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# Accounting for trust and control: Public sector partnerships in the arts

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### ABSTRACT

This paper discusses the role of trust and accounting information in the control of public sector partnerships, in particular in partnerships in the arts. We present case research conducted in five theatres and municipalities in The Netherlands. Although autonomized, these theatres are still subsidised by the municipalities. Therefore, the municipalities have retained a certain degree of responsibility for the theatres. However, the low measurability of the theatres' outputs and outcomes complicates the municipalities' control as based on performance agreements and accounting information. This complication increases the role of trust. This study provides insight into the practices and processes underlying trust building and the supporting and mediating role accounting information plays here. Transparency and regular informal contacts between the theatres and their municipalities in combination with accounting documents, which 'discipline' the theatres, appear to be crucial in this respect. Furthermore, different hierarchical levels can be distinguished in the trust relationship. Trust first develops at the lower (operational) levels of an organisation, after which it progresses towards the higher organisational level. Finally, the research showed that the economically rational type of control as proposed by New Public Management did not really exist in our cases.

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## 1. Introduction

In recent years, various new organizational arrangements have been developed in the government sector in The Netherlands and several other Western countries. These arrangements, such as outsourcing, networks and partnerships, do not necessarily fit the traditional vertical hierarchy of a government organization, for example, because the activities involved take place at a distance from the 'parent' government organization. This paper focuses on the control of what we call a public sector partnership, here defined as the (intendedly) long-standing relationship between a government organization and one or more public sector or not-for-profit partners, with the aim of delivering specific goods or services (often) previously provided directly by government. Such a partnership, which essentially is a form of outsourcing of government

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activities, is generally financed by a government organization to a considerable extent and in that sense the government could be regarded as the controlling party.

In The Netherlands, many partnerships have developed in the field of the arts, including partnerships between municipalities and theatres. Several municipalities have externally autonomized the activities of their theatres, which used to be units within the municipal organization. However, since the municipalities subsidize the theatres, their managers and politicians can still be (politically) responsible for the activities and performance of these organizations. Therefore, it is important that these managers and politicians are informed about the theatre's current status and future plans. Information in accounting documents can be used to make the theatre's performance more transparent and to provide a basis for its control by the municipality. Hood (1995; p. 94) already indicated that accounting is a key element in the control of organizations and the accountability for outputs and effects, as promoted by New Public Management (NPM). But how do the different parties involved in a public sector partnership make use of such accounting information?

The introduction of partnerships is related to NPM, which propagates decentralization and the use of private sector management techniques and methods (Hood, 1995; Pollitt & Bouckaert, 2011). Making use of accounting information as a basis for the control and management of a partnership would also fit NPM's 'rational' view of organizations. Although there are considerable differences between what NPM means in various countries, one could say that it is generally based on the principles of functionalism and economically rational behaviour (Hood, 1995; p. 94; Gruening, 2001). However, it seems that economic rationality and 'economic information', which includes accounting information, are not the only elements relevant to the control of an organization and of activities for which the government still has a certain responsibility. Research has shown, for example, the importance of all kinds of social and relational aspects, including trust (Bouckaert, 2012; Kraus & Lindholm, 2010; Cäker & Siverbo, 2011).

In this paper we explore the role of trust and accounting information in public sector partnerships, in particular in partnerships in the arts. We will do so on the basis of descriptive and exploratory case research which we conducted in five municipalities and theatres in The Netherlands. As the municipalities subsidize the theatres, they still have a certain responsibility for the theatres' activities and performance. However, the low measurability of the theatres' outputs and outcomes complicates the municipalities' control, which may increase the role of trust. For that reason it is interesting to research the control of the partnerships between municipalities and theatres, including the roles of accounting information and trust. In this paper we distinguish among the various parties, i.e. levels, involved in such a control relationship.

The paper will show that, despite the formal picture set out in performance agreements and accounting documents, the control relationship between theatres and municipalities might appear to be very 'loose' and informal in practice. This means that the theatres have much autonomy in making decisions about their activities. At the same time, the accounting documents provided by the theatres to the municipalities are considered as more than just a ritual to formally legitimize the municipalities' support. They help the partnership in realizing and maintaining trust, first on the operational level of the theatre and the municipality, and then also on the higher level (i.e. the alderman – a politician – and the director of the theatre). In turn, this trust forms the basis for the municipality's loose control of the theatre's activities.

The paper is organized as follows. In the next section the NPM context of our research is introduced. In Section 3 we review the literature in the field of accounting, trust and inter-organizational relationships. The exploration of that literature informed our empirical research. In Section 4 we give a sketch of the context of the theatre sector in The Netherlands and we present our research questions. Section 5 presents the research method and introduces the organizations researched. Section 6 contains a description and analysis of our empirical findings. In our presentation there we sketch the typical picture with respect to trust, accounting information and control, as well as the role of the different levels of the control relationship, which arises from our cases. In Section 7 we discuss our findings and in Section 8 we present the conclusions of the paper.

## 2. New public management, partnerships, accounting information and trust

The use of private sector techniques and methods, as propagated by NPM, has continued to be very important in the public sector in The Netherlands and many other countries (Pollitt & Bouckaert, 2011; Speklé & Verbeeten, 2014). However, several authors have claimed that since the end of the 1990s the public sector's attention has gradually shifted to other instruments and that NPM is being replaced by new concepts, such as 'new public governance' (NPG), or the 'neo-Weberian state' (Pollitt & Bouckaert, 2011; Osborne, 2006). Indeed, various elements – such as citizen participation, the introduction of user councils, and more attention to co-production – have been combined with the more rudimentary forms of NPM which developed in the 1980s and focused mainly on improving (economic) efficiency and effectiveness (see also Hyndman, Liguori, Meyer, Polzer, Rota, & Seiwald, 2014). However, as Lodge and Gill (2011; p. 142) argue for New Zealand, with respect to the basic elements of NPM, there might be much continuity. Further, Lodge and Hood (2012; pp. 83–84) suggest that, particularly since the onset of the financial and economic crisis in 2008 which has had serious effects on the budgets of many public sector organizations, many countries have seen an intensification of NPM-like public sector reforms. So, although various 'NPG developments' cannot be ignored, it seems appropriate to continue using the term NPM. NPM's key concept, increasing economic efficiency and effectiveness, is still very important in the management of the public sector.

NPM promotes the use of private sector, i.e. 'business-like', management techniques and methods, and seems to have influenced the management of many public sector organizations (Pollitt and Bouckaert, 2011; pp. 75–125; Kurunmäki, Lapsley, & Miller, 2011). Changes in financial management are often viewed as a key element in NPM. These changes generally include the more intensive use of financial and management accounting information in the control of

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