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The Past is the Future: Constructing Public Sector Accountants

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This paper seeks to explore the role of public sector accountants in the new millennium. Our contention is that the past (in terms of public sector reforms and 'traditional' accounting practices) will strongly influence the public sector accountant in the future. In order to illustrate this, we consider the key reforms which have taken place within the public sector over the last two decades, and the role of the accountant therein. We assess the extent to which these changes will continue to impact the accountant in the future. We also consider that the accountant is constrained by the past, in terms of the continuing dominance of certain accounting practices. The role of the accountant in the new millennium can therefore be seen in terms of both continuity and change.

This paper is an examination of the future role of accountants in the public sector. The pace of reforms in the public sector has been wide-ranging, with dramatic changes taking effect, and in prospect. These changes have important implications for accounting practice. A major focus of these pressures for change has been on a new emphasis on *internal* accounting, with an enhanced role for the public sector accountant as a management accountant. However, our contention in this paper is that in the determination of the future role of the public sector accountant, the legacy of the past weighs heavily on accountants in the public sector: the Past shapes the Future.

There have been pressures to extend the armoury of techniques deployed by public sector accountants, for example, by using cost-effectiveness analyses. There are deep-seated problems around such extensions of the activities of public sector management accountants, notably the measurement of output of public services. In

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the face of such difficulties, public sector managers, policy makers and accountants continue to place the budget at centre stage. However, Ranson and Stewart (1994, p. 211) make 5 key reservations about the reliance on the budget in public sector organisations:

- it is about financial control, not choice.
- it has a one year focus.
- the process focuses on marginal changes.
- the format focuses on activities and departments, not purpose.
- it has an input not an output focus.

All of these dimensions of the budget in public sector organisations contrive to make it a source of controversy: top management see it as a mechanism for cuts and reallocations; at the operational level, managers see the budget as a means of acquiring new resources and expansion.

In this analysis, we depart from the conventional investigation of public sector accounting practices, which tends to follow the sectoral differences of, for example, health services, local and central government, utilities and quasi-autonomous non-governmental organisations. Instead, we adopt the perspective of exploring the institutional setting from a range of different concepts of what constitutes public sector organisations. These different mappings of what public sector organisations are, and are becoming, have important implications for the role of the accountant. This paper explores likely developments in the public sector organisations in the context of Ferlie *et al.*'s (1996) typology of such organisations: (a) the efficiency drive machine, (b) downsized and decentralised organisations, (c) the excellence model and (d) the public service model (see Table 1).

This particular typology is of relevance to the present study because of the manner in which it draws on extensive research across the public sector, to form these different configurations of public service organisations. *Prima facie*, there may appear to be overlaps between these models. Also, there must be the possibility of the evolution of further organisational forms – perhaps by some fusion of two or more of the models in the Ferlie *et al.* typology. There are, nevertheless, sufficiently different characteristics of these models to merit depicting them as distinct mappings of organisational types. Ferlie *et al.* have made no attempt to examine the incidence or relative importance of accounting to all of these organisational types presently, or in the future. However, we adopt the typology as presented by Ferlie *et al.* as a sufficiently robust categorisation for purposes of the present study.

(1) MODEL 1: THE EFFICIENCY DRIVE MACHINE

Essentially, this model represents the type of organisation which grew out of the

financial constraints that had begun to dominate the public sector during the late 1970s and the early 1980s. The focus within the public sector during this period was on achieving efficiency and value for money, and the financial nature of these issues clearly meant that the public sector accountant had an important role to play in helping to achieve them.

TABLE 1
A Typology of Public Sector Organisations

<p>Model 1: The Efficiency Drive Machine</p> <ul style="list-style-type: none"> • Finance strong • Management Strong • Customer focus 	<p>Model 2: Downsizing and Decentralising</p> <ul style="list-style-type: none"> • Management by contract • Small strategic core • 'Quasi' markets
<p>Model 3: The Excellence Model</p> <ul style="list-style-type: none"> • Organisational culture • Learning organisation • Corporate symbols 	<p>Model 4: Public Service Orientation</p> <ul style="list-style-type: none"> • Public accountability • Citizen important • Elected bodies

Source: (Abbreviated version) from E. Ferlie *et al.*, *The New Public Management in Action*, Oxford, 1996.

With the stress on reducing costs, the traditional budget continued to form the basis of the management accounting function within the public sector organisation during this period. The role of the accountant within this model is essentially that of a controller, attempting to control costs and inputs, and to control the actions of the professionals within the organisation through the implementation of accounting techniques. For example, in health care, clinical budgeting was used as an attempt to control the practice of clinicians, and speciality budgeting and costing were introduced into the health service in order to collect and control costs for particular medical specialities.

Other accounting techniques used to control expenditure included value for money and efficiency audits, and cash limits and cash planning. The deregulation of the labour market and the subsequent erosion of nationally agreed pay also meant tighter controls could be exercised over public sector wage costs. This model is also very closely associated with the neo-Taylorism approach to public sector reform (Pollitt 1993), which like Taylorism at the beginning of the century is heavily target orientated. Accounting practices such as target costing and performance measurement are therefore also potentially relevant to this model.

As a result of the stress on efficiency and cost saving during this period, greater visibility was given to the finance function within public sector organisations. The accountant became a key figure within the organisation, and was recognised as a vital source of information for non-accountants, who were themselves required to be far more 'accountancy conscious' (Pollitt 1993). The accountant's role had widened from simply ensuring regularity, to providing management accounting information essential to the achievement of the strategy of the organisation.

In another respect, this model represents the attempt to put into practice the Financial Management Initiative, HM Treasury (1982). It emphasises the need for a stronger managerial function within the public services, with accounting being used as a means by which to make the activities of the organisation more visible for management. Not only is the accountant required to provide a greater volume of information to support this enhanced management function, but also information which is more useful in terms of quality and detail.

In summary, the type of new public sector organisation portrayed in model 1 would require a significant and visible contribution from the public sector accountant. The emphasis of this model is on efficiency gains and cost reductions, clearly principles which lie within the domain of the accountant, and which would require the implementation of specific accounting practices in order to achieve them.

It is unlikely, however, that this model would be indicative of the type of new public sector organisation that will dominate in the future. Essentially, the principles underlying this model were sustained throughout the 1980s, but are now recognised as being over-simplistic and inadequate. This model fails to take into account the complexity of organisations, and pays no attention to the actual quality of service being offered by the institution. Therefore, although it is likely that efficiency and value for money will always be concerns within the public sector, they will never be the single most important concerns, as they were during the 1980s.

(2) MODEL 2: DOWNSIZING AND DECENTRALISING

Model 2 reflects the reforms which took place within the public sector during the late 1980s and 1990s, such as the introduction of quasi-markets and contracting-out. The emergence of separate purchaser and provider institutions, and the general 'downsizing and decentralising' of the public sector, including a dismantling of the traditional hierarchical organisation, also feature within this model. This model of the new public sector organisation can be seen clearly in the form of (a) GP fund-holders, (b) direct service organisations, (c) the next steps agencies and (d) the local management of schools. Of these (a) is a clear example

of decentralisation, with the aim of shifting budgets down to local decision-makers in a market-place for health care. This is also true of (d), where in the absence of markets, decentralised budgets were an inducement to motivate local managers to achieve efficiency gains. Both (b) direct service organisations and (c) the next steps agencies are examples, respectively, of local government and central government decentralisation, but with the intent of downsizing such activities.

The implications for the accountant of these new forms of organisation have inevitably been significant. One of the most vital tasks of the accountant within this model would be the determination of accurate cost information for cost recovery and price-setting to enable the quasi-markets to function effectively. In much of the public sector, however, this has proved problematic, with the trial implementation of several costing techniques, the most significant in recent years being variants of activity-based costing.

As mentioned above, a key principle of this model is the introduction of contracting-out. This structural change has also had a significant impact upon the accountant by reducing their ability to exercise strict financial control from the centre of the organisation. Devolved budgeting has given individual departments the power to buy in the financial skills which they require, rather than having this dictated to them by the finance department (Cochrane 1993). As more people within public sector organisations have been made aware of accounting issues, and have been given greater financial responsibility, it would appear that in some respects the accounting function has lost its mystique, with the accountant no longer being a source of unique knowledge.

On the other hand, although the structural reforms encompassed within this model have certainly led to a significant dissipation of the accounting function within the organisation, there still remains a strong requirement to control expenditure and monitor performance from the centre. As long as the public sector is concerned with spending taxpayers' money, it will always be essential to ensure accountability and regularity, and to have relevant standards in place. Performance targets, performance measurement, performance league tables and regular inspections (Olson, Guthrie and Humphrey 1998, p. 311) are some of the mechanisms that would be used to ensure that public money is spent appropriately. In this respect, the need for financial accountability is close to the traditional role of the public sector accountant.

It is necessary to consider the fact, however, that performance cannot simply be measured in financial terms, but must also be assessed in relation to non-financial criteria such as the quality of service provided by the organisation. The ability of accountants, and of accounting as a discipline, to take into account non-financial data and to therefore adequately represent complex organisations, is one of the key concerns expressed by accounting critics (see, for example, Jones 1993).

In summary, the second model of the new public sector organisation put forward by Ferlie *et al.* gives rise, in some respects, to a lesser role for the accountant. As accounting itself has become more visible within public sector institutions, through the drive to achieve efficiency gains, cost reductions, accurate prices and the like, more people within the organisation have gained an understanding of accounting issues, undermining to some extent the unique knowledge of the accountant (see Thompson 1997). The introduction of structural changes such as contracting-out, has also meant fewer organisational functions in which the accountant is directly involved. In addition, the general downsizing and decentralising of the public services has meant that the traditional hierarchical organisation, on which the principle of accountability is essentially based, is no longer there.

Essentially this model emphasises the significant structural reforms which have taken place within the public sector over the last two decades. Although this reform process is still continuing, it would seem unlikely that the pace of structural reform could continue with such momentum indefinitely. Therefore, with regard to the extent to which this model represents a blueprint of the new public sector organisation of the future, it would appear that it has only a limited life span.

(3) MODEL 3: THE SEARCH FOR EXCELLENCE

The third model put forward by Ferlie *et al.* encapsulates the 'search for excellence' mode of thinking made popular by Peters and Waterman (1982) in the early 1980s. This model was introduced into the public sector in the early 1990s, and its adoption within organisations is being increasingly encouraged.

The difficulties of putting this model into practice, however, are many, not least because there is no clear explanation of what would actually constitute excellence in the public sector. The implications for the accountant within this model are therefore difficult to assess, as it is not apparent what specific tools and techniques should be used to put it into practice. This is evident in the current UK focus on Best Value (DETR 1998), a government policy which is intended to promote excellence in public service organisations. This policy is driven by procedures, by management arrangements and by recognition of the importance of considerations such as quality in public services. In terms of accounting, the new policy of Best Value reinstates the centrality of the budget (although it steers the budget away from the annual fixation to a three-year cycle) and is yet another acknowledgement of the potential contribution of activity-based costing, but neither of these will detect excellence.

If the accountant were to contribute towards the achievement of the ideas contained within this model, it would be necessary to utilise accounting techniques that take into account a diversity of *non-financial* data. Essentially, a means would

have to be devised to evaluate the extent to which excellence had been achieved, although the complications associated with doing this would inevitably be many, and may indeed prove to be impossible.

Essentially there is the potential for the accountant to use a whole range of accounting techniques within this model, as its key principles do not obviously require any specific techniques to put them into practice. This appears to be the least accountancy orientated model of the new public sector organisation. It may even be in this model that accounting mechanisms could be put in place, without them actually being used to achieve their stated aims, i.e., as a legitimating rather than an instrumental mechanism (Richardson 1987).

In summary, it appears that this model does have a future within the public sector, although it is unlikely that it would be able to operate in isolation, and would be limited in relation to the costs of its implementation. Aspects of the model would therefore have to be integrated with certain other new public management principles, and the extent to which this could be achieved is a further consideration. It maybe that this model of the institution could therefore only manifest itself within the new public sector to a limited extent.

(4) MODEL 4: PUBLIC SERVICE ORIENTATION

This model of the new public sector organisation represents a combination of selected public and private sector management ideas. It recognises the unique nature of the public sector, and the importance of the citizen and their concerns, whilst also seeking to enhance the traditional public sector institution through the introduction of certain private sector ideas, such as total quality management.

The implications of this model for the accountant, however, are difficult to discern, particularly as it is stated by Ferlie *et al.* that it has yet to reach its full potential. The model highlights a scepticism as to the role of markets within the public sector, with possible implications for the accountant being a return to a more traditional public sector structure, and to traditional management accounting information needs. With this in mind, the budget would form the basis of the accounting within the organisation, with an emphasis on reporting, regularity, and the use of standard costs and variances.

Within this model, there is also a strong focus on ensuring the accountability of public services to local users, and in this respect there is the potential for the accountant to occupy a traditional stewardship role. There is also an emphasis on service quality and high quality management, opening up the possibility for the accountant to break away from the traditional accounting function, and to utilise newer techniques which would be able to assess the extent to which quality in

service delivery had been achieved.

Other characteristics of the model, however, do not obviously invite the involvement of the accountant. For example, as in model 3 there is a stress on achieving excellence in the public services, and also on the importance of societal learning, such as community development work. The implications of this model for the accountant therefore appear to be two-fold. On the one hand, the model stresses the distinctive nature of the public services and the need to ensure accountability, and in this respect points towards a traditional role for the public sector accountant. On the other hand, there are aspects of this model which do not appear to be obviously accountancy orientated, and which indicate no obvious role for the accountant.

As mentioned above, this model of the organisation is not yet fully developed within the public sector, which makes it difficult to assess the extent to which it may be successful in the future. It does, however, appear to encompass a realistic set of principles, which recognise the uniqueness of the public services and the necessity of securing accountability, as well as embracing a selection of private sector ideas, such as TQM. This model stresses the importance of being close to the user and understanding their needs, but unlike model 3, it does not advocate sweeping reforms, such as changing the culture of an organisation. In essence, therefore, this model appears to be the most realistic representation of the public sector organisation of the future.

(5) CONCLUSION

The focus of this discussion has been on the accountant in the organisational context, reflecting the locus of two decades of public sector changes and the consequent enhanced demands for public sector management accounting. In this examination of what the future holds for public sector accountants we have eschewed the conventional sub-sectoral (e.g., health, local or central government) analysis and deployed a typology of public sector organisations. A summary of the implications for accountants is shown in Table 2. For each of the four models discussed, a distinctly different role may be discerned.

We conjecture that there are a number of reforms that are apparent in Ferlie *et al.*'s typology that will *continue* to provide challenges for public sector accountant in the new millennium. These include:

- (i) The impact of managerialism: it will be necessary for the accountant to acquire and build upon their managerial skills in order to survive within the increasingly managerialist atmosphere of public sector organisations.

- (ii) This extends also to the accountant having a knowledge of the work of other professional groups within the organisation, in order that they can tailor their use of accounting techniques to this work, and so derive maximum benefit for the organisation. It is vital that the strategy and policies of the organisation are closely co-ordinated with the financial plans.

TABLE 2
The Role of the Accountant in the Typology of Public Sector Organisations

<p>Model 1: The Efficiency Drive Machine</p> <ul style="list-style-type: none"> • Accountant in key role • Controller • But principles outdated 	<p>Model 2: Downsizing and Decentralising</p> <ul style="list-style-type: none"> • Lesser role for the accountant • More non-accountants with financial responsibility • Structural reforms will not continue indefinitely
<p>Model 3: The Excellence Model</p> <ul style="list-style-type: none"> • Accounting issues least relevant • But always need to ensure accountability and regularity • Possible future but could not operate in isolation 	<p>Model 4: Public Service Orientation</p> <ul style="list-style-type: none"> • Still to reach full potential • Return to public sector principles – return to traditional role for accountant • Or possibly, new role for accountant • Most likely to survive in future

- (iii) Where there are delayed and decentralised organisations, the accountant must no longer be seen as separate and inaccessible as they often have in the past. Instead they must carve a niche for themselves as an invaluable source of accounting knowledge for others within the organisation, who themselves will increasingly need to have a knowledge of financial issues.
- (iv) The drive for excellence: the extent to which the accountant has a role in realising the excellence model in public sector organisations. It will be necessary for the accountant to consider how they will contribute to this model, what techniques they will employ in order to achieve it, and how they will encompass the measurement of excellence within the accounting sphere. It is apparent that the use and influence of this model is continuing to spread within the public sector, and it will be up to the accountant to

ensure that they contribute to it, rather than allowing themselves to be sidelined.

Our contention within this paper is that the past (whether expressed as accounting practice, or as central government policy towards public sector institutions) weighs heavily on the future of the public sector accountant, and we conjecture from our analysis of the typology that this will be apparent in two disparate ways:

1. The role of the public sector accountant in the new millennium may be seen to exhibit little change from the past – with key concerns continuing to be the accountability and regularity of public money, and the pressure to control costs. In this respect the accounting function, and the accounting techniques used within public sector organisations may remain very much the same, centring primarily on the budget.
2. Furthermore, the role of the public sector accountant in the future may involve a considerable degree of change as a result of the *continuing* impact of the reforms previously discussed.

It is apparent therefore that the past will impact the future of the public sector accountant in terms of both continuity and change.

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