



# Accounting change and value creation in public services—Do relational archetypes make a difference in improving public service performance?



Hans-Jürgen Bruns\*

Leibniz University of Hannover, Faculty of Business Administration, Königsworther Platz 1, D 30167 Hannover, Germany

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## ABSTRACT

Evidence points out that the outcome of accounting change in local governments is not simply a matter of 'corporate' resource investments and change management activities to accounting system replacement. This paper examines the link between such corporate-level interventions and the patterns of value creation at street-level. It emphasizes a resource- and capability-driven approach to explore processes and consequences of an 'embedded agency'-effect assigned to the street-level rationale of public service improvement. Considering a logic chain of cause-and-effect sequences, the data analysis provides evidence that corporate and street-level interventions are unique dimensions to signify the multiple patterns of accounting change in local governments. The supplementary effect of cross-functional relationships is also distinguished, considering the relational archetype as a mechanism to explain the emerging outcome state. Recognizing the distinction and the sequential effects of relational archetypes induces a refined typology of accounting change according to its processes and outcomes in local governments. The analysis is based on a comparative case study design to explore accrual accounting introduction in six German municipalities.

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## 1. Introduction

The antecedents and processes of accounting change in local governments have been a topic of repeated inquiry, in particular because of the prevalence of various outcomes of accounting system change. Perhaps even more interesting is that such variations also occur even when local governments are aware of the need to change, as in the case of public sector reform programs introducing new budget laws. Scholarship has tried to explain such variations as 'implementation failure' by considering either environmental contingencies or change management issue to be the cause of unintended effects on successful implementation of a reform program (e.g. [Carlin and Guthrie, 2003](#); [Christensen, 2007](#); [Pollitt and Bouckaert, 2004](#)). Contrastingly, some scholars point out that local governments can also act more strategically, thereby searching, selecting and adding different reform elements within, beside, and optionally also before a new budget law comes in charge (e.g. [Ingraham, 2007](#); [Knutsson et al., 2008](#); [Ter Bogt, 2008](#)). Thus, accounting change is not simply a matter of adjustment to exogenous pressures but it is also shaped by 'intentional agency' at the level of local governments to configure an accounting and budgeting system up to desired ends ([Englund and Gerdin, 2011](#); [Liguori and Steccolini, 2012](#); [Pina et al., 2009](#)).

\* Tel.: +49 511 762 5456/511 762 4560.

E-mail address: [bruns@pua.uni-hannover.de](mailto:bruns@pua.uni-hannover.de).

In pursuit of performance improvements, literature on public management and accounting reveals that such a purpose of accounting change covers the aim to enhance the output and outcomes of public service delivery in local governments, for example in terms of gaining more efficiency, effectiveness or quality (Lipsky, 2010; Pollitt and Bouckaert, 2004). It is suggested that change of management and financial accounting systems shapes governance and financial decision making at the street-level, especially by creating and distributing financial performance information and controls through accrual- and output-based budgeting and related performance measurement systems (Hou, 2007; Jackson, 2011; Jones and Pendlebury, 2000). A recent discussion critically comments on whether *ex ante* expectations promoted by reform concepts adequately reflect the actual consequences of accounting change (Christensen, 2007; Ho, 2011; Kioko et al., 2011). Thereby, an 'embedded agency'-effect is introduced, since the street-level bureaucrat usually acts as a 'knowledgeable and reflexive agent' of public value creation who skillfully exploits the opportunities of evolving accounting systems (Englund and Gerdin, 2011; Kilfoyle and Richardson, 2011; Lipsky, 2010). Public service professionals count on the relevance and applicability of financial performance information due to the accounting logic at work, used in certain ways in order to maintain or improve specific standards of public service delivery (Brodtkin, 2008; Laughlin, 2007). According to this, an equal set of 'corporate' accounting systems may be considered as a constraint or threat within one type of public service delivery, and a source or opportunity to improve current service standards for another set of public service agencies (Kilfoyle and Richardson, 2011; Pollitt and Bouckaert, 2004). However, when public service professionals intentionally explore their opportunities for endogenous accounting change, the question raises what can be learned from a study of these accounting practices, possibly different from the 'corporate' ones, and probably causing variation in the outcomes of accounting change.

Previous studies have already addressed variations in the outcomes of accounting change in local governments, primarily referring to institutional-based approaches to examine the dynamics of intra-organizational factors and their consequences at either an organizational level or street-level of analysis (e.g. Ho, 2011; Liguori and Steccolini, 2012; Ter Bogt, 2008). Yet, a shortcoming of this literature is that it does not directly explore the link between 'corporate'-level accounting change and changing accounting practices at the street-level of public services. This paper suggests that both stages are parts of an 'interconnected chain of reforms' (Carlin, 2005, p. 320) and must be examined in relation to one another in order to gain a more comprehensive understanding of the process and outcomes of accounting change. Organizational benefits of 'corporate' accounting change depend not only on effective implementation of accounting systems but also on future prospects expected at street-level, particularly the suitability of financial performance information systems for the purpose of public service improvement. Similarly, organizational benefits in public service delivery are determined not only by organizational arrangements made in order to support accounting practice changes but also by the extent to which such arrangements are in accordance with the patterns of coping practices at street-level. Thus, further research on accounting change needs conceptual frameworks in which the link between 'corporate' and 'street-level' accounting change is considered, thereby addressing the sequential effects in both the implementation and institutionalization stage of the process. Moreover, such a framing takes into account that organizational and street-level change interventions both contribute to outcomes of accounting change, but perhaps with a contradictory rationale. A central challenge is, therefore, to explore the 'embedded agency'-effect since the opportunities to strategize on street-level accounting practices are shaped by the immediate outputs of the 'corporate' accounting change.

This paper aims at developing a framework of the accounting change process, thereby introducing four archetypal relationships between 'corporate' and 'street-level' accounting change interventions. To this end, insights from institutional-based approaches are refined by concepts and mechanisms provided by a resource- and capability-based view, in particular to identify factors that shape the relational context of accounting change interventions. This approach (Barney, 1991; Bryson et al., 2007; Pablo et al., 2007) examines the role of intangible assets and organizational capability development as antecedents to gain valuable organizational outcomes. According to this view, the analysis refers to accounting knowledge as an asset to create public value and explores effects of developing such capacity for public service improvements in the context of accounting change in local governments. Moreover, the framework of relational archetypes (Kang et al., 2007; Kang and Snell, 2009) provides a complementary lens to explain why the match or mismatch in 'corporate' and street-level capacity development can have a significant effect on the desired benefits of accounting change.

The analysis is based on a comparative case study design in order to examine the introduction of accrual-based accounting systems in six German municipalities. Introducing accrual-based accounting in local governments is claimed to be both an innovative and radical change as it is essentially divergent from former cash-based systems (Chan, 2003; Lapsley, 1999). In particular, replacing the accounting basis is assumed to be a 'high-impact system' because of its crucial role in modifying accounting structures, identities and practices throughout the entire organization (Becker et al., in this issue; Carlin, 2005; Liguori, 2012). As such, its introduction is a research field that inevitably incorporates the link between 'corporate' and street-level accounting change and supports an embedded research design (Yin, 2009) necessary to analyze the phenomenon of interest. Accrual-based accounting change in German municipalities is stimulated by the external pressure of new budget laws, requiring both resource investments and change management activities to cope with the challenge. Distinguishing such 'corporate' patterns of accounting change provides the context to elaborate on the 'embedded agency'-effect based on two consecutive research questions:

- how public services deploy their local accounting capacity to improve public service delivery in the context of the value propositions stated by their institutional environment; and

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