Public sector change, organisational culture and financial information: a study of local government

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Introduction

In common with global changes to the public sector, there have been many changes to all three levels of Australian government over the last 15 years, and change continues to this day. The reforms are consistent with New Public Management (NPM) (see for example Hood 1995, Guthrie and English 1997, Guthrie et al 2003, Osborne and Gaebler 1994). Osborne and Gaebler for example advocate smaller government, use of the market for service delivery and a focus on user pays. In NPM, changes and reforms are designed to achieve greater efficiency and force the adoption of new processes and technologies. One of the imperatives driving the changes is the ideological position that the private sector is more efficient and effective than the public sector. The private sector is seen as utilising better management practices, and by focusing on profit drives down the cost of services. This is the underlying premise of NPM. The academic and the professional literatures are replete with articles and journals with special editions devoted to NPM and the New Public Financial Management. The market model, where competition and quasi-markets are introduced into contracts between the public sector and private sector suppliers (Guthrie et al 2003), is widely adopted in many facets of government. The driving force is cost, and the emphasis is often on small government.
Victorian local government has been subjected to arguably more change than any other Australian public sector (Kloot and Goodwin 1997), and has as result instituted many new practices and processes (Kloot and Martin 2002). However, in 2001 the Institute of Chartered Accountants Australia (ICAA) undertook research which resulted in suggestions of poor quality in Victorian local government budgeting systems. After a decade of change, it seems extraordinary that in Victorian local government budgeting systems, a key efficiency tool, are regarded as weak. We want to understand the organisational dimensions which may have lead to this result. In addition to the work of the ICAA, there has been substantial research on the role of accounting technologies in NPM (see for example Guthrie 1993, Kloot et al 1999, Kloot and Goodwin 1997). It has been widely suggested that privatised and corporatised public sector entities require private sector-type accounting and control systems to function effectively and efficiently in the NPM environment, although that view is disputed by other authors (Carlin 2005). That local government budgeting systems are seen as being of poor quality after a decade and more of NPM is interesting, and suggests that other aspects of accounting and financial systems may also be poor.

We would like to understand more about the use of accounting and financial information in the current climate of local government. To do so, we want to look at what has shaped the current climate, and whether the changes have impacted on the culture of local government.

We are interested in discovering whether managers in a competitive local government sector find their accounting and financial information systems useful in their day-to-
day work. We are also interested in finding if other performance evaluation methods are used and how useful managers find other technologies.

**Victorian Local Government Context**

Local government is the third tier of government in Australia, after the federal and state governments. Local government is controlled by the individual state governments, and must comply with the specific legislation in each state. Without responsibility for education, health and housing, local governments in Australia have a minor role when compared to local governments in other countries such as the UK. However, local governments do play an important role in providing micro-economic infrastructure and various social services for their local communities, with expenditure representing 2.3% of GDP in 2002-3 (LGNR 2005). Local government has four sources of revenue: charges for services, rate revenue, general grants from the federal and state governments either direct to local governing bodies or through the state Grants Commission, and specific purpose grants such as those for road construction. The revenue sources which determined by the individual council are charges and rates, but the reforms which will be discussed below have limited the councils' ability to determine rates and charges. In 2002-3, rates revenue was only 45% of the total revenue raised by local government in Victoria (LGNR 2005). This percentage is not consistent throughout the state: urban councils have a higher reliance on rate revenue and rural councils have a lower reliance, being eligible for higher levels of grants and subsidies from state and federal sources.
There is wide variety in the characteristics of local governments in Victoria – indeed in all of Australia. Local governments include those located purely in older suburban areas, those located in newer outer suburban areas, those spanning outer suburbs and semi-rural areas, purely rural areas, remote areas and regional cities and towns. Their populations vary from very wealthy inner suburbs to lower socio-economic populations to those suffering extreme hardship in rural areas hit by drought. The needs of the local communities in these widely varying councils also vary widely, requiring different services with different emphases.

Changes affecting Victorian local government

Goddard (1997) attempted to identify the historical, political and organisational factors which determine the nature of a local government’s Financial Management and Control Systems (FMCS). He analysed the financial control systems of three local government organisations (one in the UK and two in Canada) and raised a number of questions about the development and function of FMCS. Goddard’s work provides an excellent framework for investigating the impact of change on a local government’s FMCS. Goddard’s social drama and organisational culture thesis provides a starting point for this research. We are interested in the views of local government managers about the significance of the changes they experienced in developing local government as it is practiced today. Goddard’s work is relevant to the Victorian local government sector which has experienced significant changes over the last decade.

In 1992/1993 AAS 27 Financial Reporting by Local Governments became operative, requiring the use of accrual accounting for the first time in the local government sector. In 1994/5, following a change of State Government, several very significant
structural changes were introduced. First, following a round of compulsory amalgamations resulting in fewer but larger councils (210 to 78), rates were both cut (by about 10%) and capped by the State. This placed many councils under fiscal stress. They could no longer simply increase rates at their discretion to pay for the services needed by their communities. These changes were soon followed by the introduction of compulsory competitive tendering (CCT), which placed further fiscal stress on councils as they worked hard to develop the expertise and processes necessary for the successful implementation of CCT. The objective of CCT was to make councils more efficient in their operations by having them compete with the private sector for the right to supply services in line with councils’ service objectives. CCT required that 50% of expenses were to be put to tender. If depreciation and other accruals were factored in, close to 100% of cash expenditure had to be subjected to tender in some councils. The State government had not finished, however. It introduced a much more rigorous form of compulsory benchmarking, through a series of surveys and analyses which were then reported to local government CEOs, who needed to explain and improve their relative performance. These surveys included the community satisfaction measurement program, in which councils were compared across a number of dimensions, some of which were not readily comparable given different socio-economic and geographic locations. Other reforms included the requirement for all local governments to produce corporate or strategic plans, and to prepare annual reports for their ratepayers.

Following another change of State government in 1998, Best Value was mandated in place of CCT (Local Government (Best Value Principles) Act 1999). Best Value requires that councils choose suppliers not only on the basis of cost (the resource
efficiency premise underlying CCT), but also on the basis of achieving community outcomes specific to the needs of the local community. Under best value, considerations of public interest should be taken into account in decisions relating to outsourcing and service provision (Guthrie et al 1999). Best Value essentially requires that services be delivered to clear standards of both cost (similar to CCT) and quality (as determined by community consultation).

The changes detailed above have all impacted on the operations of local government, and we are interested in determining which of these are perceived to be the most influential or most critical by senior local government executives. Prior work (e.g. Kloot et al 1999, Guthrie et al 2003, Carlin and Guthrie 2001) has examined how specific changes have impacted on local government, but this research is aimed at evaluating in a holistic manner which changes are deemed by those in local government to have had the most influence on their operations.

There are other events which may also have an influence on local government operations. Just as changes in the state government has lead to changes in the legislation and environment for local government, changes in the political makeup of the local council may also lead to changes for the managers charged with developing and implementing out revised business and operating plans. Local government managers hold themselves to be accountable to the local community and councillors (Kloot and Martin 2001), thus they may be expected to experience change in their day-to-day operations following a change in the political makeup of the council (change of mayor or change of council) which imposes different accountability requirements. We are interested too in knowing if local government managers...
perceive a change in the state government as being critical, or if they perceive that it is the changes that follow the change in state government that is critical to their operations.

Organisational Culture

It has long been recognised that organizational culture impacts on the efficacy of management control system design and use (for a good summary see Scheytt, Soin and Metz 2003). Ouchi (1977, 1979, quoted in Goddard 1997) suggested the notion that culture is an important factor in the design and operation of organisations. There are many definitions of organisational culture. For example, Morgan (1986) regarded organisational culture as the shared meanings, shared understandings and shared sense making that result from the process of reality construction that allows people to see and understand particular events and processes in distinctive ways.

Ouchi (1979) described three organisational control mechanisms: clans, bureaucracies (hierarchies) and markets. In the clan culture, control is achieved through shared values and beliefs. In the bureaucratic (hierarchical) culture, control is achieved through formal rules. In the market culture, control is achieved through price mechanisms (Langfield-Smith 1995;180). Hofstede (1981) suggested that one specific cultural type – the clan – is important in ensuring operational control in public sector organisations which have difficulty in measuring performance. The market culture may be important in ensuring control in a public sector organisation required to tender a large share of its expenditure to market competition, where price will determine the outcome of the tender.
There is a large body of work relating to the impact of historical events shaping organisations (Hofstede 1980, Frost 1985, Schein 1985, Trompenaars & Hampden-Turner 1997). The work of Goddard (1999) focuses on the relationship between organisational culture and management control systems (MCS) in local government. In his research into the role of culture on MCS, Goddard highlights key concepts from the organisation culture literature. He cites Rosen (1991) who notes that ‘corporate culture is about meaning and its construction, about ideas, values, beliefs and assumptions.’ Goddard’s (1997) research further provided empirical evidence that when a financial control system is incompatible with organisational culture, it will meet resistance and eventually fail. Our current research is interested in the relationships (if any) between culture, the impact of exogenous changes, and the use of accounting, budgetary and financial systems. The focus is on financial management control systems, particularly the use of accounting, budgetary and financial information in control systems.

The challenge in studying relationships between culture and other variables is first to assess the nature of the organizational culture, in this case in the local governments we are studying. The Competing Values Framework developed by Cameron and Quinn (1999: 29) designed to ‘narrow and focus the search for key cultural dimensions’ is helpful in organising and interpreting organisational phenomena. Their framework operationalises the cultural types developed by Ouchi (1979). Cameron and Quinn identified two major dimensions which organised the cultural dimensions into four main clusters. These clusters make up the Competing Values Framework. The dimensions relate to flexibility and discretion versus stability and control; and,
internal focus and integration versus external focus and differentiation. Cameron and Quinn (1999) note that these four core values ‘represent opposite or competing assumptions. Each continuum highlights a core value that is opposite from the value on the other end of the continuum—that is, flexibility versus stability, internal versus external.’ (p. 31). The resulting Competing Values Framework is set out in Figure 1.

![Figure 1: The Competing Values Framework (Cameron and Quinn 1999, p. 32)](Additional control emphasis from Langfield-Smith (1995))

Martin and Sinunons (2002) used the Cameron and Quinn framework to examine leadership roles in local government and found that higher level local government managers are more market driven than lower level managers. Whilst other writers have used similar concepts to Cameron and Quinn, (see for example Langfield-Smith (1995) who examined culture from an accounting perspective) to classify culture, and to describe the types of control systems associated with each cultural type, such
research is largely descriptive. Other than Cameron and Quinn, we have not found research which objectively classifies culture according to clan, adhocracy, market, and bureaucracy before examining the links of such cultures with control system types.

In the context of this research, it is noted that until the mid 1990s, Victorian local government was an insular, closed shop industry characterized by stability and predictability in career progression with relatively little inter-industry staff movement (staff movement was virtually all intra-industry, within local government). Its culture was characterized by conservative bureaucratic regulatory endogenous characteristics (Martin 1999). Considerable downsizing, which resulted in 63% of the 1993 employees losing their jobs by 1997 (Kloot et al 1999), together with a concerted effort to bring in employees from the private sector to develop new knowledge and a new culture, may have lead to cultural change within the sector.

**Accounting, Budgetary and Financial (ABF) Information**

Financial information – accounting information, budgeting processes, variance information, performance information – is an integral part of the management control system in most for-profit firms (Van der Stede 2003) and also plays a crucial role in privatised public sector entities. Accounting information and technology has been a principal driver in the privatisation and corporatisation of the public sector. Indeed, financial reporting has been the focus of much of the NPM reform in Australia. For example, the adoption of accrual accounting has been seen as a panacea to increase transparency and accountability within the public sector. Carlin (2005:314) notes that accrual accounting in the public sector is held by its proponents to be useful in
enhancing accountability and transparency, in driving greater organisational performance through improved resource allocation, and in identifying the full cost of government activities, again leading to greater efficiency and better resource allocation and performance.

Accounting, budgetary and financial information (ABF) can play a major role in the achievement of results by local government, particularly where exogenous accountability is largely defined by the presentation of financial reports to the Office of Local Government and to the community. ABF can be long-term or short-term in orientation, prospective (plans) and/or retrospective (variance analysis) and use financial and/or non-financial information (Kloot et al 1999). ABF includes performance information, and achieving the desired outcomes relies on the communication of information between managers and between managers and their employees. ABF encompasses financial management and information, but is not sufficient in itself ensure that the organisation achieves its objectives. Hofstede (1981) discusses the types of controls needed in an environment, with ambiguous objectives, non-measurable outputs and no known predictive model, which is often the case in local government. He suggests that ‘political’ control is needed in such an environment, where ABF could not provide a full picture of the outcomes. Given the difficulty of measuring such controls, this research focuses on the technical and administrative processes of financial management and budgetary control systems.

In the context of Victorian local government, which has been subjected to arguably the most significant changes in the Australian public sector, this paper will:
1. Examine the changes affecting the environment and operating conditions of local
government – which changes are perceived to have had the greatest impact on
normal operations?

2. Examine the effects on culture of local government organisations – as NPM
concentrates on privatisation and corporatisation we would expect a move to more
market-based culture

3. Examine the effects on processes – in light of increased emphasis on efficiency
and effectiveness we expect more emphasis on accounting and financial
information and control systems

Method

The research was carried out in local government in the state of Victoria in 2004. Data
was collected using a survey questionnaire. Twenty authorities were approached,
initially through an email to the CEO, followed up with a telephone call and in some
cases a more detailed email. Six councils agreed to participate. The questionnaire was
sent to these six local government authorities. The questionnaires were sent to the
CEO, with instructions that they were to be given to all members of the councils’
management teams at CEO, executive director and manager level. The participating
councils provided a good spread across geographical area and type (Kloot and Martin
2001, 2002). No tests for non-response bias were possible, but the spread across
location and type suggests that the sample is representative.

The survey instrument included questions to
(1) determine critical events in the council’s history. This section listed nine of the most prominent influences on local government (Kloot and Goodwin 1997, Kloot and Martin 2000) and asked the respondents to rate these changes with respect to their criticality, and to rank them in order of criticality. It also provided an open section for respondents to write in their own critical events.

(2) determine the cultural type, using the Cameron and Quinn 1999 instrument which has been used previously and psychometrically validated. The Cameron and Quinn framework has proved to be useful for understanding the impact of managerial values on leadership in local government (Martin and Simons 2002)

(3) determine the extent of the use of and communication of accounting, budgeting and financial information, using the instrument developed by Van der Stede (2003) which is mainly focused on the communication of accounting and budgetary information and systems. It was modified by deleting reference to the corporate parent and made specific for Victorian local government by the addition of variables related to the impact of best value.

(4) collect demographic information.

Results

44 usable questionnaires were returned from 6 municipalities.

Demographic information

Despite the gains made in recent years by women as managers in local government, the respondents in this study are predominantly male (89%). They are long serving in local government sector (median 17 years in local government), but mobile within...
sector (median 5 years with this council). The length of service of the respondents was somewhat surprising in that local governments have made a conscious effort over the last decade to hire from the private sector, in order to develop the expertise required to successfully implement mandatory reforms. Respondents are an aging population: the median age was 45, with 50% within the range 45-54.

The respondents are thus long serving local government employees. They have largely all experienced the period of radical changes and thus provide a good sample for this study, as we are interested in how they view the changes that have occurred in the local government industry.

Critical events as perceived by managers

The reform process in Victorian local government has been extensive. The State Government, through its legislative powers, has largely imposed reforms. Few of the structural reforms have been voluntary, although the way in which councils adjust their FMCS in response to these reforms is left to each council individually. This research was designed to determine which reforms are regarded as the most significant, and which are not as important. In addition, other events such as a change in the local political climate were investigated for their perceived effects on the individual councils. Respondents were asked to rate the impact of a series of events on the ways in which they used ABF information. The responses were ranked on a 5 point scale, from 1 little or no impact to 5 critical impact. They were also asked to suggest which three of the events were most critical, and to suggest other events which also impacted on local government FMCS. Very few respondents wrote in any other events, and most of these were in effect an explication of events already listed.
### Table 1 Ranking of critical events

<table>
<thead>
<tr>
<th>Event</th>
<th>Mean</th>
<th>Std dev</th>
<th>Ranked as top event</th>
<th>Ranked in top three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compulsory competitive tendering</td>
<td>4.3</td>
<td>.95</td>
<td>62.5%</td>
<td>75%</td>
</tr>
<tr>
<td>AAS27/Accrual accounting</td>
<td>3.8</td>
<td>1.18</td>
<td>12.5%</td>
<td>52.5%</td>
</tr>
<tr>
<td>Rate capping and amalgamation</td>
<td>3.3</td>
<td>1.36</td>
<td>2.5%</td>
<td>50%</td>
</tr>
<tr>
<td>Community satisfaction measurement</td>
<td>3.0</td>
<td>1.24</td>
<td>7.5%</td>
<td>30%</td>
</tr>
<tr>
<td>Best value</td>
<td>3.0</td>
<td>1.27</td>
<td>7.5%</td>
<td>30%</td>
</tr>
<tr>
<td>Corporate planning</td>
<td>3.0</td>
<td>1.16</td>
<td>2.5%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Change of state government</td>
<td>2.9</td>
<td>1.25</td>
<td>2.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Change of mayor</td>
<td>2.1</td>
<td>1.22</td>
<td>2.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Change of council</td>
<td>2.5</td>
<td>1.26</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Overall Ranking:**

1. The critical event which was most frequently mentioned as one of the top three, and which was scored most frequently as critical, was **Compulsory Competitive Tendering**. CCT was imposed in 1995/1996 and has since been superseded by Best Value, but it is still perceived as being the most critical event in recent times to change the face of local government. CCT required for the first time an approach focused on markets, competition, cost efficiency, and process efficiency. Much of the downsizing within the sector was the result of services which had previously been provided in-house subsequently being provided by external tenderers, or by leaner in-house teams cut down so as to compete with the private sector. There were fundamental changes in business practices, costing processes and management accounting information required because of the implementation of CCT e.g. the legislated requirement to allocate overheads when comparing internal and external tenders. CCT resulted in a pre-occupation with internal processes, and has been a catalyst for process re-engineering, the introduction of...
private sector management practices, and organizational change and learning (Kloot et al 1999). In particular, in order to manage public sector organizations in a privatised climate, CCT caused the introduction of different types of accounting, budgeting and financial information (Kloot et al 1999, Kloot 1997). This current research suggests that even close to ten years after its introduction, managers in Victorian local government believe that CCT has been the single most important event impacting financial management and control systems in this sector.

2. Two events ranked almost equally in second place: rate capping and amalgamation, and the introduction of accrual accounting under Australian Accounting Standard AAS27. Rate capping was critical because for first time councils faced external restrictions on their ability to raise revenue. This therefore required new management skills to maintain the quantum of services, or even enhance services, and maintain service quality with reduced revenue. It led to changes in systems and information needs, and to more explicit and transparent consideration of costs and potential efficiencies.

The introduction of AAS27, an accrual accounting reporting system, required councils to explicitly consider depreciation of assets. For many councillor and managers, this was a revelation of significant proportions, as to some extent the need to include depreciation in the operating statement restricts expenditure potential. It is also seen as emphasising and reinforcing the change from public sector practices to private sector practices.
4. Two more events ranked equally were the **Community Satisfaction Measurement Program (CSMP)**, introduced by the State Government in 1998 and **Best Value**. Councils' local communities were surveyed by consultants on behalf of the State Government and were benchmarked against each other on a number of measures thought to be important to local communities. For many councils, this represented the first time that they needed to seriously consider the views of the community. Councils subsequently developed their own community satisfaction measures and work hard at improving local communities’ perceptions of their local government. This has further developed as the move to Best Value, the next critical event, was introduced.

**Best value**, or evaluating programs on cost and quality, ranked equally with the CSMP in our survey, leading us to question why it ranked relatively low. Best Value was introduced when the Liberal State Government was replaced by the Labour Government, to include the consideration of community outcomes in addition to economic outcomes when evaluating programs and tenders, and thus would appear to constitute a significant change. It appears however that local government managers view Best Value as a bureaucratised, regulatory regime which has changed CCT from a hard-nosed approach to, as one manager noted, a “blancmange approach.” Managers are just trying to weather the storm, and question whether things are really any different (Martin 1999).

5. **Corporate planning**. It has previously been documented by a number of writers how poor planning systems have been in local government. A Victorian State Government requirement to undertake corporate (strategic) planning, implemented
with the structural reforms in the mid 1990s was a catalyst for change, but does not appear to have been perceived as having had a major impact on FMCS. This may be the result of an attitude of "just get through the change" (Martin 1999) by producing plans which only satisfied the requirement to have a plan but did not initially impact on the operations of councils. In the latest changes to the Local Government ACT corporate planning is to be replaced by 'council' planning, aimed at including more community input into the strategic planning process.

6. **Change in State Government.** The low ranking of this event is initially surprising, as the State Government not only provides the legislative requirements for local government, but also each change of government brings with it a different political philosophy which can affect local government. However, it is consistent with prior research (Kloot and Martin 2001) which suggests there is a perceived lower level of managerial accountability of local government managers to the state government. The ranking is surprising in that the managers in this study, with a median length of service of 17 years, have experienced several changes of State Government, two of which (1992 and 1999) have radically changed the requirement and restrictions placed on local government.

7. **Change in local government.** Local government managers do not appear to be much affected by a change in the make-up of their local council, or a change in the mayor. These events do not appear to change what managers and employees do or how they do it. In other words, the local political makeup of council does not impact on local government managers, despite their feelings of accountability to the local community. Conventional wisdom is that local government
councillors set the strategic agenda in local government, and good corporate governance principles suggest that councillors should ensure that appropriate systems and processes are put in place to monitor the performance of the council authority. It is thus surprising that managers do not appear to perceive a need to respond to changes in the council. This result suggests that there is much further research to be undertaken on the relationship between councillors, managers and management systems and processes.

Managerial cultural values

Prior research by Martin and Simons (2002) suggests that higher level managers are more market driven than lower level managers. Their research also had a wider spread of cultural types than this research. The managers in this sample were largely homogenous with respect to cultural values. In essence, 40 of the 44 managers in this study were identified as clan-type managers, two as adhocracy, and one each market and hierarchy oriented. These results are surprising. We would thus have expected a higher number of market-oriented managers and a lower number of clan-oriented managers. One possible explanation for this result is that the control environment of ambiguity and non-measurability of outcomes identified by Hofstede (1981), which is best suited to a clan-type control culture, is not easily changed.

As mentioned above, there has been a concerted effort in Victorian local government to employ private sector managers, ideally with a market-orientation. Kloot et al (1999) and Martin (1999) suggested that new managers from outside the public sector were employed during the change period. However, the results of this research suggest that some of those who came from the private sector appear to have moved on,
possibly unable to effect the culture change needed to entrench NPM and contemporary managerial technologies. Hiring new managers from a different culture does not appear to have resulted in change in the culture of this industry. Whatever the explanation, the managers’ cultural values confirm other research that culture is ‘sticky’ and hard to change, regardless of the pressures on organisations to change (Joanne Martin 1992).

It is also possible that, as local government staff work their way into new regimes which are difficult for many, a clan-type culture assists managers and employees in developing the new skills that they need to work in a privatised environment. The clan-type culture is about managing conflict, facilitating new ideas and senior staff mentoring others (Cameron and Quinn 1999). The market-based culture of being energised by competition (Cameron and Quinn 1999) may not yet be appropriate for staff still coming to terms with significant change. Langfield-Smith (1995) also noted that clans can be both social and economic in orientation. It is possible that the clan culture found in this research is largely about the belief that co-operative behaviour is a good way to achieve higher output i.e. it is an economic clan orientation rather than a social clan orientation.

The relationship between critical events and cultural orientation

The overwhelming majority of local government managers in this study were classified as having a clan-type orientation and culture. At the same time, the most critical event listed by managers as affecting local government was the introduction of CCT, followed closely by rate capping and financial reporting (AAS27) – all of which are about market based operations, about efficiency and competition. Taken together,
these two results appear to be inconsistent, yet on closer examination it is quite possible that managers with clan-type values would find the radical change in CCT most challenging.

CCT is about competition with the private sector and other local authorities, often about privatisation of the supply side of council, and overall about responding to the discipline of the market. The effective implementation of CCT required a change to a market based organizational culture, and this was the driving force behind the State Government’s requirement that councils adopt CCT in the mid 1990s. Rate capping emphasises frugality of resource management and AAS27 emphasises private sector-type management reporting regimes, reinforcing the CCT regime. Rate capping reduced the resources available to managers for undertaking programs. Managers had to be more ruthless in achieving cost efficiencies and this usually requires a market orientation. The mandatory use of AAS27 similarly was designed in part to mimic a private sector competitive orientation within councils, reflected in their financial reports. We would expect, in this climate, that more managers overall would display market based leadership values. CCT has been superseded by Best Value which requires local government to maintain the cost efficiencies and market orientation imposed by CCT while at the same time overlaying a concern with community perceptions of outcomes. Best Value thus requires a similar management climate to that prevailing under CCT.

The use of accounting, budgetary and financial information

How important is accounting, budgetary and financial information (ABF) in day-to-day management and control systems in Victorian Local Government? This research
suggests that it is not as important as we would have expected for a sector which has been forced to operate in a competitive environment. Overall, the emphasis on meeting the budget is not strong. The items were measured on a fully anchored 5-point Likert scale, from strongly agree (5) to strongly disagree (1), with a neutral point of 3. All items showed that the budget was not emphasised in determining managerial performance (mean 2.61, std dev 1.20). Discussing the budget in detail was not emphasised (mean 2.71, std dev 1.31). Budget communication was also not emphasised (mean 2.84, std dev 1.32), with exception that there is very minor emphasis on discussions and consultations regardless of variances (mean 3.07, std dev 1.27). These results were somewhat surprising in a climate of competition and parsimony in resource use. We expected that there would be more emphasis on meeting budgets. Whilst previous research details a lack of emphasis on budget outcomes prior to the mid 1990s, it also suggested that there was more of an emphasis on budget outcomes in the late 1990s following reform (Kloot et al 1999). This research suggests that there may be a reversion to earlier norms. We question if the emphasis on resource efficiency which applied under CCT, but can be modified under Best Value with increased emphasis on community outcomes, is being phased out. We suggest this would be a negative outcome, and not one intended by the State Government.
Table 2: ABF use

<table>
<thead>
<tr>
<th>Item</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 point scale on use: 1 = disagree, 5 = agree</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Panel A: Operational use of budget information

<table>
<thead>
<tr>
<th>Item</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget emphasis in determining managerial performance</td>
<td>2.61</td>
<td>1.20</td>
</tr>
<tr>
<td>Discussing the budget in detail</td>
<td>2.71</td>
<td>1.31</td>
</tr>
<tr>
<td>Budget communication</td>
<td>2.84</td>
<td>1.32</td>
</tr>
<tr>
<td>Discussion of budget variances</td>
<td>3.07</td>
<td>1.27</td>
</tr>
</tbody>
</table>

Panel B: ABF and other information in Best Value performance measures

<table>
<thead>
<tr>
<th>Assessing tenders – use of ABF/other</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of service</td>
<td>3.95</td>
<td>0.86</td>
</tr>
<tr>
<td>ABF use</td>
<td>3.86</td>
<td>0.82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assessing suppliers – use of ABF/other</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community satisfaction</td>
<td>4.11</td>
<td>0.78</td>
</tr>
<tr>
<td>ABF</td>
<td>3.30</td>
<td>0.98</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assessing managerial performance – use of ABF/other</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community satisfaction</td>
<td>3.95</td>
<td>0.91</td>
</tr>
<tr>
<td>ABF</td>
<td>3.30</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Panel C: the importance and use of ABF

<table>
<thead>
<tr>
<th>Importance of ABF</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usefulness of ABF</td>
<td>4.11</td>
<td>0.69</td>
</tr>
<tr>
<td>No need for improvement</td>
<td>3.32</td>
<td>1.22</td>
</tr>
</tbody>
</table>

The results relating to ABF information, while unexpected, are consistent with the cultural values of managers found in this research. We expected a market orientation of managers, and this would have implied a heavy emphasis on the use of ABF information to ensure that councils are competitive with private sector suppliers, and to ensure they are cost efficient in their use of resources. However, the lack of emphasis on ABF information we found is consistent with the clan-based managerial culture we found in this research. A clan-based culture does not have the same...
emphasis on market and private sector practices, and is consistent with a reduced
emphasis on CCT. It is consistent with less emphasis on ABF information within
control systems. Accounting and control systems can reinforce the way an
organisation views the world through its culture (Langfield-Smith 1995). We have
found that the accounting systems are indeed consistent with the organisational
culture in which they exist.

An interesting result relates to the usefulness of ABF information. Previous research
has documented that in the past ABF information has not been useful, due to its poor
quality in much of the local government sector in Victoria (Kloot 1999, Kluvers
2001). However this research suggests that managers find ABF information is both
important and useful in their day-to-day work. They perceive that ABF information is
sufficient for their work, and does not need to be made more useful or improved. This
may well be one positive aspect that has resulted from the radical reforms to local
government in Victoria.

Performance measures used for best value
ABF within a specific setting – the Best Value environment – was examined to shed
further light on its use. Best Value requires initially a specification of services and a
decision that the service will contribute to outcomes which matter to the community.
Thus, the operation of Best Value requires an assessment of both the cost and the
quality of outcome to the local community. In operation, after specification of the
service, Best Value has two components: deciding which tender to accept, followed
by the control of the operations. This will include assessing the outcomes of the
programs, and assessing the performance of the managers running those programs. Each of these components has separate information needs.

When assessing the relative merits of different tenders, managers report that the most important dimension is the quality of service. Accounting, budgeting and financial information is also perceived as being important in the initial tender assessment process. For the second component, assessing the performance of suppliers, ABF information is important, as are community satisfaction ratings for each service. In the third component, assessing managerial performance, community satisfaction is strongly indicated as being important. ABF information is only weakly important in the assessment of managerial performance, but is reported as being important and useful in managers' day-to-day work (see above).

The relatively weak importance of ABF in assessing managerial performance in local government is consistent with a clan orientation. Hofstede (1981) suggested that in public sector organisations which have difficulty in measuring performance, for example local governments, 'clans' and other political methods would be important in ensuring control. The strong importance of community satisfaction in assessing both program and manager performance is further evidence of a clan orientation in relation to control systems.

The importance of Community Satisfaction Measurement Program (CSMP) in performance evaluation appears to be inconsistent with the lower ranking of the CSMP as a critical event. However, it may be interpreted as managers suggesting that the introduction of the CSMP did not have a critical impact on the use of ABF
information within FMCS, although its implementation has been very important in other aspects of management performance.

Concluding comments

The Victorian State Government has forced a large number of reforms on local government in the last decade. The State Government intended that these reforms would lead to different attitudes and new approaches to the way in which local government operates. The State Government reforms have indeed resulted in radical restructuring of local government, which is in many ways very different to the local government sector prior to the Liberal Government reforms. Most of these have been based on the premises of NPM, which are expected to result in smaller government, use of the market to enhance competition, and connection with user pays, all of which are assumed to lead to enhanced efficiency, effectiveness and community outcomes.

We have found that the outcomes in terms of internal culture and leadership style are actually little changed from those of a decade ago. The familiar clan-based culture is still overwhelmingly dominant, despite the reforms which were designed to overlay a market-oriented culture on the sector. We suggest there are three reasons why the culture has persisted. First, the managers who remain in local government, despite attempts to broaden the experience base of such managers by hiring from the private sector, are those who have been in the sector for many years. They may be mobile within the sector, but overall they have been local government employees for extended periods. Second, the culture is familiar. With all the changes that managers are experiencing, to maintain a clan culture gives comfort that there is some vestige of
the familiar which remains, to soften the changes which the sector is experiencing. Allied to this is the third reason: members of clans look after each other, and they look after their communities. The communities in this sense are both internal – the employees – and external – the community in which the local government operates.

Given the maintenance of the clan-oriented culture, there is a 'disconnect' between the cultural orientation of local government managers and the environment in which they operate. Prior research suggests that major change is one influence on performance improvement (Jones 2004). Our research suggests that continued clan-based cultural orientation is inconsistent with the changes that have been forced on local government, the most prominent of which is competitive tendering. The managers themselves indicate the importance of CCT and have noted that it has impacted to some extent on accounting, budgeting and financial information and control systems. Even so, there has been little movement to a culture which supports CCT in the internal management of the local governments we studied.

What does this mean for other central governments trying to reform local government? Embedding reform into a culture is clearly challenging for all parties, and requires more than regulation and legislation. The 'one-size fits all' framework fails to recognise many of the difficulties of improving performance in the public sector (Jones 2004). There is indeed an overarching question – can local government performance as a whole be improved by a central government reform process (Jones 2004)?
Schein (1985) suggests there are five mechanisms which can embed a new culture: leaders demonstrate what is important through measurement and control; how leaders react to crises; modelling, teaching and coaching by leaders; rewards and status; and criteria for recruiting, selecting, promoting and retiring. Jones (2004) suggests that in addition, it is necessary for the senior executive team and the CEO to demonstrate personal and individual commitment to performance improvement and change. It appears that attempts to apply these mechanisms to embed a new culture in Victorian Local Government have been unsuccessful. What is the solution for state governments looking for genuine reform from their system of local government?

Clearly a requirement to report in as open and transparent a way as possible against agreed, measurable objectives is paramount. The continuing changes to the Local Government Act in Victoria are consistent with this direction. The question of how to obtain valid and reliable feedback from ‘the community’ or users of local government services is more problematic. The lack of comprehensive community feedback mechanisms in most local government reflects the prevailing clan culture and lack of commitment to genuine community accountability that is the rhetoric of Best Value. There is clearly much more to do to reform local government in this state. Hopefully it provides salient lessons to other state governments around Australia who are continuing to address this challenge.

References


