of public performance and the connected financial management systems able to measure it, it could also be interesting to analyse how performance measures are used by public managers and politicians (?). In particular, the Study Group could try to answer the following questions: a) who is in charge to establish which performance have to be measured?; b) Why some financial management systems are

⁷ MUSSARI R. and CAPERCHIONE E. (1999), *Comparative Issues in Local Government Accounting*, Kluwer Academic Publisher.

⁸ INGRAHAM PATRICIA W. and KNEEDLER AMY E. (2000), "Dissecting the Black Box: Toward a Nodel and Measures of Government Management Performance", in BRUDNEY JEFFREY L., O'TOOLE LAURENCE J. jr. and RAINEY HAL G. (eds), *Advancing Public Management*, Georgetown University Press, Washington, pp. 235-252.

CHAN JAMES L. (2003), "Changing roles of public financial management", in BOVAIRD T. and LÖFFLER E. (eds), *Public Management and Governance*, Routledge, London, pp. 101-111.

⁹ BEHN R.D. (2003), "Why Measure Performance? Different Purposes Require Different Measures", *Public Administration Review*, Vol. 63, n. 5, September/October, pp. 586 – 606.

PALLOT J. (2003), "A Wider Accountability? The Audit Office and New Zeland's Bureaucratic Revolution", *Critical Perspective on Accounting*, vol. 14, pp. 133-155.

preferred to others?; c) Why and how financial management performance measures are used in non-financial management systems?; d) How, why and when do public managers and politicians (?) use financial management performance measures?; e) How and why are performance measures used to build a financial management incentive system?

In this sub-theme it is important to include the regulation of the financial information production process. In particular, the Study Group will also focus on accounting standards in the public sector and its international adoption. In particular, the Study Group could answer to some questions as: a) Why public accounting standards are differently adopted in various countries? b) Are public accounting standards coherent with theoretical base of public sector reform process? c) Are public accounting standards coherent with national accounting?

C) How are public auditing systems changed and why?

As summarised in the context paragraph, the NPM reform process have generate new organisational forms and structures of service provision in recent years. Even if public provided services have always been subject to forms of scrutiny, the aforesaid change in public services production process had led PAs to enlarge and enhance their repertoire of forms and practices of scrutiny (Clarke, 2003; Power, 1993-1997¹⁰).

Whereas auditing activities were historically focused on financial control and decision-making, in recent years the practice of audit in relation to public services has come to include a much wider range of evaluative and normative functions (Cutler and Waine, 1997; Pollitt *et al.*, 1999; Pallot, 2003¹¹). Furthermore, framework of public audit in some countries such as UK is the product of a patchwork legislation enacted over the past 150 years. The result of this process is huge diversity of purpose, powers, organisations and methods between the public audit bodies (Bowernan *et al.*, 2003¹²).

Staring from this point of view, the Study Group will focus its research activities on mainly the following issues: a) an international comparative studies on auditing models in terms of grounding culture, objectives, methodologies etc.; b) the use of knowledge that auditing processes produce and distortions this use eventually produces; c) factors involved in the establishment of new public audit organisations.

¹⁰ CLARKE J. (2003), "Scrutiny through inspection and audit", in BOVAIRD T. and LÖFFLER E. (eds), *Public Management and Governance*, Routledge, London, pp. 149-159.

POWER M. (1993), *The audit explosion*, Free Press, New York.

POWER M. (1997), *The audit society*, Oxford University Press, Oxford.

¹¹ CUTLER T. and WAINE B. (1997), *Managing the welfare state*, Berg, Oxford.

POLLITT C., GIRRE X., LONSDALE J., MUL R., SUMMA H. and WAERNESS M. (1999), *Performance or compliance? Performance audit and public management in five countries*, Oxford University Press, Oxford.

¹² BOWERNAN M, HUMPHREY C. and OWEN D. (2003), "Struggling for Supremacy: The Case of UK Public Audit Institutions", *ritical Perspective on Accounting*, vol. 14, pp. 1-22

3. MEETING STRATEGY

The Study Group intend to organise/participate at least (to) two meeting per year. The first and most important meeting should be the annual conference of the EGPA. In this conference particular aspects of the above outlined sub-themes of research will be included in the conference call for papers. The second annual meeting will be organised as workshop in order to concentrate the Study Group research activity on topics internationally discussed at that moment or topics identified by the Study Group and valuable of further discussion within the group. While for the annual conference speakers will be singled out by a review process of submitted paper, workshop locations and speakers will be decided by a commission established for each specific topic discussed in the workshop.

4. PUBLICATION STRATEGY

The Study Group on Financial Management in Public Sector aims at publishing high-quality papers mainly by:

- activating special issues of high ranked international journals;
- editing specific thematic books on very particular and interesting topics discussed during the annual meeting;
- creating opportunities for the publication of single papers.

In order to facilitate the dissemination of publications, the Study Group will try hard to establish contacts with public sector organisations to promote the activities carried out on some specific topics and to understand issues that need to be more investigated.