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Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Reforming central government: An evaluation of an accounting innovation

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ARTICLE INFO

Keywords:

Accountability
Critical
New public management
Public sector

Palabras clave:

Rendición de cuentas
Crítica
Nueva Gestión Pública
Sector Público

Mots clés:

Redevabilité, Responsabilité
Critique
Nouvelle gestion publique
Secteur public

ABSTRACT

This paper examines a significant accounting innovation in central government accounting – the introduction of Resource Accounting and Budgeting (RAB) in the UK. This innovation is studied through the lens of Rogers diffusion theory. The study setting is the Scotland Parliament. This research shows that, in the terms of diffusion theory, RAB can be classified as an accounting innovation. However, the implementation of RAB is problematic. While the reform of the UK central government system was initially sought as a mechanism to enhance democratic accountability, this paper shows that RAB does not connect with parliamentarians. The introduction of RAB flows as much from a managerial agenda as it does from the aim of democratic accountability.

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1. Introduction

The purpose of this paper is to study the adoption of Resource Accounting and Budgeting (RAB), which has at its heart a concentration on accrual accounting principles, as an innovation in central government accounting. This study focuses on UK policies and experiences. From 1866 to 2001, the UK central government had a cash system of accounting and budgeting. From 2001, the UK adopted a radical change to its central government accounting with the adoption of RAB; RAB entailing both accrual accounting and accrual budgeting, and aligning these to performance information where possible (HMT, 1994). This study seeks to extend our knowledge of the impact of the important innovation of RAB.

The move to RAB is often argued in terms of better accounting and improved management information for planning and control (Likierman, 2000). In the UK, HM Treasury's view is that such information will provide politicians, as well as managers within the public sector, with more appropriate information on how resources meet objectives as a basis for enhancing democratic accountability as well as providing better value for money for taxpayers. As a result, it is envisaged

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that within government a more strategic approach to planning public expenditure would emerge, with better information in resource allocation and on consumption and investment (HM Treasury, 2001).

In particular, this paper offers new insights into the use of government accounting (RAB) in the parliamentary context. The research results presented in this paper examine RAB in central government as part of the *modernisation* of UK governments by the New Labour administrations of 1997, 2001 and 2005. The specific context in which this accounting innovation is studied is the Scottish Parliament, which was established in 1999 as the UK central government sought to devolve its powers as part of its modernisation agenda. The Scottish Parliament is provided planning and financial reporting information using RAB, as HM Treasury deems the Scottish Government to be part of UK central government.

This paper addresses the research question of whether RAB enhances or not the activities of parliamentarians in their exercise of democratic accountability by examining the introduction of RAB in the UK through the lens of diffusion theory (Rogers, 1995, 2003). While there has been some research on accounting in government, there is no *conclusive* prior research in the literature on the impact of RAB on the activities of elected members of UK parliaments. Currently, the strongest available research evidence is from an earlier era (Likierman and Vass, 1984; Likierman and Creasey, 1985) and this highlights the limited expertise of parliamentarians in the scrutiny of financial information. However, this paper identifies more complex patterns of interaction between those in parliament and the use of governmental accounting. This research also extends our understanding of the diffusion of innovations, specifically in public sector settings, where the introduction of innovations has distinctive traits.

This paper is organised in a further four sections. First, this paper discusses the theoretical framework of the diffusion of innovations. Second, the research design sets out the study setting (the Scottish Parliament, which is obliged to use central government accounting practices by HM Treasury), sources of data and approach to data analysis. The results use Rogers diffusion model (Rogers, 2003) to examine the antecedents of this accounting innovation; the spreading of knowledge of central government accrual accounting; the manner in which the government sought to 'persuade' potential users of the merits of this innovation; the decision to adopt RAB; and the implementation RAB through the lens of the views of key actors in and around the parliament on this accounting innovation. Finally, we finish with discussion and our conclusion.

2. Theoretical framework: diffusion

Diffusion theory has been used widely in accounting studies (see, for example, Malmi, 1999; Bjornenak and Olson, 1999), but predominantly in private sector settings. However, this perspective has been advocated as relevant and appropriate for the study of accounting innovations in public sector settings (Jackson and Lapsley, 2003; Lapsley and Wright, 2004). Diffusion of innovations is said to occur at the point of adoption of an innovation (Rogers, 1983, 1995, 2003).

The trajectory from innovation to diffusion is not automatic. There are significant environmental factors which may promote or inhibit the diffusion process. This is conventionally described as a five-stage model which starts with the knowledge of the innovation (Rogers, 2003, p. 170). However, it is evident from a close reading of the work by Rogers that the first stage is actually '*prior conditions*' which may determine the receptivity of any particular context to an innovation (Rogers, 2003, pp. 169–170). At p. 169, Rogers (2003) reflects on the diffusion process as one which occurs over time and consists of a series of different actions. On p. 170, Rogers (2003) identifies the prior conditions which impact on the diffusion of innovations. Specifically Rogers 'prior' conditions are these: previous practice; felt needs or problems; innovativeness and norms in the social system. The second stage of Rogers diffusion model centres on *knowledge* of the innovation in the decision making unit (Rogers, 2003, p. 37, pp. 170–173). The third stage of the diffusion model is *persuasion*. Rogers (2003, p. 170, 222) observed that the following factors impinge on the likelihood of being persuaded to accept a diffusion: the complexity of the innovation; the possibility of a pilot or trial test of the innovation; the goodness of fit of the innovation with the adopter's existing values; the perceived benefits to be derived from innovation; and the possibility of actually observing the results of the innovation (Rogers, 1995). It has been observed that inability to convey the merits of reforms in central government can lead to later implementation difficulties (Arnaboldi et al., 2010). These three stages of the diffusion model lead to Stage 4 – *the decision*. Rogers (2003, pp. 177–179) envisages that this may lead to a number of outcomes other than the straightforward decision to adopt the innovation. For example, the decision to accept may be subject to continuing approval, or immediate rejection may lead to later adoption or even continued rejection. Once the decision to adopt the innovation has been reached, the adopting organisation can proceed to Stage 5 – *implementation*. However, implementation is an uncertain exercise and may prove complex and problematic (Rogers, 2003, pp. 179–188), in which opposition from groups who were not 'innovators' may surface, and other actors in and around the scene of the adoption of the innovation may seek to alter, modify or 'reinvent' the innovation. Finally, Rogers (2003, pp. 189–194) has Stage 6 – *confirmation*. At this final stage, the adopters start to recognise the benefits of the innovation, may promote the innovation and are content with the innovation, such that it may be regarded as 'routine'. This diffusion model is shown in Table 1.

The diffusion of innovations is a process, rather than an act (Lapsley and Wright, 2004). Boundary spanning activity may be necessary by actors to bring inventions to the point of diffusion. This process may be shaped by internal and external, formal and informal, channels of communication (Swan and Newell, 1995; Clegg et al., 1996) and can take different forms. There may be demand led diffusion of innovation by adopters, but it is also possible that suppliers will be promoting their particular innovation, regardless of perceived need by managers (Bjornenak, 1997). Within this process, interaction within networks or between suppliers and adopters may change or lead to further development of innovations (Bjornenak and Olson, 1999; Geroski, 2000).

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