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The effects of contextual factors into different features of financial transparency at the municipal level

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1. Introduction

It is widely recognized that financial transparency (FT)¹ is key in the process of fulfilling public sector accountability (Wang, 2002). Accounting and acquisition systems that produce financial statements, reports and any other financial information are fundamental pillars to meet the financial accountability in the public sector (Caba, Rodríguez Bolívar, & López, 2008; Rodríguez, Caba, & López, 2007; Torres, Pina, & Acerete, 2006). Opening information about the financial performance of government enables better economic, social and political decisions (Allen, 2002) and improves public accountability and transparency mechanisms in government (Chan, 2003).

The provision of understandable financial information is a significant mean of fulfilling public sector accountability in complex environments (Wang, 2002). The interest on FT has become increasingly greater in the last years under a scenario of economic and financial crisis. Public administrations have been pressured for the disclosure of high quality financial information with the aim of controlling the use of public resources (Pina, Torres, & Royo, 2010; Rodríguez et al., 2007), detecting financial distress (Zafra, López, & Hernández, 2009), and achieving the sustainable financial balance (Rodríguez Bolívar, Navarro Galera, Alcaide Muñoz, & López Subirés, 2015).

There is a vast body of literature dedicated to the study of FT and its determinants. In particular, the study of the contextual determinants is characterized by a strong focus on the social, economic, political, organizational and institutional factors influencing the implementation of the disclosure of financial information in the public sector (Rodríguez Bolívar, Alcaide Muñoz, & López Hernández, 2013). Some of these studies have examined these factors across national governments (Arapis & Reitano, 2017), while others at the regional or local levels of government (Albalate del Sol, 2013; Caamaño-Alegre, Lago-Peñas, Reyes-Santías, & Santiago-Boubeta, 2013; Guillamón, Bastida, & Benito, 2011).

With the introduction of Information and Communication Technologies (ICTs) in government, the FT and accountability was improved by developing digital versions and tools for disclosing

financial information (Alcaide Muñoz, Rodríguez Bolívar, & López Hernández, 2017; Caba et al., 2008; Cárcaba & García, 2008; Dimitriu, 2008). This technological transition changed the passive role of citizens into a more proactive participation (Dunleavy, Margetts, Bastow, & Tinkler, 2006; Taylor, Lips, & Organ, 2007), allowing a greater involvement of citizens in public affairs and promoting new models of managing the relationship between government and citizens more affordable, participatory and transparent (McMillan, Medd, & Hughes, 2008). Internet-based reporting has produced a shift from 'push' to 'pull' communications in relations between government and citizens (Mergel, 2013).

In the light of the multiple possibilities of new technologies, this paper also focuses on the online access to government FT (Alcaide Muñoz et al., 2017; Borins, 2002). In the current context, the web is currently perceived as providing the best available platform for information stewardship and disclosure for both financial and non-financial information of the public sector. Today, the volume of information disclosed online appears to be the same as that provided in hard copy format (Alcaide Muñoz et al., 2017; Rodríguez Bolívar, Caba, & López, 2013).

The environment regarding the disclosure of financial information online may favor such disclosure, but may hinder it by publishing overwhelming amounts of reports with highly technical accounting terms (Alcaide Muñoz et al., 2017). Therefore, the expectations of online reporting across regions may not be identical because of their contextual features and the populations' ability to access the internet (Rodríguez Bolívar, Caba, et al., 2013). For example, rural and poorer populations are less likely than urban and richer communities to use the internet for consultation of financial information of government (World Bank Group, 2016).

The information transparency has been considered to gain trust in governments (Kim, Kim, & Lee, 2009; Shim & Eom, 2008), but a recent study carried out by Edelman (2014) has pointed out that the trust in governments has fallen in the last years, especially in Mexico where the trust rate in government has fallen from 41% in 2013 to 28% in 2014. This lack of trust in governments has exerted a greater pressure for

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¹ The literature there are different terms related to financial transparency, such as: fiscal, financial transparency, financial disclosure, openness, or accounting compliance. In this article, we use the term financial transparency as an embracing term.

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greater and better quality of financial information and transparency. The importance granted to information transparency has prompted the development of studies aimed at identifying the key factors underlying a higher level of FT by public organizations in different contexts.

The variation of the nature of FT across different governments and their contexts is critical to understand the online disclosure of financial information. Therefore, local governments comparisons are natural laboratories. This is the reason why many studies have been conducted comparative analysis across local governments to examined the contextual factors influencing FT (Albalade del Sol, 2013; Bearfield & Bowman, 2017; Caamaño-Alegre et al., 2013; Grimmelikhuijsen & Feeney, 2016; Guillamón et al., 2011). Local governments are considered the closest to citizens' needs of information and participation (Berry, Portney, & Thomson, 1993; Oakerson, 1999). The nature of financial information at this level is easier to understand by linking local revenues (Cegarra Navarro, Córdoba Pachón, & Moreno Cegarra, 2012; Saiz, 2011), such as property tax and other fees to basic local services such as: garbage collection, street lighting, street and traffic signs, parks and reserves, public health and safety, and regulatory functions, biosecurity (pests and noxious plants), graffiti removal, among others.

In addition, previous studies in this area have concentrated on uncovering the contextual dimensions and components determining online disclosure of financial information, but neglecting the complexity of its own nature. FT is a complex phenomenon difficult to measure with one unique indicator. However, most studies have used indexes or compound measurements to assess FT. These indexes have been commonly used to capture the complex nature of FT to study the various determinants, among them the contextual factors. This study contributes with this body of the literature by filling the gap of uncovering the dimensions of online FT, and then examining the effects of contextual factors on each of these revealed dimensions.

The analysis of online disclosure of information in government is critical, because prior research has indicated that governments which invest more in technological tools to disclosure information achieve larger reductions in levels of corruption than those which do not make such investments (Andersen, Bentzen, Dalgaard, & Selaya, 2011). Research has shown that the adequate implementation of digital government, and its subsequent evolution and development, promotes economic growth (Hart and Sommerfeld, 1998; Serenko et al., 2010; Vinkler, 2008; Lee et al., 2011; Navarra, 2010), and facilitates settings in which solid structures for participatory democracy can be created (Xue, 2005; Chen et al., 2006; Ma et al., 2005). In the last decade, most governments have taken steps to foster the information society (United Nations, 2016; Welp, 2008), developing programs and initiatives to implement ICTs in diverse areas to enhance the transparency of management, reduce corruption and promote and expand citizens' participation. Mexico is a good example of these reforms by implementing several initiatives along with new technologies and innovations to promote transparency, empower citizens, fight corruption, and harness new technologies to strengthen public governance (Puron-Cid, 2014). The implementation of digital government in Mexico has focused on transforming the public sector at all levels of government into a more effective whole, more people-focused and more responsive in service delivery (UN, 2016). This effort has made Mexico to be ranked among the High-EGDI nations globally in terms of the e-government development index published by the United Nations (UN, 2016).

Despite the best endeavors of previous research, there is a considerable gap in uncovering the dimensions of online FT with the purpose of analyzing the contextual determinants on each of the dimensions in the context of local government. This paper seeks to fill this gap by assessing the online FT features, and thereafter, the analysis of the contextual the contextual factors of FT on local governments in Mexico (Ahn, 2010; Guillamón et al., 2011). With this approach, this paper seeks to enrich the debate regarding what are the critical dimensions or features of online FT and what contextual factors influencing online FT.

This analysis could be relevant to inform what features of FT are more critical and what contextual factors are more influential across local governments in accomplishing their duty of accountability in the use of public resources. Our contribution to the literature on FT in this paper is, therefore, threefold. First, we propose a scoring system by conducting a content analysis of critical online financial information disclosed by local governments in Mexico available on their websites. Second, this paper assesses the dimensions of online disclosure of government financial information by conducting a confirmatory factor analysis (CFA). Third, this article evaluates the relevance of some contextual factors influencing FT such as political, economic and institutional over the revealed features of online financial information found in the CFA. This research design could encourage a more robust benchmarking process among public administrations as well as identifying and disseminating best practices.

2. Financial transparency and contextual factors

As a traditional way of meeting citizens' demand for accountability, the online disclosure of public sector financial information has helped inform society about public sector activities and their contribution to social and economic development (Ferlie & Pollitt, 2005). Indeed, it is the lack of proper online disclosure and transparency that leads to inadequate accountability being settled. This is especially relevant in the scenario of financial and economic crisis in which international organizations (IFAC, 2013a) have highlighted the need for governments to decide on some strategies about the improvement of the content of their financial information (IFAC, 2013a) and the online disclosure of information on the long-term sustainability of their finances (IFAC, 2013b). Under these circumstances, the identification of explaining factors for online FT can help public managers and politicians to improve accountability over time. With the knowledge of factors of online FT, public managers could take decisions addressed to foster the information transparency in their local governments and, by this way, to improve accountability and enhance trust in governments. A central incentive of applying ICT in this context is to enhance financial transparency, which, broadly speaking, concerns keeping citizens informed about a government's financial position, financial performance, service effort and accomplishment (Torres et al., 2006). All this has led to many public administrations the use of digital government initiatives both to offer the digitalization of procedures –public services– and to introduce a Website tools oriented towards transparency, allowing users free, easy and appropriate access to fiscal, budgetary and economic information of public finances (Kim & Schachter, 2013; Luna-Reyes & Gil-García, 2011). In view of the foregoing comments about the new role of technology in the context of disclosure of financial information, this section revises in the literature what does FT mean and how is it measured with purpose of identifying its underlying conceptual dimensions or features. Subsequently, it reviews the literature to detect the institutional, political and economic incentives for online financial information disclosure.

2.1. Financial transparency and assessment models

The Budget Transparency Initiative of the World Bank refers to budget transparency as “the extent and ease with which citizens can access information about and provide feedback on government revenues, allocations, and expenditures.” (World Bank, 2015). Although budget transparency is not new, the emerging technological developments and recent innovations in Web 2.0 tools adopted in government have transformed the ways citizens and governments use information to exercise accountability and transparency (Bolívar, Pérez, & Hernández, 2007; Schillemans, Van Twist, & Vanhomerig, 2013). FT goes across the budget process, through ICT-enabled disclosure, consultation and participation tools, which can open the doors to the public decision-making process, allowing for more informed citizens to engage in open

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