



Explanatory factors for the use of the financial report in decision-making: Evidence from Local Government in Portugal[☆]



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ABSTRACT

This study aims to identify to what extent certain factors perceived by internal decision-makers (politicians and financial officials) influence the usefulness they consider the information presented in the financial reports of municipalities has for decision-making purposes.

It follows a quantitative research approach at a first stage, using a questionnaire. At a second and complementary stage, it uses a qualitative research perspective, with interviews in a small group of municipalities, which might be seen as case studies, in order to explore and understand the (external and internal) contextual factors that determine the usefulness of the financial report in decision-making by internal decision-makers.

The main findings show that the pressure of professional organizations and of a national problem (external factors), as well as the lack of knowledge and training on the accounting information system (internal organizational factor) are factors that most influence the usefulness of the financial report for internal decision-making. Qualitative analysis confirms these results, reinforcing a factor relating to a work overload.

Two important implications of this study are the following: first, professional bodies and the financial situation in the country; while stimulating informational needs by internal users in the public sector they determine the usefulness they offer to financial reporting for decision-making. Second, the lack of knowledge of the accounting information system, especially by local politicians, is a hindering factor of the usefulness given to financial reporting for internal decision-making. Nowadays, when many countries are considering reforms of public sector accounting in line with the International Public Sector Accounting Standards (IPSAS), supposedly increasing the sophistication, the level of information and usefulness of financial reporting, such factors must be taken into account.

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Factores explicativos de la utilidad del informe financiero para la toma de decisiones: evidencia del gobierno local en Portugal

RESUMEN

Este estudio busca identificar hasta qué punto algunos factores percibidos por los decisores internos (políticos y técnicos) influyen en la utilidad que ellos conceden a la información presentada en el informe financiero de los ayuntamientos para los propósitos de toma de decisión.

Sigue primeramente un enfoque cuantitativo, con un cuestionario. En una segunda fase complementaria, se emplea una perspectiva de investigación cualitativa, con entrevistas a un pequeño grupo de ayuntamientos que se pueden considerar estudios de caso, de modo que exploran y entienden los factores contextuales (externos e internos) que determinan la utilidad del informe financiero para la toma de decisiones por los decisores internos.

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Los principales resultados muestran que la presión de organizaciones profesionales y de un problema nacional (factores externos), así como la falta de conocimiento sobre el sistema de información contable (factor interno organizacional), son los factores que más influyen en la utilidad del informe financiero para las decisiones internas. El análisis cualitativo confirma estos resultados, reforzando otro factor relacionado con la sobrecarga de trabajo.

Dos importantes implicaciones de este estudio son las siguientes. En primer lugar, los organismos profesionales y la situación financiera del país, mientras estimulan necesidades informativas en los decisores internos en el sector público, determinan la utilidad que ellos consideran para el informe financiero para el propósito de toma de decisiones. En segundo lugar, la falta de conocimiento sobre el sistema de información contable, particularmente de los decisores políticos, es un factor inhibitorio de la utilidad del informe financiero para la toma de decisiones. Actualmente, cuando muchos países se plantean reformas de la contabilidad pública para aproximarse a las IPSAS, supuestamente para aumentar la sofisticación, el nivel de información y la utilidad del informe financiero, tales factores deben ser atendidos.

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Introduction

The decision-making process tends to be similar in all organizations, even if the decisions concern particular issues either in the public or private sectors. The effectiveness of decision models depends on the circumstances that shape the organization (Tarter & Hoy, 1998).

The reforms introduced in the management and accounting structures of public sector entities, in response to *New Public Management* requirements, reinforce the role of accountability as a means to improve economy, efficiency and effectiveness in Public Administration. Accountability is no longer conceived as merely reporting about complying with norms and procedures, but as the need to report on the allocation and use of public resources and the results attained, in order to allow assessing public officials' responsibilities (Brusca, 2010; Hookana, 2008; Lapsley, 1999, 2001, 2009; Mir & Rahaman, 2007; Neilson & Gregor, 2007; Ter Bogt & Van Helden, 2000; Ter Bogt, 2008). Consequently, the leaders of public sector organizations, namely in Local Administration, nowadays need useful information to be able to make better decisions.

In this context, the paradigm of information users and their needs is of chief importance while reforming the accounting and financial reporting systems.

Organizational changes (in management and accounting) can potentially be affected by a set of external and internal factors that should be taken into account in the decision-making process, namely concerning the preparation and dissemination of useful information for decisions (Haldma & Lääts, 2002). In this sphere, complementing the paradigm of the information usefulness, contingency and institutional theories can be used to support the analysis of (internal and external) explanatory factors of the usefulness of the financial reporting for decision-making, in the context of Local Government.

Relevant literature indicates that the usefulness of the financial reporting information for the purpose of decision-making depends on various factors in the entities' context. Several authors (e.g., Cohen, Kaimenakis, & Zoraios, 2007; Grossi & Reichard, 2009; Mack & Ryan, 2006; Mack, 2004) concluded that the degree of use of financial information for decision-making varies as a function of its usefulness for that purpose. Grossi and Reichard (2009) found that the use of financial information depends also on various organizational factors, such as the lack of appropriate knowledge and training regarding the accounting and reporting system.

This study aims to identify the (external and internal) explanatory factors of the financial reporting usefulness for internal decision-making through an empirical analysis of the 308 Portuguese municipalities. To fulfill this purpose, a quantitative analysis was firstly developed (by applying a survey),

complemented by qualitative exploratory case studies (resorting to interviews). The option of case studies of this nature is justified by the intention to explore and understand which internal and contextual factors of local authorities might determine the usefulness of financial information for internal decision-making by internal decision-makers.

The investigation contributes to the relevant debate on which factors determine the usefulness of the information presented in the financial reporting, particularly that prepared by local authorities. As far as we know, this is the first investigation carried out to this effect in the context of Portuguese municipalities.

Additionally, the results of the study are intended to stimulate interest in the identification of factors that possibly affect the usefulness of financial reporting in several public sector realities at international level. In the current context where many countries are considering or in the process of adapting their public sector accounting systems to IPSAS, supposedly increasing the sophistication, level of information and usefulness of financial reporting, such factors must be attended in the reforming processes.

The paper follows structured in three main sections. "Literature review" section presents the theoretical framework, addressing explanatory theories of reforms in public sector accounting and relevant literature on factors possible of determining the usefulness of financial reporting, particularly for decision-making. "Determinant factors of the usefulness of financial reporting for internal decision-making in Local Government" presents the empirical study, starting by briefly describing the objectives, methodology and hypotheses, data collection and analysis techniques, and finally, presenting and discussing the results. "Conclusions and policy implications" summarizes the main conclusions and policy implications.

Literature review

Explanatory theories of reforms in public sector accounting

In recent years there has been a proliferation of empirical studies based on social science theories, namely on the organizational theory, seeking to explain organizational change and reforms adopted in the public sector, including those of financial management and accounting systems (Brignall & Modell, 2000; Burns & Scapens, 2000; Caccia & Steccolini, 2006; Lapsley & Pallot, 2000; Scapens, 1990, 1994; Ter Bogt, 2008; Ter Bogt & Van Helden, 2000). More precisely, the authors have attempted to understand the reasons for the existing gap between regulations and accounting practices adopted by organizations, aiming to understand whether the reforms in the scope of the New Public Financial Management (NPFM) were introduced in order to overcome the real limitations

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