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## Public sector accounting in emerging economies

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# Critical Perspectives on Accounting

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## Editorial

# Public sector accounting in emerging economies



## 1. Introduction

This special issue is dedicated to public sector accounting in emerging economies. Although the publications in this domain are still relatively scarce (Hopper, Tsamenyi, Uddin & Wickramasinghe, 2009, pp. 471–472), the research is beginning to take shape. This development inspired the Comparative International Governmental Accounting Research (CIGAR) network to organise a special track specifically focussed on this theme during its bi-annual conference in Birmingham, UK, September 2013. Later that year, a call for papers appeared in *Critical Perspectives on Accounting* and other media, with 15 March 2014 as deadline for the submission of papers.

A substantial number of papers was submitted for this special issue, and after a review process in three rounds, six were accepted for publication. This editorial is an introduction to these works. But first, we will present a conceptualisation of public sector accounting in emerging economies to help us interpret the key drivers of accounting reforms, and the responses of important stakeholders to accounting changes in these countries. These responses result from the interplay among three groups of factors: (1) pressures to introduce New Public Management reforms, (2) local values and interests, and (3) obstacles due to a lack of local resources and institutional capacities. The six papers collected for this special issue are summarised and positioned within this framework. Finally, this editorial will present some promising routes for future research in this area.

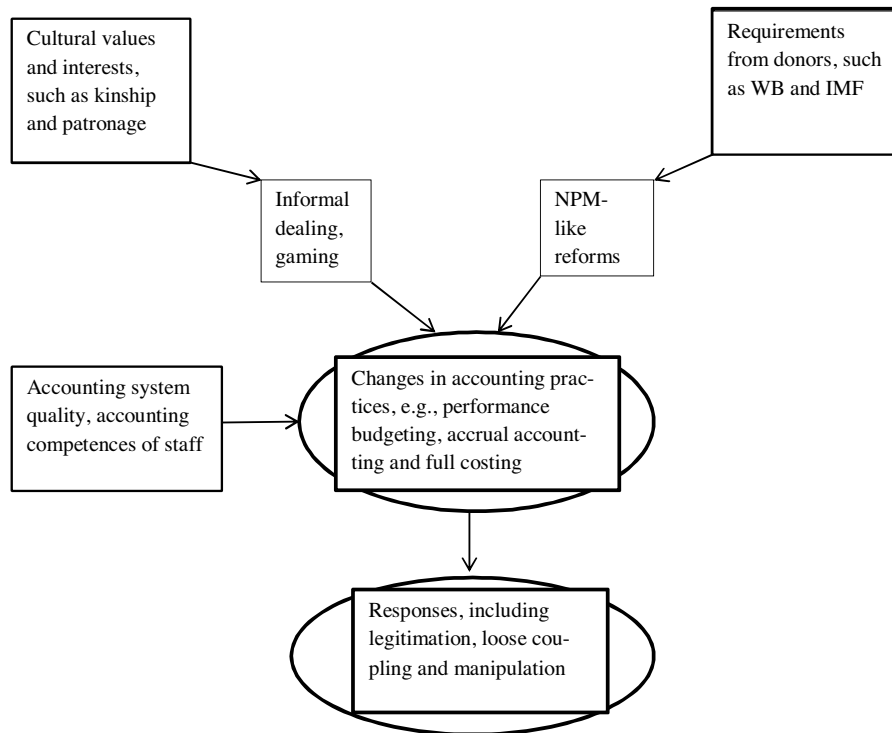
This special issue uses a broad definition of emerging economies (EEs). It includes the poorest countries in the world, such as the sub-Saharan countries in Africa, but also middle-income countries with often high growth rates, such as various South-East Asian countries, like China, India and Pakistan.<sup>1</sup> The empirical research of the papers in this special issue originates in low-income countries (Tanzania), lower-middle income countries (Kenya, Sri Lanka and Pakistan) and upper-middle income countries (Thailand). The literature review in this special issue also covers these various groups of countries.

## 2. Conceptualising public sector accounting change in emerging economies

As a response to both pressures from international donor institutions and the introduction of autonomous local reforms to address problems of poverty, public sector organisations in EEs have increasingly started to make use of accounting tools for decision making, control and accountability purposes (Allen, 2009; Manning, 2001). Whether these tools contribute to a better functioning of these organisations – or put differently – to serve the interests of relevant stakeholders, such as politicians, managers, citizens and the clients of services, is an important question to investigate. Accounting reforms seem to be influenced by the interplay among three groups of factors (see Fig. 1).

The first group concerns external pressures to introduce Western types of public sector reforms, often indicated by the label New Public Management (NPM). These reforms evolve around various dimensions, particularly privatisation, marketisation, decentralisation and output orientation (Hood, 1995, p. 94; Pollitt & Bouckaert, 2011, Chapter 4). International donor organisations, such as the World Bank (2008) and the International Monetary Fund (Allen, 2009), often prescribe these types of reform alongside programmes of financial aid to EEs (see also Polidano, 1999). The accounting repertoire within these reforms includes accrual accounting, performance budgeting and the cost-based pricing of services.

<sup>1</sup> See the World Bank's classification of economies according to the 2012 Gross National Income per capita: <http://data.worldbank.org/about/country-classifications>; see also the United Nations Human Development Index (HDI), which measures the average achievements of countries according to three dimensions of human development: a long and healthy life, access to knowledge, and a decent standard of living: <http://hdr.undp.org/en/statistics/>.



**Fig. 1.** The interplay among three groups of factors which has an influence on accounting practices as well as on the responses of stakeholders in the public sectors of emerging economies.

The second group of factors relates to the likelihood of an adoption of these reforms given the EEs' context. In addition to economic and political conditions, the cultural values of important stakeholders refer to another important factor (Abdul-Rahaman, Gallhofer, Haslam, & Lawrence, 1997; Abdul-Rahaman, 2010; Ashraf & Uddin, 2011; Mimba, van Helden, & Tillem, 2007). If an EE-society, for example, is primarily aimed at serving the interests and values of the local communities, it may not be receptive to NPM-types of reform. NPM is particularly focussed on ideas of private-sector management (including result-oriented controls and full costing of services), concepts that may be far removed from the interests of these communities.

The third group of factors regards the capabilities of the public sector organisations in EEs to implement the often advanced and therefore complex accounting tools employed in the reforms. EEs often lack the basic resources, or more generally the institutional capacities, to adopt advanced forms of budgeting and accounting. As a result, it is difficult for EEs to adopt and use these sophisticated instruments in an appropriate manner. If neither adequate administrative procedures or systems nor capable accounting professionals are available, modern accounting tools, such as performance budgeting or full costing, are often doomed to fail (Bietenhader and Bergmann, 2010; Dean, 1988; Schick, 1998).

Rather than primarily concentrating on the specific types of accounting tools adopted by public sector organisations in EEs, a more intriguing route in this new research domain consists of the responses of the various stakeholders to the new or revised accounting repertoire. In general, these responses are likely to be impacted by the particular content of the three groups of factors as introduced above. If, for example, the pressure by donors to introduce NPM-like reforms is not strong, accounting tools can remain to be used for their original purposes, for example serving the local communities' interests. However, if those donor pressures are strong, but public sector organisations do not have the capabilities to adopt and implement advanced accounting tools, responses characterized by loose coupling are more likely. In a more practical vein, although these tools may enhance the accountability of one party to another, in a local community context their quality may be so low that the traditional informal instruments remain in place. Additionally, if the pressure from donors is severe and clashes with the values of the local communities, stakeholders (politicians or managers) may try to cope with these tensions particularly by manipulating the official accounting information to serve their own interests. These tensions can also have certain societal consequences, for instance when NPM reforms improve the position of private owners and managers at the expense of that of the clients of services (higher prices) and employees of public sector organisations (worsening of labour conditions).

This special issue will show that research in the field of public sector accounting in EEs is particularly valuable in deepening our understanding of the responses of the various types of stakeholders to the new accounting practices being introduced. These responses are the result of the interplay among factors such as depicted in Fig. 1.

This figure does not claim to depict an exhaustive list of the factors which have an impact on established accounting practices within public sector organizations, and stakeholder responses. Other elements may also play a role, both at the societal level (e.g. the administrative system, political stability) and the field level (such as power relations between employers and employees), as well as the organisational level (e.g. production technologies). Moreover, interdependencies between the various groups of factors and the stakeholders' responses can be relevant. For example: when certain stakeholders show resistance (as one of the possible responses) to NPM reforms, reform pressures may be relaxed. Or if reform pressures turn out to be ineffective, donor institutions may shift their actions from promoting the reform content (such as the accounting repertoire) to focussing on the conditions that are potentially beneficial to the reforms (e.g. improved accounting expertise). In any case, Fig. 1 depicts some of the main drivers of accounting changes as well as stakeholders' responses to these changes. Moreover, this conceptualization has enabled us to position the research as it is presented in this special issue.

### 3. The papers in this special issue

This section presents a preview of the contributions to this special issue. In addition to a summary of the papers, each piece of research will be interpreted according to the framework of public sector accounting in EEs, as summarised in Fig. 1.

Goddard, Assad, Issa, Malagila and Mkasiwa examine accounting practices within the public sector in Tanzania at the levels of central government, local government and NGOs. This research draws on institutional theory for interpreting different forms of legitimacy-seeking behaviour in response to the isomorphistic pressures exerted by the international donor institutions' NPM-like requirements. Furthermore, it empirically investigates whether the legitimacy-seeking activities are of use to the objectives of the stakeholders involved. Goddard et al. position this legitimacy-seeking behaviour in the context of post-colonial developing countries by adopting ideas of Ekeh about the so-called 'two publics' (Ekeh, 1975; see Osaghae, 2006 for a review of Ekeh's work). Following Ekeh's line of reasoning, people working in the public sector in Tanzania generally have to operate in both the 'primordial public' and the 'civic public'. While the 'primordial public' is associated with the traditional colonial society of local communities and kinship, the 'civic public' relies on the values of the western colonising countries. Although legitimacy, loose coupling and isomorphism are observed at all three public sector levels (central government, local government and NGOs), Goddard et al. point to significant differences in responses, which can be understood through Ekeh's theory of the two publics. In the study, the officials working at the level of local government experience severe tensions because they are subjected to the values and moralities of both publics. They try to resolve these tensions by manipulative behaviour and high levels of gaming, including corruption. The NGO officials, however, who are committed to the values and norms of the 'primordial public' and to those in their own organisation, experience little tension. As a result, their accounting practices serve these values and norms while their legitimacy-seeking behaviour is focussed on navigating the intended plans by building credibility, and by bargaining for change. At the level of central government, officials mainly operate in the 'civic public', trying to implement the accounting practices advocated by the international donor institutions as strictly as possible. Due to their inability to conform fully to the complex requirements, however, examples of loose coupling were observed during the research. Yet, this behaviour was not the result of antipathy towards these requirements.

The paper by Goddard and co-authors increases our understanding of the responses of governmental and NGO officials towards the clash between pressures from international donors and the context of the traditional African society. Loose coupling is dominant in all settings, although its content differs according to the extent of the tensions. The paper shows that Ekeh's theory of the two publics enables an eloquent explanation of the diverging responses.

The second paper by Suthewasinnon, Hoque and Nyamori explores how a balanced scorecard type of performance management system was designed, re-designed and implemented in the Thai central government. International donor organisations were the first initiators of the introduction of this system, which prescribed western types of governance alongside the loans they provided. At the time (the 1990s), intervention of international donors was necessary because Thailand heavily suffered from the Asian economic crisis. At the later stages, the performance management system was refined and given a broader scope, including strategic steering and an increasing emphasis on the lower levels of governmental organisations. During these stages, the redesign and implementation of the performance management system was facilitated by central guidance and the support of a highly respected change agent, who functioned as the innovation champion. A variety of strategies was used during these stages to promote the acceptance of the system, ranging from the participation of well-esteemed consultants and academics, via training sessions, to modern ways of communicating and promoting the novelties (e.g., through an active use of television and other media). The paper particularly shows that during the various stages of design, redesign and implementation of the new performance management system, different types of isomorphism were at stake, from coercive types in the beginning to mimetic types at later stages.

The study by Suthewasinnon et al. gives an in-depth insight into the way in which a governmental organisation accommodates the interplay between donor influences and the role of locally important stakeholders. It shows how the donor's vocabulary, adopted only partly at the local level, was extended and refined in order to serve locally important goals and motives.

The third paper, co-authored by Nyamori and Gekara, explores the impact of the implementation of performance contracting on the construction of social capital within public organisations in a large city council in Kenya. Performance contracting includes various elements. First, it concerns the identification of performance domains and related performance

indicators. Second, it sets target levels for these indicators and links them to organisational units. Third, it monitors these units' performance achievements, and finally, it gives pointers for accountability and future performance improvement. Social capital is defined as the resources availed to, and benefits derived from networks of social relations, which are characterized by certain norms and values which motivate their members to share their resources. In this respect, this paper investigates whether, and if so, how performance contracting contributes to particular values within a Kenyan local government, such as commitment, public service-orientedness, integrity and co-operative working relations among employees. The analysis of discourses among managers at various levels indeed shows responses in line with the intended impacts, i.e., employees becoming more committed and more performance-oriented. However, these responses coincide with institutionalised practices of patronage and power abuse, typical of other groups in the city organisation. And this type of conduct is not easily eradicated.

Nyamori and Gekara's study focusses on the core of the tension between NPM-like reforms and local habits and traditions. Performance contracting belongs to the NPM toolkit, whereas the way in which powerful networks protect their own interests is often considered as an issue typically associated with EEs. The paper reveals how a management accounting tool can promote desired changes in values, norms and working practices in public sector organisations, but also how its impact is mitigated or even frustrated by the EE-specific context.

The fourth paper by Kuruppu Adhikari, Gunurathne, Ambalangodage, Perera and Kurunathne et al. analyses the processes of participatory budgeting (PB) in a local government organisation in Sri Lanka. Drawing on Bourdieu's theory of the three interconnected constructs of 'field', 'habitus', and 'capital', an analysis is presented of the adoption, implementation and use of PB. In this study, field is the setting in which politicians and residents are engaged in processes of PB, while habitus refers to their motivations and reactions to PB. Capital relates to the sources of power and dominance of the various parties involved in PB practices. PB is meant to contribute to involving a broader set of stakeholders in the budgeting process and hence in the local democracy than just the councillors. The research shows, however, that instead PB is undermined by the same political dynamics which it aims to reform. It therefore faces the risk of being captured by powerful actors, in this case the council's chairman, who may abuse the concept for protecting and strengthening his own position. Although this chairman actively promotes the involvement of citizens and opposition councillors in the budgetary processes, he also employs a kind of 'divide and conquer strategy'. He uses this approach to mobilise his capital for serving his own priorities. Furthermore, he befriends some other actors, ultimately to safeguard his re-election.

An interesting aspect of the study by Kuruppu et al. is that it explores a rather novel management accounting tool in the context of an EEs' public sector, namely participatory budgeting. This tool is associated with New Public Governance, assumed to be an offshoot of the previous New Public Management trend. The study points to a challenging tension between the enhancement of democracy and the continuation of abuse by a powerful actor, who is obviously insufficiently disciplined by the traditional democratic processes.

The fifth paper by Ashraf and Uddin discusses and theorises the regressive effects of NPM-types of reform in the aviation authority of Pakistan. The authors use Sieber's theory of mechanisms which converts managerial reforms into instruments of regression, including goal displacement (upgrading instrumental aims to organisational goals), provocation (active resistance of the target population towards reforms) and exploitation (using reform elements for personal benefits). The authors complement the perspective of agential actions by analysing the context which allows these regressive effects using Bhaskar's critical realism theory on agency and context (here labelled as structure). The paper develops a processual theory of the regressive effects of reforms. The case study of the aviation authority in Pakistan shows a clash of ideas and interests between NPM-like reformers and the aviation staff. While the first group could not neglect the requirements from the international donor institutions for making the public sector more efficient, the aviation staff members were strictly focussed on adhering to the professional norms of air safety and security. This conflict particularly evolved around the desired number of managerial and technical staff positions in air control. Whereas the NPM reformers wanted to reduce the number of these positions, the existing management and staff strongly opposed this plan. Ashraf and Uddin observed various mechanisms of regressive effects as described by Sieber in this conflict, ranging from mutual provocation to more subtle reactions, such as publicly defending the rationales of cost saving versus actually questioning them. Ultimately, the number of the managerial and air control positions in this organisation was increased instead of being reduced. This paper provides an extreme example of how and why outside pressures to introduce NPM-types of reform may derail as a result of existing values and interests.

Ashraf and Uddin's case study helps explain the processes through which regressive effects of reforms are shaped in the course of time. The study is extreme in the sense that it not only shows how reforms can fail, but also demonstrates that they can worsen rather than improve an existing situation. Apart from an illustration of a clash of values between NPM reformers and local communities (as depicted in Fig. 1), this study may therefore also be considered as a warning against the aggressive introduction of NPM. The study shows that if this is the case, the NPM rationale and the values of the organisations involved may collide, leading to regressive outcomes of public sector reforms.

The final paper, co-authored by van Helden and Uddin, is a literature review of public sector management accounting in EEs. The review clearly signals a paucity of publications in this area. However, by including a large number of accounting and

public administration journals which have appeared over the last two decades, the authors were able to review almost 70 papers. The analysis of these papers is based on a framework which associates shifts in the discourses on the development of EEs, as instigated by international donor institutions, with changes in the accounting and control repertoires in these countries. A distinction is made between three subsequent discourses, i.e. state-led, market-led and localisation-led development.<sup>2</sup> First, state-led development has brought about legal-based budgeting and accounting tools serving the interests of state planning. However, as the review indicates, this approach has often not resulted in an active use of these instruments for planning, control, and accountability purposes at the organisational level. In fact, at this level the use has often been only symbolic or even non-existent. Second, the market-led development discourse has been a driving force behind various market-oriented technologies, such as full costing for service delivery and performance-based budgeting. The review shows that many of these western-centric management accounting technologies have failed to materialise fully and that they also gave rise to a deterioration of working conditions and decline of public service provision. Developments such as these can mainly be explained by a disregard for the specific contexts of EEs, often characterised by underdeveloped democratic institutions, poor labour and capital markets, and a lack of technical/professional capacities. The third and the most recent type of discourse, that of localised development, has stimulated the adoption of participatory budgeting and horizontal accountability. The review, however, warns against the capture of these new tools by strong and powerful stakeholders, which also reaffirms the importance of recognising that some contexts are not appropriate for this type of accounting and control repertoire. The review recommends various challenging directions for future research in this area, especially in-depth qualitative studies based on critical and social theories. This approach enables the inclusion of both the EE-context and the role of agency in the use of management accounting tools.

The literature review also shows how the international political framework of aid to EEs has stimulated the adoption of certain packages of management accounting tools. Thinking in terms of development discourses promotes a critical assessment of the research in this field. This approach highlights the importance of considering the distinctive EE-contexts in understanding how and why many management accounting innovations fail. In this respect, the review takes a more dynamic view on public sector management accounting in EEs than the framework in Fig. 1 suggests. Although market-led discourses are important, this review reveals that the management accounting repertoires in the public sectors of EEs are deeply rooted in history, and often built upon types of discourses developed in earlier times.

#### 4. Reflections and directions for future research

The papers in this special issue mainly discuss management accounting themes, whereas a focus on financial reporting and auditing is almost non-existent. Two papers discuss performance management issues; the other three empirical papers deal respectively with accounting systems in general, participatory budgeting and costing. The literature review concentrates on the whole domain of management accounting. All of the empirical papers in this special issue are based on qualitative research methods. And although not all of them justify their methodological viewpoints explicitly, they rely on either an interpretative or critical paradigm, as also evidenced by the selected theories and methods. The first paper combines neo-institutional theory with Ekeh's theory on the two publics; the second is built around a new variant of neo-institutional theory (on linguistic aspects of persuasion); the third is informed by social capital theory; the fourth uses a Bourdieusian framework; the fifth relates critical realism theory to Sieber's theory on regressive reform effects, and finally, the literature review relies on a political economy theory of development stages.

It is not surprising that the papers adopt a qualitative research method. Reliable data bases for conducting quantitative research are often not available in EEs' public sectors. Surveys may be an option for data collection, but they are unsuitable for uncovering the complexities surrounding the accounting practices in local social settings. Furthermore, there may be doubts about the reliability and accuracy of the responses in surveys. Therefore, we often see a preference for case studies in either one or a limited number of organisations, based on both interviews and documents. Informal talks are an additional source of data. Unfortunately, direct observation of the behaviour of politicians and managers in public sector organisations is not widely adopted. In EE-contexts, observational methods are, however, potentially effective in studying the actions and reactions of those who are actively engaged in the use of accounting repertoire.

All of the papers in this special issue demonstrate the importance of the interplay between public sector reforms – often initiated by international donor institutions – and the local contexts of EEs' public sectors. The studies outline a broad variety of responses, ranging from localised adapted forms of conformance to donor pressures, via forms of loose coupling, to a repertoire of active resistance, such as manipulation and obstruction (see also Modell, 2009; Oliver, 1991). Obtaining an in-depth understanding of the way in which the values and interests of local actors interplay with the donor pressures requires a set of methods which provides a detailed picture of the behaviours of the actors involved. In addition, we argue that theories are needed which enrich our insight into these types of conduct. This special issue points to several promising ones, such as Ekeh's theory of the two publics as used in the paper by Goddard et al., Bourdieu's theory on field, habitus and capital in the research by Kurupu et al., and the political economy theory of development discourses as employed in the review paper by van Helden and Uddin.

<sup>2</sup> The localisation-led discourse emphasizes local empowerment in EEs, whose implementation requires accounting tools such as participative budgeting and mechanisms for horizontal accountability.



As the latter paper demonstrates, international donors seem to be prepared to make quite fundamental shifts in their ways of thinking about developing EEs, often accommodated by new repertoires of governance and accounting. If one view does not work, it is replaced by another one. This phenomenon of discourse-shifting suffers from two fundamental risks. First, the 'advantages' of the new way of thinking are often overestimated, whereas a more nuanced and balanced view may be much more beneficial in the given context. Second, almost all discourses are based on general views on governance, with the result that local differences are not sufficiently taken into account. Given these observations, our advice to powerful international donor agencies would be to refrain from clinging to the "big stories" about development and governance. Instead, an approach to the stimulation of development which is more supportive towards EEs would be preferable. This could be achieved by recognising the diversity (both in a historical and political sense) of the local contexts. In this way, policy makers will be encouraged to focus more on realising institutional development in EEs instead of prescribing any particular accounting technology considered suitable at a particular moment in time.

As for future research, we suggest an emphasis on increasing our understanding of how a variety of practices can work. We believe this approach to be more effective than primarily assessing the extent to which particular western-centric reform ideas are adopted. We advocate research aimed at the local context in relation to the contextual issues as identified earlier. In particular, we envisage the following directions for future research.

First, we advocate research which combines academic rigour with practical relevance. However, what is relevant to practice depends on the interests of the potential stakeholders in the EEs' public sectors (see also [Modell, 2014](#)). In this respect, we observe that researchers face the risk of adhering too much to the ambitions and interests of powerful groups in EEs. These groups could be politicians and managers, but also outside parties, particularly international donor institutions. In the development of accounting repertoires as part of public sector reforms, we believe that researchers should be encouraged to focus particularly on the interests of the less powerful groups in EEs, such as citizens, clients, and the workers in public sector organisations. We often see that innovations in public sector accounting are initiated by top-level decision makers, i.e. politicians and managers as well as their advisors, such as internal and/or external consultants. In this context, researchers could function as the critical assessors of the innovations proposed by these groups. If necessary, they could suggest alternatives, for instance, which protect the interests of less powerful parties, such as the labour conditions of workers or the accessibility of services to citizens (see, for example, research by [Sharma and Lawrence, 2009](#)).

Second, we think that the theory of the two publics as developed by Ekeh, and used in the paper by Goddard et al., deserves a broader application. This theory points to a crucial tension present in many accounting reforms in EEs. This tension concerns the friction between the western view on the role of accounting in state administration and the indigenous perspectives on accounting, which are specifically aimed at serving local community interests. Acknowledging that this theory was developed for the sub-Saharan post-colonial context, future research could indicate whether it can be helpful in the analysis of reforms all around the world, especially in South-America and Asia. In addition, Ekeh's ideas could be expanded to uncover another type of 'public', as inspired by certain religions giving rise to extreme sectarian regimes. The examination of public sector accounting, which is subordinate to state ideologies in those countries, would be an intriguing research route.

Third, we observed a lack of sound public sector financial reporting research in EEs. In the international harmonisation of public sector accounting standards, western accounting innovations seem to be regarded as best practice for EEs, especially through the influence of IPSAS (International Public Sector Accounting Standards). However, it is at least questionable whether the technical complexity of these standards is sufficiently suitable for the EE-contexts, especially with respect to specialized accounting expertise and accounting systems (as pointed out in the research in Indonesia by [Harun and Kamase, 2012](#)). There is a danger that these standards are only artificially complied with, primarily for meeting the demands of the international donors. At the level of public sector organisations, their use may then be only minimal or even absent. Future research could therefore take a more comparative perspective by investigating diverging financial reporting systems and comparing their use by the several stakeholders. The framework in [Fig. 1](#) could be valuable for analysing possible differences across countries, since it acknowledges the influence of donor pressures, local contexts, as well as constraints caused by limited resources. This framework could of course be expanded by a variety of potentially relevant influential factors, as in the well-known framework developed by [Lüder \(2002\)](#). As regards the initiation of practice-relevant financial reporting instruments in EEs' public sectors, researchers could design pilots promoting simplified systems. Such an approach would acknowledge the specific EE-contexts, where sufficient specialized resources required for a proper accounting infrastructure and high expertise, are often lacking.

This special issue demonstrates that public sector accounting in EEs is a challenging field of research. This is because, first, it is difficult to obtain access to relevant accounting data and information, as well as how accounting repertoires are used and what impacts they have. Second, the research requires powerful theories to deal with the complexities associated with this study domain. Nonetheless, because of the potential role of public sector accounting in the economic development of EEs, this is a highly important area of research. We therefore hope that the collection of papers in this special issue will be a source of inspiration for public sector accounting researchers, particularly with regard to the formulation of relevant research questions and the adoption of appropriate theories and methods for addressing these questions.

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