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Strategic public management for financial condition: Focus on fund balances of school districts

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ABSTRACT

Scholars have emphasized the roles of strategic public management and the financial condition but little is known about the link between the two. Finding the missing link is the purpose of this study. By analyzing data from K-12 Texas school districts, this study investigates how top managers' strategic efforts toward their superiors, subordinates, and external stakeholders affect the financial condition of school districts. The findings suggest that superintendents' managing upward toward school boards increases fund balances, whereas managing downward toward school principals decreases fund balances. Apparently, the relationships between school boards, superintendents, and school principals contain different priorities and incentives that influence their behaviors in managing school district budgets.

1. Introduction

There has been a spike in research activity on how public management has affected organizational performance in the area of public administration over the past few years. In this regard, managers' leadership, employee motivation, organizational goals, cultures, structures, and managerial networking, to name a few, have been emphasized. The research shows that public management improves employees' perceptual performance (Brewer & Selden, 2000), students' academic performance (Meier & O'Toole, 2003), police performance (Nicholson-Crotty & O'Toole, 2004), and state government performance (Jacobson, Palus, & Bowling, 2010). To resolve complex public problems, the so-called *wicked* problems, and to supplement the limited resources available for organizational goals and survival, a body of studies has examined the significance of public management as part of an organization's strategy (e.g., Agranoff & McGuire, 2004; Galaskiewicz, 1985; Jarillo, 1988; O'Toole, 1997; Pfeffer & Salancik, 1978; Ryu, 2015). Despite progress in this research, as of yet, relatively little attention has been paid to the relationship between public management (specifically, public managers' strategic collaboration behaviors) and performance in the context of local budgeting. Understanding the link between the two deserves scholarly attention because budgeting is one of the most important concerns for public managers. For instance, Gulick (1937) emphasized budgeting as one of an executive's core functions. Schick (1966) argued that budgeting allows managers to control administrative abuse, enhance efficiency in administration, and strategically plan for the organization. In the school districts from which this study draws its data, budgeting is one of the most important management tools used to further the district's educational goals and accomplishments (Hartman, 1999). Well-managed budgeting is a critical antecedent to organizational productivity (O'Toole

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& Stipak, 2002), administrative efficiency and economy (Willoughby, 1918), and responsibility (Cleveland, 1915).

Over the past few decades, due to recurring yet unexpected financial distress, a number of public programs have experienced budget shortfalls. As part of local governments, school districts have not been spared from the effect of such financial challenges. Due to the volatility in both external and internal funding (e.g., local revenue sources and subsidies from upper-level governments), it is likely that school districts will need to find a way to balance their budgets without compromising the needs of their students (Kim & Eom, 2016). In this vein, we were motivated by the need to ponder how to manage local budgets effectively in the public sector, which has long become central in the scholarship, through the lens of strategic management in the specific context of school districts.

Considering the deficiency of relevant empirical research and the lack of a more developed theoretical exposition, this study is expected to contribute to the literature of management and finance by filling the gap by empirically examining the impact of public management on the local financial condition. We first dimensionalize a top public manager's (here, a superintendent of a school board) strategic managing efforts into managing upward, downward, and outward and investigate the impact of each managerial effort on fund balances as a proxy for the financial condition of school districts. For the analysis, we used a superintendent management survey and other financial and personnel data from the 2004–2005 school year in Texas K-12 school districts.

The remaining sections of this study are as follows. The first section begins with the conceptual framework of this research. Definition and measurement of the financial condition of school districts based on fund balances are addressed. Key rationales for public management are also discussed. The next section explains the connection between each management effort and local financial outcomes in the context of school districts and then formulates a set of testable hypotheses. The third section describes the data and measurements for the analysis. The fourth section presents empirical results and a brief discussion of the findings. The final section offers conclusions and implications for public management.

2. The financial condition of school districts: focus on fund balance

The financial condition[1] is a complex and multidimensional concept. It is neither easily measured nor defined in a single perspective, and it depends on the fiscal structure that governments possess, the fiscal capacity that they garner, the threats and opportunities that they face, and the financial tools that they utilize (Hendrick, 2011). Indeed, the financial condition can be conceptualized as a government's ability to maintain existing service levels, withstand economic disruption, and meet the demands of growth and decline (Maher & Nollenberger, 2009, p. 62). For school districts, in particular, the financial condition is of central importance, since it is directly or indirectly related to educational services and students' academic achievement. In school district budgeting,[2] federal and state governments have long continued to support local public education—public elementary and secondary—through aid based primarily on income and sales taxes. School districts have also relied heavily on locally raised revenue derived from property taxes (Kim & Eom, 2016). When necessary, they have issued bonds to fund the capital components of their budget (Nguyen-Hoang, 2012). Based on such financial resources, the financial condition of school districts may influence housing values, local business and economic development, human resources quality, the long-term credit rating on government bonds, and the tax burden applicable to citizens. Local government managers and key stakeholders need to pay attention to the changes in the financial condition to sustain the desired level of public services over both short and long periods of time (Honadle, Costa, & Cigler, 2004).

With respect to the financial condition of a district, Mead (2001) noted that the "financial condition is the ability of a school district to meet its obligations as they come due and to finance the services its constituency requires" (p. 59). According to the Office of the New York State Comptroller (2002), the financial condition is the ability of a school district to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. In a similar vein, Ammar, Duncombe, Jump, and Wright (2005) and Duncombe, Jump, Ammar, and Wright (2003) viewed it as the ability to finance adequate student performance over the long run with reasonable tax burdens and without temporary disruptions of service. Taking these views together, this study posits that the "financial condition of school districts" refers to the ability of school districts to maintain balanced budgets by delivering adequate and uninterrupted public education service to their students based on its specific political and socio-economic circumstances, funding limitations, and the fiscal rules governing each school district (e.g., the tax burden).

To date, the literature has encompassed a variety of different measurements of the financial condition of state and local governments. However, despite some attempts, no common tool to assess the fiscal condition of school districts has emerged. For instance, to examine the financial condition of school districts, Ratcliffe, Riddle, and Yinger (1990) looked at school districts in Nebraska, focusing on revenue-raising capacity (through property taxes and

[1] In some previous research, the financial condition tends to be used interchangeably with the concept of fiscal health or wellness for local governments, including school districts (see e.g., Duncombe & Hou, 2014; Hendrick, 2011; Honadle et al., 2004; Ladd & Yinger, 1989; Smith, 1986).

[2] For public elementary and secondary schools, the ratio of revenue (federal, state, and local sources) tends to vary by state. In this study, the main source of funding in Texas school districts (FY 2004–05) was drawn from local revenues, followed by state revenues (for more information, see U.S. Department of Education, National Center for Education Statistics, Common Core of Data [CCD] (2007). Table 163: Revenues for public elementary and secondary schools by source and state or jurisdiction 2004–05. In National Public Education Financial Survey, 2004–05. Available at http://nces.ed.gov/programs/digest/d07/tables/dt07_163.asp).