CENTRAL GOVERNMENT
ACCOUNTING: ARGUING FOR
AND LEGITIMATING CHANGE

by
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Mariannunziata Liguori

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FOREWORD

Change is never easy and if change is to be successful it is important that it is embedded effectively in an organisation. This report considers how accounting change in central government in both Westminster and Scotland has been argued for and implemented over the last 35 years. From this the researchers identify how any future change can be managed more effectively.

The report provides a useful summary of the accounting, including budgeting and performance management, changes which have occurred since the 1980s in UK central government. The period has seen accounting change from cash based to accruals based and the implementation of IFRS and whole of government accounts. Budgeting has also shifted from cash to accruals based and performance management has incorporated ideas inspired from the private sector.

The researchers find that New Public Management style accounting changes have been relatively rapidly and intensely embraced in the UK, and the changes that have occurred tended to be achieved through a ‘layering’ of different ideas, with new ideas grafted into existing systems. A combination of legitimation strategies has been used by the different departments, but the effective embedment of change requires those involved at the operation level to see change as both rational and as promoted by those in authority. Comparing Scotland to Westminster the researchers suggest that rational reasons for change were less present in Scotland, possibly explained by the multiple levels of government with which Scotland has to interact. It is suggested that the embedment of change in Scotland may be more difficult – especially if changes are viewed as coming from Westminster, an important point as Scotland is likely to receive greater autonomy under further devolution plans. The report concludes with implications for policy makers when introducing and managing accounting change.

The Research Committee of ICAS has been pleased to support this project. The Committee recognises that the views expressed do not necessarily represent those of ICAS itself, but hopes that the results of this research will be of benefit to those promoting and implementing accounting change in central government and beyond.

Allister Wilson
Convener of ICAS Research Committee
October 2015
ACKNOWLEDGEMENTS

The researchers particularly wish to express their gratitude to those individuals, whose comments and views are reported in Chapter 6 of this research report, who kindly agreed to be interviewed.

We would also like to thank the two anonymous reviewers and to Michelle Crickett (Director of Research at ICAS) for their very helpful comments.

Finally, the Research Committee and researchers are grateful for the financial support of The Scottish Accountancy Trust for Education and Research (SATER), now known as the ICAS Foundation (charity registered in Scotland SCO34836). Without this support, exclusively from the SATER funds, the research would not have been possible.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>BIS</td>
<td>Department for Business, Innovation &amp; Skills</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<tr>
<td>CLOS</td>
<td>Clear Line of Sight</td>
</tr>
<tr>
<td>DEFRA</td>
<td>Department for Environment, Food &amp; Rural Affairs</td>
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<tr>
<td>EYF</td>
<td>End-year Flexibility</td>
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<td>EU</td>
<td>European Union</td>
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<td>FIAS</td>
<td>Financial Issues Advisory Group</td>
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<td>FMI</td>
<td>Financial Management Initiative</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>HEFCE</td>
<td>Higher Education Funding Council for England</td>
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<td>HMT</td>
<td>Her Majesty’s Treasury</td>
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<td>NDPB</td>
<td>Non-departmental Public Body</td>
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<td>NI</td>
<td>Northern Ireland</td>
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<td>NPF</td>
<td>National Performance Framework</td>
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<td>NPM</td>
<td>New Public Management</td>
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<td>PA</td>
<td>Public Administration</td>
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<td>PG</td>
<td>Public Governance</td>
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<td>PSA</td>
<td>Public Service Agreement</td>
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<tr>
<td>RAB</td>
<td>Resource Accounting and Budgeting</td>
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<td>REF</td>
<td>Research Excellence Framework</td>
</tr>
<tr>
<td>SDA</td>
<td>Service Delivery Agreement</td>
</tr>
<tr>
<td>SF</td>
<td>Scottish Finance</td>
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<td>SHE</td>
<td>Scottish Higher Education</td>
</tr>
<tr>
<td>SRD</td>
<td>Scottish Rural Development</td>
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<tr>
<td>WGA</td>
<td>Whole of Government Accounts</td>
</tr>
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<td>WF</td>
<td>Westminster Finance</td>
</tr>
<tr>
<td>WHE</td>
<td>Westminster Higher Education</td>
</tr>
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<td>WRD</td>
<td>Westminster Rural Development</td>
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</table>
EXECUTIVE SUMMARY

This summary provides a background to the changes that occurred in accounting, budgeting and performance management in the UK central government since the 1980s. It presents the key findings and the resulting policy implications from the study which seeks to explain how public-sector accounting reforms are discussed, made sense of and legitimated by different governmental and organisational levels. In the research, differences between the Westminster government and the devolved Scottish government are explored and discussed.

Changes in accounting, budgeting and performance management in the UK

Over a period spanning almost 35 years, accounting, budgeting and performance management systems in all parts of UK central government have changed considerably. Initially, they featured: cash budgeting with strict annuality requirements, cash accounting, and limited performance measurement and management. Since then, they have progressively moved along a continuum of modernisation in financial accounting, budgeting and performance management (see Table 1).

The earliest major changes were seen with respect to performance management. The Financial Management Initiative (FMI) called for managers in central government to have ‘a clear view of their objectives, and means to assess, and wherever possible measure, outputs or performance in relation to those objectives’ (HM Government, 1982, p.5). Such focus came again to the fore in the introduction of Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs) in 1998. Since 1980 financial accounting has moved from its traditional cash base to a more commercial accruals base. The arguments for using the accruals model, in place of cash accounting, gained prominence and acceptance in the 1990s, with accruals accounting implemented in full by 2001, under the title of Resource Accounting and Budgeting (RAB). On the management accounting side, a subsequent move to resource budgeting, in order to make the management accounts align with the external accounts, was made. The position of accruals accounting was further embedded by the decision to produce consolidated Whole of Government Accounts (WGA) and the adoption of International Financial Reporting Standards (IFRS) in the 2000s. In the realm of budgeting, major changes also occurred. The move from cash budgeting to resource (accruals) budgeting was ‘live’ by 2003. In addition, annuality (the requirement of budget allocations to be
spent by the financial year-end or be surrendered) was abolished in 1997, with end-year flexibility (EYF) being permitted (allowing the carry forward of unspent resources from one year to the next). However, as a consequence of financial pressures, this flexibility was removed in 2011. Furthermore, to provide greater long-term focus, in 1998, Treasury-led spending reviews were initiated to set spending budgets over several years.

Up until the late 1990s the UK operated as a very centralised state, with substantial powers exercised by the Westminster parliament in London. However, following positive votes in each country, devolved assemblies for Northern Ireland and Wales, and a devolved parliament for Scotland, were established in 1999. The Scottish parliament has full legislative competence, that is to say it holds primary legislative powers across a range of domestic policy areas and potentially the power to legislate in any non-reserved area of policy. Despite Scotland having responsibility for the allocation of the Scottish budget, overall financial arrangements for accounting and reporting in Scotland need ‘to be consistent with the Whitehall regime for planning and controlling public expenditure’ (Lapsley and Midwinter, 2008, p.78). An increasing autonomy, however, is envisaged as a consequence of the Scotland Act 2012, which introduces new financial provisions in the areas of devolved taxes, borrowing powers and the rate of income tax in Scotland, and from the recommendations included in the report by the Smith Commission (2014), published in the wake of the Scottish independence referendum in 2014.

The key features of the wider UK arrangements (outlined in Table 1) apply to all parts of the unified state, including the devolved parliament/assemblies in Scotland, Northern Ireland and Wales. However, with respect to the particular and detailed Scottish arrangements (which are a major point of focus in this report), the accounting systems are somewhat distinctive. In budgeting in Scotland, a three stage process, emphasising extensive evaluation by the business committees of the parliament, has been developed involving:

- scrutiny of strategic priorities for expenditure (stage 1);
- examination of the draft budget (stage 2); and
- approval of the expenditure plans in the budget documents (stage 3).

In terms of performance measurement and performance management, Scotland has developed a National Performance Framework (NPF), a distinctive long-term, integrated performance tool, based on the achievement of outcomes.
<table>
<thead>
<tr>
<th>Table 1 Main changes in performance management, financial accounting and budgeting systems in the UK government</th>
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<tr>
<td><strong>Performance management</strong></td>
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<tr>
<td>1982 - Focus on performance management in Financial Management Initiative.</td>
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<td>1988 - Intensification of performance focus with the creation of Executive Agencies.</td>
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<td><strong>Financial accounting</strong></td>
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<td><strong>Budgeting</strong></td>
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<td>1980 - Based on cash and principle of annuality.</td>
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Public administration systems and legitimation

Over the last decades, many Western central governments have engaged in reform processes aimed at improving public sector practices, often embracing the so-called New Public Management (NPM) (Hood, 1995), with a main area of change involving radical adjustments in accounting systems. Governments claimed that better accounting, budgeting and performance management practices would provide more appropriate information for decision makers; better information would lead to superior decisions; and better decisions would lead to a more efficient and more effective public sector (Likierman, 2003). Since the late 1980s, there has been a significant and progressive movement away from the traditional Public Administration (PA) systems, in favour of NPM-type accounting tools and ideas inspired by the private sector. More recently, a new focus on governance systems, under the banner Public Governance (PG), to steer public services and influence key individuals has emerged (Osborne, 2010). Each of these systems is associated with its own accounting, budgeting and performance management tools and techniques and are often presented as mutually exclusive and competing (Prestoff et al., 2012).

A first interpretation and translation of these new accounting practices happens during political debates, and a second takes place at the organisational level where changes have to be implemented. A preliminary condition for implementation of new practices is that they have to be considered as ‘legitimate’ within the very context in which they are applied; legitimacy possibly being seen in terms of how ‘reasonable’ and ‘logical’ a change is. The more persuasive the supporting reasons justifying the introduction of a new practice, the more rational its adoption will be perceived, and ultimately accepted. In the public sector, change has been most often viewed as triggered by external institutional pressures (Ezzamel et al., 2007; Jones and Mellett, 2007). However, how individuals react to possible changes affects the way they are interpreted and implemented. Change can be legitimated through the use of six main strategies: authorisation, rationalisation, normalisation, moralisation, narrativisation and pathos (Vaara et al., 2006; Green and Li, 2011). These may be used alone, or combined with one another. The strategies are defined on page 30 of this report.

Main findings of the research

The empirical research included in the report (based on an analysis of 2,455 pages of political discussion of accounting changes and 34 interviews with key individuals from the finance, rural development and higher education departments of central
government in Westminster and Scotland) attempts to examine how accounting changes are argued for in political discussions, and how they are implemented, translated and legitimated. The main findings include:

- **The UK embraces New Public Management style accounting changes**
  Consistent with previous literature findings, New Public Management (NPM) style accounting, budgeting and performance management tools and techniques were relatively rapidly and intensely embraced in the UK. Moreover, in the UK there is a clear alignment between the language of the political discussion and the accounting changes decided upon and introduced, with both being clearly directed towards managerial, NPM-orientated reforms.

- **Changes are not necessarily replacements; ‘layering’ often occurs**
  Public Administration, New Public Management and Public Governance are often presented in the academic literature as mutually exclusive, competing systems. This research suggests that this is not the case. Contestation was largely absent from political discussions, even from political debates. This suggests that the process of accounting change has been generally characterised by a layering of different ideas, where ideas from certain administrative models complement, rather than supplant, each other over time. New ideas are decided upon, introduced and grafted onto existing systems. This explains the tendency for the persistence of established systems and tools even when new reforms are introduced. This does not necessarily mean that there is coherence between changes and such tensions can provide a challenge to both stability and managers’ attempts to implement change.

- **Effective change requires combinations of legitimation strategies**
  As ideas leave the political arena and move towards the implementation stage, key individuals within departments of government can translate and legitimate them differently. In both Westminster and Scotland, a combination of legitimation strategies was used at different organisational levels, with authorisation and rationalisation strategies dominating. Interestingly, although the political debate suggests that the changes were meant to introduce a more ‘rational’ way of managing and taking decisions, changes were often perceived in the departments as being based on ‘authority’. The effective embedment of change requires those close to the action to legitimate changes in terms of both authorisation and rationalisation. Changes that are legitimated merely, or mainly, through authorisation will more likely bring about only cosmetic adjustments, where new systems and tools may be present but not understood or effectively utilised for daily management.
• Scottish differences

It is of note that the budgeting process in Scotland is a novelty of the Scottish devolved government, and the performance-focussed National Performance Framework (NPF) is an original Scottish tool, which was seen in Scotland as enabling the exercise of autonomy in planning. Resource Accounting and Budgeting, on the contrary, is a framework that has received significant emphasis throughout the UK over a period of approximately 20 years (pre-dating Scottish devolution), and is not particularly felt to be a Scottish tool. It is therefore unsurprising that in Scotland the change that was seen as more positive and rational was the NPF, for which the interviewees felt a particular ownership. In Scotland, the joint reference to rational and authority-based elements when discussing accounting, budgeting and performance management changes showed a different pattern compared to Westminster, with rational reasons much less present. This could be explained by the multiple levels of government with which Scotland has to interact as a devolved administration and that possibly contribute to feelings that non-Scottish solutions are imposed or do not adequately consider the Scottish dimension. This more limited justification of change as being both rational and authority-driven suggests that the embedment of change may be more difficult in Scotland, compared with Westminster, particularly for changes viewed as ‘coming from Westminster’.

Policy implications

From a managerial perspective, this research improves the current understanding of how accounting changes are implemented and legitimated at the organisational level. In order to embed change effectively, implementers should realise that those affected, and ultimately involved in operating new systems, will need to see change as being logical and sensible (or rational) and as being promoted by those having the authority to do so. Moreover, real change is more likely to occur if managers have a degree of commitment to it. Training and education are, therefore, at the core. The involvement of operationally-focussed managers in the development of the changes, as well as in the early process of change, will also give them ‘voice’ and provide further legitimation. To expect change via solely top-down, authority-based initiatives is short sighted. From a policy perspective, recognition of this should impact on the planning and timeline relating to the introduction of accounting changes.

The study also informs public policy makers regarding linkages between new and existing systems. Given that extant accounting approaches often have long-established validity and are largely taken-for-granted, it is important to consider
the interactions between new and old tools and techniques, that is, the layering of new on the old. It is likely that any proposed abandonment, or criticism, of valued techniques will hamper the successful implementation of new ones. In order to reduce resistance to change, the integration of new ideas into existing frameworks should be handled carefully.

Finally, the comparison between Westminster and Scotland highlights how similar changes can be interpreted and implemented in different ways, as a consequence of greater autonomy. The more recent developments, such as those reflected in the Scotland Act 2012 and the recommendations made by the Smith Commission in 2014, are likely to encourage greater divergence between Westminster interpretations and implementation and Scottish interpretations and implementation regarding accounting change. Indeed, such influences are also likely to encourage greater use of distinctly Scottish approaches regarding accounting, budgeting and performance management frameworks. This may lead to greater ownership of the changes and, eventually, to a stronger embedment of change itself. Such considerations further support the relevance of this study and its implications, in both Scottish and UK terms.
1. INTRODUCTION

Over the last decades, many Western central governments have engaged in reform processes aimed at improving public sector practices, often embracing the so-called New Public Management (NPM – Hood, 1995; Pollitt and Bouckaert, 2011), with a main area of change involving radical adjustments in accounting, budgeting and performance management systems. Governments claimed that better accounting, budgeting and performance management practices would provide more appropriate information for decision makers; better information would lead to superior decisions; and better decisions would lead to a more efficient and more effective public sector (Chan, 2003; Likierman, 2003). Since the late 1980s, there has been a significant and progressive movement away from the traditional Public Administration (PA) systems, in favour of NPM-type accounting tools and ideas inspired by the private sector. More recently, a new focus on governance systems, under the banner Public Governance (PG), to steer public services has emerged (Osborne, 2010). However, despite the tendency for homogenisation and convergence of public sector reforms across countries (Pollitt and Bouckaert, 2011), changes are often carried out, argued and legitimated differently.

Looking at accounting, budgeting and performance management techniques, this research report focuses on changes that have taken place in the United Kingdom (UK), and seeks to explain how public-sector accounting reforms are discussed, made sense of and legitimated by different governmental and organisational levels. In this context, differences between the Westminster and Scottish governments are explored¹. The report aims to improve the current understanding of how new accounting, budgeting and performance management techniques are implemented and translated at the organisational level in public sector organisations. It is hoped that this research will inform public policy decisions relating to accounting, budgeting and performance management. As a consequence, it will support improved accountability by, and better decision making within, public sector bodies.

This research report centres on the UK experience. Its main aims are to:

• identify current accounting, budgeting and performance management techniques being used in the UK and their changes over time;

• examine how changes in accounting, budgeting and performance management are argued for in both political discussions and documents; and
• understand why and how organisations legitimate and implement such reforms differently, thus determining different answers to similar change processes.

Given that the situation in the UK is complex, while the main focus of the UK data is on Westminster, an additional subset of results for Scotland has been gathered to provide further insight. In particular, interviews were conducted in departments which are subject to Westminster control as well as departments which were under the control of the Scottish parliament.

The remainder of the report is structured as follows. Chapter 2 reconstructs the accounting, budgeting and performance management reforms and their implementation since the 1980s in the UK (Westminster and Scotland). Chapter 3 provides a theoretical backdrop for understanding and analysing the empirical research. Chapter 4 explains the research approach undertaken in the study. Chapters 5 investigates whether, and to what degree, the reform ‘talk’ matches the ‘decisions’ and Chapter 6 explores how those involved in shaping and implementing the changes in the Westminster and Scottish governments legitimate accounting, budgeting and performance management changes. Finally, Chapter 7 concludes on the main findings of this research and suggests a number of policy implications. Many library-based sources have been used in this study and these are reflected in the extensive references provided. The framework used for the analysis of the official documents and the questions that formed the basis of the semi-structured interviews are included in the appendices.
2. UK GOVERNMENTAL STRUCTURES AND CHANGES IN ACCOUNTING, BUDGETING AND PERFORMANCE MANAGEMENT: 1980s TO PRESENT

This chapter outlines the structures of government in the UK, leading up to, and subsequent to, the establishment of devolved administrations in Northern Ireland (NI), Scotland and Wales in 1999. Furthermore, it reconstructs the accounting, budgeting and performance management adjustments and their implementation since the 1980s in the UK, focusing on Westminster and, as a specific case within the UK, on the Scottish devolved government. Overall, it provides a contextual backdrop for the empirical research reported in Chapters 5 and 6.

Government in the UK: Westminster and Scotland²

The UK consists of four separate countries (England, NI, Scotland and Wales) within one main political unit. Traditionally, government within the UK has been founded on concepts such as a unitary state and the supremacy of a parliament at Westminster. Latterly, these ideas have been challenged by the process of devolution; devolution being defined as the transfer to a subordinate elected body, on a geographical basis, of functions previously exercised by Westminster ministers and the Westminster parliament (Bogdanor, 2001).

Up until the late 1990s the UK operated as a very centralised state, with substantial powers exercised by the Westminster parliament in London. However, during the 1980s and 1990s the level of support for constitutional change towards greater devolution in NI, Scotland and Wales grew substantially. Indeed, the Labour government elected in 1997 undertook to modernise government in a variety of ways, which included devolved assemblies for NI and Wales and a devolved parliament for Scotland. When referendums on devolution were called in the late 1990s, all three countries voted in favour, which resulted in the establishment of a NI assembly, a Scottish parliament and a Welsh assembly.

The Scottish parliament has two key features: an innovative electoral procedure and a novel internal working. Members are elected combining the traditional first-past-the-post-system with a form of proportional representation. This model was chosen in order to ensure the consensual nature of the new parliament, which was considered a fundamental aspect of the new institution (Denver et al., 2000). The Scotland Act 1998 planned a parliament with substantial powers. The areas
in which the Scottish parliament currently has legislative authority are as follows: health and social work; education and training; local government and housing; justice and police; agriculture, forestry and fisheries; the environment; tourism, sport and heritage; and economic development and internal transport. The Scottish parliament has full legislative competence, that is to say it holds primary legislative powers across the above range of domestic policy areas and potentially the power to legislate in any non-reserved area of policy.

Subsequent to the Scottish National Party’s (SNP) victory in the 2011 Scottish election, the party declared its intention to hold a referendum on independence by 2015. The national referendum was held on 18 September 2014 when voters were asked to answer ‘Yes’ or ‘No’ to the question: ‘Should Scotland be an independent country?’ Slightly over 55% of them responded with ‘No’. As a consequence of the vote, further plans for devolution are currently being considered.

**Changes in accounting, budgeting and performance management in the UK**

Over a period spanning almost 35 years, accounting, budgeting and performance management systems in all parts of UK central government changed considerably. It is worth noting that while the main accounting changes, such as the introduction of Resource Accounting and Budgeting (RAB), are similar in all the parts of the UK, some autonomy is permitted (especially as far as budgeting and performance management are concerned) in each of the devolved administrations and system variations exist in each of the four countries of the UK. This study, in particular, compares the Westminster model (predominantly impacting in England) with the Scottish one, the characteristics and adaptations of which are discussed later in this chapter.

Initially, the UK central government featured: cash budgeting with strict annuality requirements, cash accounting, and limited performance measurement and performance management. Since then it has progressively moved along a continuum of modernisation in financial accounting, budgeting and performance management (see Table 2.1).
Table 2.1 Main changes in performance management, financial accounting and budgeting systems in the UK government

<table>
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<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
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<td><strong>Performance</strong></td>
<td><strong>management</strong></td>
<td><strong>management</strong></td>
<td><strong>management</strong></td>
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<tr>
<td>1982</td>
<td>Focus on performance management in Financial Management Initiative.</td>
<td>1994 - 1995 - Announced that Statements of Resources by Departmental Aims and Objectives to be introduced in all government departments as part of Resource Accounting and Budgeting changes.</td>
<td></td>
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<tr>
<td>1988</td>
<td>Intensification of performance focus with the introduction of the Next Steps Initiative and the creation of Executive Agencies.</td>
<td>1998 - Performance-focused Public Service Agreements and Service Delivery Agreements introduced as a key-aspect of quasi-contracts between the Treasury and government departments.</td>
<td>2001 - Statements of Resources by Departmental Aims and Objectives required to be produced as part of Resource Accounting and Budgeting changes in all central government departments.</td>
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<td>1994</td>
<td></td>
<td>2004 - Service Delivery Agreements replaced by Delivery Plans for each government department.</td>
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<td>1995</td>
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<tr>
<td><strong>Financial</strong></td>
<td><strong>accounting</strong></td>
<td><strong>accounting</strong></td>
<td><strong>accounting</strong></td>
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<tr>
<td>1980</td>
<td>Largely cash based and mainly focusing on cash received and cash spent.</td>
<td>1994 - 1995 - Announced that resource (accruals) accounting to be introduced in all government departments as part of Resource Accounting and Budgeting changes.</td>
<td>2001 - Resource (accruals) accounting ‘live’ in all central government departments.</td>
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<td></td>
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<td>2011 - First set of Whole of Government Accounts.</td>
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<tr>
<td><strong>Budgeting</strong></td>
<td><strong>management</strong></td>
<td><strong>management</strong></td>
<td><strong>management</strong></td>
</tr>
<tr>
<td>1980</td>
<td>Based on cash and principle of annuality.</td>
<td>1994 - 1995 - Announced that resource (accruals) budgeting to be introduced in all government departments as part of Resource Accounting and Budgeting changes.</td>
<td>2003 - Resource (accruals) budgeting ‘live’ in all central government departments.</td>
</tr>
<tr>
<td></td>
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<td>1997 - End-year flexibility introduced with respect to budget carry forward.</td>
<td>2007 - ‘Clear Line of Sight’ project commenced aimed at getting better alignment of accounting and budgeting information.</td>
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<td></td>
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<td>1998 - Treasury-led spending reviews initiated to set firm and fixed spending budgets over several years for each government department.</td>
<td>2011 - End-year flexibility system abolished due to financial pressures (replaced by a system of Budget Exchange).</td>
</tr>
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Changes in the UK (1980 to date)

The earliest major changes were seen with respect to performance management. The Financial Management Initiative (FMI) called for managers in central government to have ‘a clear view of their objectives, and means to assess, and wherever possible measure, outputs or performance in relation to those objectives’ (HM Government, 1982, p.5). This high-minded aspiration was a recurring theme of the Next Steps Initiative, the Citizen’s Charter and developments in education and health care in the 1980s. Performance management and reporting were also integral parts of the development of Resource Accounting and Budgeting (RAB) changes in the mid-1990s (see below) and came again to the fore in the introduction of Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs) in 1998. Central government departments were held accountable for service delivery through the targets set out in their Public Service Agreements and Service Delivery Agreements. In 2004, Service Delivery Agreements were replaced by performance-focused Delivery Plans for each department.

As can be seen in Table 2.1, since 1980 financial accounting has moved from its traditional cash base to a more commercial accruals base. The arguments for using the accruals model, in place of cash accounting, gained prominence and acceptance, and a move from the cash basis was agreed for central government (a Green Paper – HM Treasury, 1994; being followed by a White Paper – HM Treasury, 1995). This was implemented under the title of ‘RAB’. In addition, on the management accounting side, a move to resource budgeting, in order to make the management accounts align with the external accounts, was made. The position of accruals accounting was further embedded by the decision in 1998 to produce Whole of Government Accounts (WGA). These are a consolidated set of accruals financial statements for the UK public sector, consolidating around 1,500 bodies, and the first set of WGA were produced in 2011. In addition, in 2007, it was announced that the financial statements of public sector organisations would be prepared using International Financial Reporting Standards (IFRS); this change was implemented by 2009.

In the realm of budgeting, major changes have also occurred. As mentioned above, and shown in Table 2.1, the move from cash budgeting to resource (accruals) budgeting was announced in the mid-1990s (‘live’ by 2003). In addition, annuality (the requirement of budget allocations to be spent by the financial year-end or be surrendered) was abolished in 1997 at the central government departmental level, with end-year flexibility (EYF) being permitted (allowing the carry forward
of unspent resources from one year to the next). However, as a consequence of financial pressures, this flexibility was removed in 2011. To provide greater long-term focus, in 1998, Treasury-led spending reviews were initiated to set firm and fixed spending budgets over several years for each government department rather than rely on single-period budgeting.

Variations in Scotland

In preparing for devolution, a series of consultation working parties was organised by the then Secretary of State for Scotland. One of these groups was the Financial Issues Advisory Group (FIAG), which was given the remit to report on how best the new Scottish parliament could exercise budgetary control. While the majority of UK accounting rules and changes also applied to Scotland, the FIAG observed that it would not be appropriate for the Scottish parliament to merely adopt the existing practices of budgetary scrutiny of the UK parliament at Westminster for a range of reasons (Scottish Office, 1998). It highlighted that the main objective of the budgetary system of the new Scottish parliament should be related to transparency (the management of finances in a way that is open, accessible and accountable to the people of Scotland – Scottish Office, 1998). The mechanism to achieve this, advocated by FIAG and adopted by the Scottish parliament, was a three stage process:

• scrutiny of strategic priorities for expenditure (stage 1);
• examination of the draft budget (stage 2); and
• approval of the expenditure plans in the budget documents (stage 3).

The supporting business committees for each of the areas of government, which cover the spectrum of parliamentary business and which include members of all political parties, fulfil a major function in the Scottish parliament’s discharge of its responsibilities (Lynch, 2001). Such committees are central to the budgetary scrutiny process, being charged with the scrutiny of strategic priorities (stage 1) and of the draft budget (stage 2). The evaluations on the budget of these business committees at stages (1) and (2) are collated by the Finance Committee of the Scottish parliament for a debate in the parliament itself. These activities are a prelude to stage 3, the formal evaluation of the budget in the Scottish parliament (for a fuller explanation and discussion of this see Ezzamel et al., 2014).
Since 1979, Scotland has received funding from HM Treasury (HMT) through a ‘block-and-formula’ system (Mair and McCloud, 1999; Midwinter and McGarvey, 2001). This system is made up of two elements. Firstly, a block allocation directly from HMT in the form of a grant based on the previous year’s allocation, with increments calculated on population shares and other elements allocated on a case-by-case basis. The second element (the formulaic element) is based on the ‘Barnett Formula’, a device whereby Scottish devolved expenditure is determined by two different principles, historic levels for the base and population for the increment in each spending round (Keating, 2009).

Devolution provided the Scottish parliament with some limited tax-varying power, authorising it to vary the standard rate of income tax by three pence in the pound (Mair and McCloud, 1999; Keating, 2010). In pre-devolution debates:

... it was strongly argued that this power was essential to the credibility of the parliament as otherwise it would have no more financial capacity than the Scottish Office that was simply a department of the UK government’. (Mair and McCloud, 1999, p.77)

In 2012 the Scotland Act introduced new financial provisions in the areas of devolved taxes, borrowing powers and the rate of income tax in Scotland. In the wake of the Scottish independence referendum (September 2014), the Smith Commission was set up to facilitate an inclusive engagement process across Scotland and to make recommendations for further devolution of powers to the Scottish parliament. Its report was published in November 2014 (Smith Commission, 2014) and, amongst other things, it recommended that:

- the Scottish parliament has complete power to set income tax rates and receive a proportion of the VAT raised in Scotland;  
- the Scottish parliament has increased borrowing powers to support capital investment and budgetary stability;  
- the Scottish parliament has control over a number of benefits, such as disability allowance, and personal independence payments; and  
- new accounting rules be identified, based on the Barnett formula, to accompany the increased transfer of powers to Scotland. These rules should ensure that neither the Scottish nor UK governments lose or gain financially from the devolution of powers.
To date, although there has been limited change in how Scotland receives its funding, devolution has enabled the Scottish government to determine how its budget is allocated.

In terms of performance measurement and performance management, Scotland experienced similar influences to the rest of the UK prior to devolution. Subsequently, while the focus on such is at least as intense as in the rest of the UK, the manner in which it has been applied has been different. Perhaps the most notable outworking of this was seen in the Scottish spending review of 2007, which introduced a National Performance Framework (NPF). The NPF, inspired by a model developed by the state of Virginia in the USA, aims to provide:

- a single framework to which all public services in Scotland are aligned, encouraging more effective partnership working;
- a clear, unified ten-year vision, set out in 2007 [for the future of Scotland];
- a tool to support delivery of the Scottish government’s purpose and priorities;
- an assessment of Scottish national wellbeing; and
- a framework based on delivering outcomes, rather than inputs and outputs, that improve the quality of life for people in Scotland.

(The Scottish Government, 2011)

Despite Scotland having responsibility for the allocation of the Scottish budget, and the fact that its performance management approach was distinctive, overall financial arrangements for accounting and reporting needed ‘to be consistent with the Whitehall regime for planning and controlling public expenditure’ (Lapsley and Midwinter, 2008, p.78). Thus, when Westminster introduced RAB, the Scottish parliament followed suit. Similarly, Westminster’s decision to introduce EYF in 1997 was also applicable to Scotland. This policy provided Scotland with a ‘new, if modest budgetary autonomy’, which enabled departments to reallocate £300 million in the year 1999-2000 (Midwinter and McGarvey, 2001, p.48). Similarly, the abolition of EYF and its replacement with the Budget Exchange system was applicable to Scotland (HM Treasury, 2011). There has been a large degree of convergence on the main accounting and budgeting processes used by both the Westminster and Scottish parliaments. Where divergences have occurred, these have mainly related to the more fine-grained application of devolved responsibilities, rather than the main tools of planning and control, and their related accounting instruments, utilised within the UK as a whole.
3. THEORETICAL INSIGHTS

This chapter outlines some theoretical insights based on the academic literature which will be used to analyse and understand the results of the empirical analysis presented in Chapters 5 and 6. It includes:

- a description of the traditional Public Administration (PA), New Public Management (NPM) and Public Governance (PG) administrative models;
- a discussion of how these relate to accounting reforms;
- an examination of how individuals close to the action may legitimate or delegitimate change; and
- an explanation of how these legitimation/delegitimation strategies may potentially impact on the outcomes of accounting reforms.

Systems/models of public administration

Public administration and management, as we know it, has the propensity to experience ‘identity crises’ (Waldo, 1968). Over the last decades, it has been claimed that there has been a significant and progressive movement away from the traditional PA systems, in favour of NPM ideas inspired by the private sector. More recently, under the banner of PG, a new focus on governance systems to steer public services has emerged. PA, NPM and PG can be viewed as three different systems of public administration (Pollitt and Bouckaert, 2011). Each of these systems is associated with its own accounting, budgeting and performance management tools and techniques. The three systems are often presented as mutually exclusive and competing (Pollitt and Bouckaert, 2011; Prestoff et al., 2012); however, the claim that there has been a progressive movement along a continuum from PA to NPM, and ultimately to PG, has been contested (Pollitt, 2007; Lapsley, 2008).

Traditional Public Administration

PA systems, the ideas of which have dominated public service delivery regimes since the late nineteenth century to the early 1980s, have at their heart the rule of law, where politics and administration are clearly separated (with the former prevailing on the latter) and professionals dominate public service delivery (Hood, 1991). PA is most commonly linked with the ideas of Weber (1946) and is
characterised by (Pfiffner, 2004; Politt and Bouckaert, 2011):

- an administration under the formal control of the political leadership;
- fixed spheres of competence;
- defined hierarchies;
- full-time, permanent, neutral and anonymous officials;
- specialisation and expertise as the basis for action;
- clear distinction between the public and private roles of officials; and
- management by the application of developed rules.

In such schemes, and with respect to accounting, the budget often plays a central role as a basis for the political negotiation and the allocation of resources (generally incremental – Hood, 1991) among different political programmes and purposes.

**New Public Management**

While there was a massive expansion in the role of the state between 1945 and the early 1970s, driven by rising expectations and demands for greater equality, from the 1970s onwards serious questioning of such expansion began to emerge. Possible reasons for this are: financial distress; social changes; globalisation and increased competition; and changing perceptions of the state (for a discussion of these see Hyndman and McGeough, 2008). Such questioning forced governments to consider the role of the state, the manner in which public services were delivered to citizens and the accountability of the public sector. Consequently, the management of public sectors in a number of western countries changed. Collectively, these changes are referred to as NPM.

Hood (1991) suggested that NPM is a convenient, though rather loose, term that is shorthand for a set of broadly similar administrative doctrines that dominated the reform agenda in the public sector in many countries which were part of the Organisation for Economic Co-operation and Development from the late 1970s. He identified the main theme of NPM as being:

... the idea of a shift in emphasis from policy making to management skills, from a stress on process to a stress on output, from orderly hierarchies to an intendedly more competitive basis for providing public services, from fixed to variable pay and from
In the field of accountancy, many governments which embraced NPM ideas have also adopted:

- the accruals basis of accounting (as opposed to the cash basis);
- private sector style financial statements (in contrast to the budget out-turn reports relating to cash spent);
- decentralised budgets (as opposed to strong central control of budgets);
- flexibility in budget carry forward (in place of strict annuality); and
- a focus on performance reporting, if possible, relating spend to outputs and achievements (in place of a focus on the control of inputs).

NPM has been presented as ‘the rise of a global social movement with considerable force’ (Meyer, 1998, p.7) and a quasi-global paradigm superseding the traditional ‘old’ PA logic (Hughes, 1994). More recently, it has been argued that the initial enthusiasm relating to NPM reforms has declined over time, so that NPM is now in its middle age. This came as a consequence of reformers ignoring or downplaying its paradoxes and side effects, and being over-confident in the general efficacy of the remedies initially advocated (Hood and Peters, 2004). Given these perceptions, some authors have even claimed that NPM is dead, although others contest this (Lapsley, 2008; Osborne, 2010).

Public Governance

In the last two decades a plethora of ideas relating to ‘governance’ have gradually emerged to challenge both traditional PA and NPM reforms (Rhodes, 1997; Osborne, 2010). Governance is argued to entail the steering of society through networks and partnerships between governments, businesses and other forms of civil society (Pollitt and Bouckaert, 2011). Osborne (2010) opined that NPM, rather than being the final destination of a reform process, has ‘been a transitory state in the evolution’ (p.1) from a regime of traditional PA to PG. He contended that both traditional PA and NPM reforms fail ‘to capture the complex reality of the design, delivery and management of public services in the twenty-first century’ (p.5) and called for a more sophisticated understanding of public policy adoption, implementation and public service delivery.
PG reforms, as compared to NPM systems (Osborne, 2010), have:

- their theoretical roots in sociology and network theory (rather than rational management and public choice);
- assume a plural and pluralist state (rather than a disaggregated state);
- focus on inter-organisational governance (rather than intra-organisational management);
- emphasise service processes and outcomes (rather than service inputs and outputs);
- relate to external non-public organisational partners with ongoing preferred-supplier relationships (rather than market relationships);
- use trust and relational contracts as governance mechanisms (rather than market mechanisms); and
- place their faith in neo-corporatist values (rather than the efficacy of competition and the market place).

With such reforms, the focus of accounting techniques moves more and more towards the reassurance of social efficacy and effectiveness (highlighting the ensuring of citizens’ satisfaction and attention to outcomes), as well as external accountability and transparency (World Bank, 1994; European Commission, 2001).

**Translation, change and legitimation**

The empirical research reported in Chapters 5 and 6 focuses on the way different systems and key individuals in the public sector system, including politicians, translate and debate accounting reforms, the administrative models used and changes at the national political level. Translation is the transportation of meanings across cultural contexts combined with transformation (with, often, any translation resulting in a change in that which is translated) (Czarniawska, 2011). With respect to accounting translations, not only is it important to understand the technicalities of what is being translated and the way it is being implemented, but also it is important to appreciate the way in which accounting practices are mobilised, the aspirations and ambitions attached to them and the roles that they play (Kurunmäki *et al.*, 2010). As accounting instruments and related ideas travel, they come into contact with local ideas which define different and variable relationships across space, individuals and aspirations. These local translations may change the object of translation almost beyond recognition, and the institutional features or particular
contexts may be much more resistant to change than agents of change often wish (Czarniawska, 2011).

Extant theory discusses how change processes can be placed along a continuum that goes from a disruptive vision to a sedimented and layered one. For example, change can follow a more or less linear trajectory, where existing practices are replaced by new ideas and structures in response to contextual circumstances and competing institutional prescriptions (Romanelli and Tushman, 1994). Alternatively, change can occur through sedimentation, reflecting a pattern of new emerging structures and ideas super-imposed (or layered) on pre-existing ones. For example, Pollitt and Bouckaert (2011, p.8) pointed out that ‘the detail of public sector reform often turns out to be more like geological sedimentation, where new layers overlie but do not replace or completely wash away the previous layer’. If a first translation of the accounting changes happens during political and administrative debates, however, a second interpretation takes place at the organisational level, where new practices have to be implemented, understood and legitimated.

How reforms are perceived, translated and legitimated at the organisational and individual level has received limited attention (Connolly and Hyndman, 2011; Liguori and Steccolini, 2012). Often, a preliminary condition for the implementation of change is that it has to be considered as ‘legitimate’ within the very context in which it is to be applied; i.e. it has to be seen in terms of how ‘reasonable’, ‘logical’ and ‘right’ a change is. Empirical research reported later in this research report explores the deployment and use of legitimation strategies in the implementation of accounting changes, with particular reference to public sector reforms. Indeed, in order to explain why the introduction of a new practice succeeds or fails in a certain institutional field, it is essential to understand how those involved in the shaping and implementing the changes legitimate (or delegitimate) the change and the arguments they mobilise for it. The more persuasive the supporting reasons justifying the introduction of a new practice, the more rational its adoption will be perceived, and ultimately accepted.

In the public sector, change has most often been viewed as triggered by external institutional pressures, where legitimation comes as a consequence of isomorphic behaviours (Ezzamel et al., 2007; Jones and Mellett, 2007). The implementation of accounting reforms is not a mechanistic introduction of a new practice into formal organisational structures, procedures or mechanisms. Rather, it represents a translation of general ideas adapted to local circumstances and a local edition of more general ideas (Brunsson, 1989). But how are legitimation and
rhetorical techniques used to introduce new practices which potentially replace, or undermine, existing structures which are still embedded in the institutional context? According to Green and Li (2011), this can be explained through the identification of a source of ‘endogenous change’ within the organisation and the use of different legitimation strategies. The ‘active role of agency’ (also referred to as institutional entrepreneur – DiMaggio, 1988; Green and Li, 2011) is mirrored in the rhetorical arguments accompanying the introduction of change and affecting the way it is interpreted. Following Vaara et al. (2006), new techniques and ideas can be put forth relying on one of five discursive strategies (or a combination of these): authorisation; rationalisation; normalisation; moralisation; or narrativisation. Authorisation (AUT) refers to legitimation through authority of tradition, custom, law and persons upon whom institutional authority of some kind has been bestowed. Rationalisation (RAT) is related to legitimation by mainly focusing on the benefits, purposes or outcomes that a certain course of action can bring. Normalisation (NOR) is present when references to what is ‘normal’ or proper in a particular setting or context are made. This can involve ‘retrospective’ (similar cases, events or practices in the past) or ‘prospective’ (new cases, events or practices to be expected) references. Moralisation (MOR) refers to legitimation by reference to specific values. Finally, narrativisation (NAR) is about legitimation conveyed through narratives; telling a story can provide evidence of acceptable, appropriate or preferential behaviour. Green also identified a route of legitimation via pathos (PAT), that is, legitimation by appealing to emotions (Green and Li, 2011), which does not necessarily coincide with the above strategies.
4. RESEARCH APPROACH

This chapter introduces the research methods used in this study. The textual analysis of the UK official reform documents is discussed, followed by a discussion of the techniques used for the interview analysis and the investigation of accounting change legitimation strategies.

Textual analysis

UK central governments’ official documents were analysed through textual analysis, i.e. by in-depth reading of the material with the aim to explore the implementation process of accounting, budgeting and performance management changes and the way they were discussed at the national level through the use of the global reform arguments (namely, PA, NPM and PG). The analysed material included: UK laws, technical commentaries to bills, and debates in parliamentary chambers and committees, for a total of 47 documents (2,455 pages). Each of the three administrative models (PA, NPM and PG) provides characteristic standard vocabularies, ideas or concepts (Mills, 1940) that signify adherence to a particular model. To reconstruct the model(s) and system(s) that the texts invoked, a dictionary of such ‘signature elements’ (or cues) was developed, following a similar approach to that used in prior research (Meyer and Hammerschmid, 2006; Vogel, 2012). For example: references to ‘efficiency’, ‘contract’, ‘agencification’ or ‘competition’ were used to identify NPM; PG was associated with topics such as ‘networks’, ‘citizen participation’, ‘transparency’ or ‘external accountability’; and PA was identified in relation to such cues as ‘rule’, ‘compliance’ or ‘procedure’. The list of the cues (dictionary) used is reported in Appendix 1 and an example of coding of a document is included in Appendix 2.

Interview analysis

Exploring legitimation strategies involved asking those in key organisational positions about their experiences and perceptions of change. This necessitated the conducting of semi-structured interviews to reconstruct their understanding as to the main accounting changes affecting their departments over the last two decades, and the related rhetorical strategies of legitimation or delegitimation. Questions were asked about the most relevant accounting changes and their sources, as well as people’s reactions and views of such changes (see Appendix 3 for the complete interview guide).
The interviews were conducted with 18 senior managers in Westminster and 16 in Scotland, and involved those responsible for both policy and operations with respect to accounting issues (see Table 4.1 for more details). Interviewees were identified through snowball sampling. The interviewees were from the finance departments (for simplicity identified in the empirical analysis as Westminster Finance (WF) for Westminster and Scottish Finance (SF) for Scotland), who firstly pushed the changes, and two more operationally-focused units tasked with implementing the changes. The operational units chosen were responsible for rural development (RD, under the responsibility of the Department for Environment, Food & Rural Affairs (DEFRA) in Westminster, and of the Agriculture, Food and Rural Communities Directorate in Scotland) and higher education (HE, falling under the Department for Business, Innovation & Skills (BIS) in Westminster, and the Employability, Skills and Lifelong Learning Directorate in Scotland). The interviewees are identified in any quotations included in Chapter 6 by the following designations:

- Westminster Finance from WF1 to WF4 (relating to the four HMT interviewees);
- Scottish Finance from SF1 to SF8 (the eight Scottish central finance interviewees);
- WRD and SRD for the rural development departments/section interviewees; and
- WHE and SHE for the higher education departments/section interviewees.

As far as the interview analysis is concerned, the transcribed text was coded when a legitimation strategy was used with regard to one of the possible areas of change (that is, accounting, budgeting or performance management) or relating to the reforms as a whole. As discussed in Chapter 3, the typologies proposed by a number of writers were combined resulting in six legitimation/delegitimation strategies which were used for analysis purposes in this research: AUT – authorisation; RAT – rationalisation; NOR – normalisation; MOR – moralisation; NAR – narrativisation; and PAT – pathos (for definitions, see Chapter 3).

<table>
<thead>
<tr>
<th>Department/Administration</th>
<th>Westminster</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury/Finance Directorate</td>
<td>4 (WF1 – WF4)</td>
<td>8 (SF1- SF8)</td>
</tr>
<tr>
<td>Rural Development</td>
<td>6 (WRD1 – WRD6)</td>
<td>4 (SRD1 – SRD4)</td>
</tr>
<tr>
<td>Higher Education</td>
<td>8 (WHE1 – WHE8)</td>
<td>4 (SHE1 – SHE4)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>
5. ACCOUNTING REFORMS: A REVIEW OF THE LANGUAGE IN UK OFFICIAL DOCUMENTS

This chapter presents and discusses the results of the analysis carried out on the UK official accounting reform documents.

Reform models and systems

The results of the analysis, aimed at investigating the deployment of the PA, NPM and PG models (and their associated arguments) in political documents relating to accounting change, are summarised in Table 5.1 and 5.2 and divided into three decades (1980s, 1990s and 2000s). Table 5.1 shows the overall reference to the three reform models made in the key documents analysed. The documents were analysed, and the references to the three administrative models identified, as explained in Chapter 4. The data in Table 5.1 are presented in terms of both absolute counts/occurrences (i.e. the number of times a mention to a specific model was made in each paragraph) and percentages of the counts over the total mentions made for a decade.

Table 5.1 Reform models used in official documents referring to accounting systems by decade (number of hits and percentages)

<table>
<thead>
<tr>
<th></th>
<th>PA1</th>
<th>PA2</th>
<th>NPM1</th>
<th>NPM2</th>
<th>PG1</th>
<th>PG2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>20.2%</td>
<td>0.9%</td>
<td>78.0%</td>
<td>0.0%</td>
<td>0.9%</td>
<td>0.0%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>66</td>
<td>3</td>
<td>255</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>327</td>
</tr>
<tr>
<td>1990s</td>
<td>31.6%</td>
<td>2.5%</td>
<td>58.6%</td>
<td>0.8%</td>
<td>6.4%</td>
<td>0.2%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>2,123</td>
<td>168</td>
<td>3,932</td>
<td>52</td>
<td>428</td>
<td>11</td>
<td>6,714</td>
</tr>
<tr>
<td>2000s</td>
<td>18.2%</td>
<td>3.0%</td>
<td>68.4%</td>
<td>1.4%</td>
<td>8.9%</td>
<td>0.1%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>1,227</td>
<td>205</td>
<td>4,606</td>
<td>95</td>
<td>598</td>
<td>4</td>
<td>6,735</td>
</tr>
</tbody>
</table>

Note: A statement can either endorse or criticise a specific reform. To take this into consideration, the use of key concepts was identified as ‘positive’ (that is, supporting – PA1, NPM1 and PG1) or ‘negative’ (that is, criticising or challenging – PA2, NPM2 and PG2). See Appendix 2 for an example.

Table 5.2 reports the co-occurrences (where reform arguments belonging to different models ‘appeared together’ at least once in the same paragraph) in both absolute counts and as percentage of the paragraphs where the least mentioned model was present (these, again, are divided into three decades). This table also
shows in how many paragraphs the reform models appeared as ‘stand-alones’, that is, not mentioned in a combination with any other model. In the case of ‘stand-alones’ the percentages are on the base of the total paragraphs containing the reform discourse.

Table 5.2 Layering of reform models in official documents (number of paragraphs where arguments were combined and percentages)

<table>
<thead>
<tr>
<th></th>
<th>PA1/NPM1</th>
<th>PA1/PG1</th>
<th>NPM1/PG1</th>
<th>PA1 alone</th>
<th>NPM1 alone</th>
<th>PG1 alone</th>
<th>PA1/NPM1/PG1</th>
<th>PA2/NPM1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>78.8%</td>
<td>66.7%</td>
<td>100.0%</td>
<td>17.3%</td>
<td>59.6%</td>
<td>0.0%</td>
<td>66.7%</td>
<td>33.3%</td>
</tr>
<tr>
<td></td>
<td>41</td>
<td>2</td>
<td>3</td>
<td>9</td>
<td>65</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>1990s</td>
<td>47.8%</td>
<td>32.4%</td>
<td>50.6%</td>
<td>44.7%</td>
<td>59.1%</td>
<td>17.0%</td>
<td>17.5%</td>
<td>83.0%</td>
</tr>
<tr>
<td></td>
<td>818</td>
<td>130</td>
<td>203</td>
<td>765</td>
<td>1,477</td>
<td>68</td>
<td>70</td>
<td>132</td>
</tr>
<tr>
<td>2000s</td>
<td>62.4%</td>
<td>19.6%</td>
<td>60.2%</td>
<td>27.6%</td>
<td>66.5%</td>
<td>20.2%</td>
<td>12.3%</td>
<td>80.4%</td>
</tr>
<tr>
<td></td>
<td>658</td>
<td>105</td>
<td>322</td>
<td>291</td>
<td>1,947</td>
<td>108</td>
<td>66</td>
<td>148</td>
</tr>
</tbody>
</table>

Note: This table shows the number of times different administrative models were discussed together in the same paragraph of a document. For instance, PA1/NPM1 relates to the number of paragraphs where positive mentions to the PA model were made together with positive mentions to the NPM one. To explore the co-occurrence/coexistence of different administrative models (PA with NPM, NPM with PG, etc.), binary (1/0) codes were assigned to each paragraph to indicate whether specific reform models were present at the same time (1) or not (0) – see an example in Appendix 2. The co-occurrence counts for each combination of reform models (e.g. PA1/NPM1) were divided by the number of paragraphs in which the least recurrent model was present (to give a percentage). With respect to ‘stand-alones’ the percentage is calculated on the base of the total number of paragraphs where the particular reform discourse occurs. Only the main co-occurrences are displayed (discussed later); as a consequence, only one combination utilising a negative code (PA2/NPM1) has been reported.

The translations of accounting reforms

Over the last three decades, the debate around accounting, budgeting and performance management reforms in the UK has predominantly been driven by managerial arguments (see Tables 5.1 and 5.2). NPM is by far the strongest reform model referred to in official political discussions in each of the three periods considered.

In the 1980s, arguments supporting PA ideas have limited presence and, perhaps contrary to expectations, are at their lowest absolute level of any of the three decades (20.2% of hits PA1 – 66 out of a total of 327 hits in the 1980s); PG is almost non-existent (less than 1% of hits); while NPM shows the highest
occurrence of all the three periods (78% of hits – Table 5.1). This probably mirrors the stress that had to be put on NPM ideas in order to embed them into the existing culture. This picture is confirmed by the co-occurrences (Table 5.2), where NPM arguments are often presented alone (59.6% of the paragraphs – NPM appeared in 65 paragraphs with no other model) and mainly in positive terms (the co-occurrence between statements supporting NPM and criticising PA is the lowest of the three periods – PA2/NPM1). PG cues, when used, are mainly associated with NPM (three co-occurrences), or with PA (two co-occurrences). Perhaps surprisingly, from the point of view of the actual changes (see Chapter 2 and particularly Table 2.1), this was the period when accounting systems in the central government featured: cash accounting; cash budgeting with strict annuity; and limited performance management. The earliest significant changes were visible in the 1980s with respect to performance management with the emergence of the FMI and the Next Steps Initiative.

In the 1990s and 2000s, while presenting a largely similar picture, there are also some interesting additional features (Table 5.2). The use of the combination of PA2 and NPM1 ideas (where arguments against PA are presented in the same paragraphs as arguments in favour of NPM) increases in absolute terms (132 and 148 hits in the 1990s and 2000s respectively), but remains mainly stable in percentage terms. Therefore, especially from the 1990s, it is not uncommon for arguments against PA to be used as a justification for NPM (perhaps something that would have been anticipated as NPM ideas were being introduced into political arguments).

In the 1990s and 2000s, PG is mostly used with NPM ideas (over 50% in each decade – Table 5.2), with the joint use of arguments supporting both PG (PG1) and NPM (NPM1) increasing over time. The data demonstrates that PG1 cues are often combined with NPM1 ones (over the last two periods the PG1/NPM1 combination grew by 50%, from 203 to 322), rather than being presented by themselves or with PA1 (PA1/PG1 co-occurrences decreasing over time). In addition, PG is relatively frequently presented in association with both NPM and PA arguments (see PA1/NPM1/PG1), although this combination slightly reduces (from 70 to 66) between the two decades. The relatively moderate level of this co-occurrence could be explained by the increase in the relative importance of PG, whose ideas are increasingly presented as independent arguments (the presence of PG as a ‘stand-alone’ goes from 68 paragraphs in the 1990s to 108 in the 2000s).
As might be expected, the arguments in favour of using the accruals model, in place of cash accounting, gained prominence and acceptance over these two periods, as a move from the cash basis was agreed for central government financial reporting (a Green Paper - HM Treasury, 1994 - being followed by a White Paper - HM Treasury, 1995). In addition, on the management accounting side, a subsequent move to resource budgeting, in order to make the management accounts align with the external accounts, was agreed. The position of accruals accounting was further embedded by the production of WGA (consolidating around 1,500 public bodies), with the first set of WGA being published in 2011 (for more detail, see Chapter 2). The move from cash budgeting to resource (accruals) budgeting was announced in the mid-1990s and was ‘live’ by 2003, while annuality was abolished in 1997 at central government departmental level (with end-year flexibility being permitted).

Looking across all the three periods, NPM is found to be consistently strong, with PG strengthening and PA following a weakening trajectory. As highlighted in Chapter 3, some previous studies have debated whether NPM could nowadays be considered dead and, if so, what its replacement would be (Lapsley, 2008; Osborne, 2010). The analysis suggests that PG, rather than replacing NPM, has complemented it. The comparison between the discussion (relating to the data in Tables 5.1 and 5.2) and the changes decided upon (see Chapter 2) shows considerable alignment, with the change trajectory being essentially forward. When positive NPM arguments were dominating in official central government publications, accounting ideas associated with NPM were being driven into central government accounting systems. Moves from cash accounting, cash budgeting and strict annuality in the early 1980s (PA ideas), to accruals accounting (‘live’ by 2001), accruals budgeting (‘live’ by 2003) and end-year flexibility (from 1997) are clear evidence of this. Similarly, the massive expansion and focus on performance management (with performance as an NPM keyword increasing in usage) are indicative of NPM themes being embedded (see, for example, the discussion in Chapter 2 in relation to the FMI in 1982, and the introduction of PSAs and SDAs in 1998). The deployment of NPM ideas has not been limited to a particular time period and continues even today. These reforms were not introduced at a point in time, but rather were features of a rolling programme of accounting reforms associated with NPM ideas throughout the three decades considered.

**Accounting reforms: some conclusions**

When the findings presented in this chapter are compared to the earlier literature on the intensity and speed of adoption of NPM-style reforms (Wanna et al.,
2010; Ongaro, 2011), similarities emerge. With respect to the speed of NPM-type accounting, budgeting and performance management changes, the UK was, as expected, fast and relatively linear. It remains largely in line with the classification of the UK as a leader and intense adopter of NPM reforms (Hood, 1995). Moreover, there is a clear consistency between the debate and the resultant changes. The changes in central government accounting and the rhetoric around them were clearly directed towards managerial, NPM-oriented reforms. Over the three decades they both constantly and consistently pushed in the same direction and, although different aspects of NPM-type changes were promoted at various times, resulted in a heavily-embedded changed system.

Considering the trends highlighted by the analysis, it is evident that the three administrative models have been discussed mainly in positive terms. For example, in the 2000s 68.4% of codes are NPM1 (that is, positive usage of NPM arguments), whereas only 1.4% codes are NPM2 (that is, negative references to NPM - see Table 5.1). Moreover, the co-occurrence of PA2 and NPM1 codes is relatively low in absolute terms (Table 5.2), a combination that may have been anticipated in a situation where NPM reforms were being introduced to supplant supposedly deficient PA-type accounting and budgeting systems. A possible explanation for such a finding is that the process of reform in accounting has been generally characterised by a layering of different ideas, where administrative systems complement, rather than supplant, each other over time. Changes have been introduced, building on previous ideas and grafting the new ideas into the existing systems by stressing complementarities rather than contradictions. Adopting such a philosophy discourages the use of negative arguments in discussions and documents. This interpretation supports existing studies on processes of change (Mahoney and Thelen, 2010; Christensen and Lægreid, 2011), suggesting that change happens by sedimentation rather than by replacement of ideas and values. Sedimentation, indeed, reflects a slow, layered, dialectical pattern of elements of new emerging structures, systems and beliefs combined with pre-existing ones. In reforming the public sector, ‘new brooms hardly ever sweep entirely clean’ (Pollitt and Bouckaert, 2011, p.12), rather, new elements are ‘introduced on top or alongside existing ones’ (Mahoney and Thelen, 2010, p.15), ‘making new and old institutions coexist even when they are constituted on partly inconsistent principles’ (Olsen, 2009, p.18). New emerging structures and ideas are super-imposed on pre-existing ones and, as argued by Christensen and Lægreid (2011), the transition between NPM and post-NPM ideals reflects a layering process. Frequently, even old PA models are brought back to life by reform translations and every-day activities.
This also confirms prior research on the use of global concepts and their translation and adaptation into local contexts (Czarniawska, 2011; Drori et al., 2013), showing how the link to existing values, ideas and practices is actually a prerequisite for new ideas to spread and become accepted in a particular context. This reasserts the persistence of existing systems, even when new layers of reform initiatives and regulations seem to introduce considerable changes. Sedimentation may help to explain the seemingly peaceful coexistence of accounting and budgeting systems relating to different administrative models. Nonetheless, this layering and coexistence should not be mistaken for internal coherence of principles or ‘harmony’ of interests. Tensions within the sedimented layers provide a constant challenge to stability, and the fault lines inherent in the configuration may become manifest at a later time.

Finally, it is interesting to highlight that references to PG go from being almost non-existent in the 1980s, to being stronger, although still relatively minor, afterwards. The question of whether PG constitutes the new reform ideology of the post-NPM era (Osborne, 2010) has triggered quite a debate. While some observers find that NPM is not at all ‘dead’ (Lapsley, 2008), others point to different concepts that may become the prevailing reform ideas, for example public value (Benington and Moore, 2011), new digital governance (Dunleavy et al., 2006) or the neo-weberian state (Pollitt and Bouckaert, 2011). As suggested by Pollitt and Bouckaert (2011), at this point in time, it is still difficult to know whether PG actually constitutes a distinct ‘third wave’ of reforms at all and, if so, whether the agenda it proposes will outlive mere faddish euphoria. The results here suggest that PG ideas seem to complement PA and NPM ones, rather than compete against them.
6. LEGITIMATING ACCOUNTING REFORMS: A COMPARISON BETWEEN WESTMINSTER AND SCOTLAND THROUGH THE EYES OF THOSE CLOSE TO THE ACTION

The same arguments used in the political discussions, outlined in Chapter 5, also have to be interpreted by those in the organisations charged with their implementation. This is the focus of this chapter, which investigates accounting changes, reactions and legitimation strategies at two levels: the finance departments (identified as WF for Westminster and SF for Scotland), who firstly pushed the changes discussed in Chapter 2; and the more operationally-focused units (rural development, WRD and SRD, and higher education, WHE and SHE), largely concerned with the delivery of services. The analysis is based on a series of semi-structured interviews, as outlined in Chapter 4.

Table 6.1 shows the relative number of mentions that were made during the interviews to each area of accounting change, by department and government (the absolute counts of mentions being divided by the total). Westminster and Scotland are shown separately. In addition, Table 6.2 shows the numbers and percentages of legitimation/delegitimation strategies highlighted in each department and government (again as a percentage of the total of the strategies used by the interviewees).

Table 6.1 Areas of change mentioned in interviews (Westminster and Scotland)

| Panel A: Westminster
<table>
<thead>
<tr>
<th>Accounting</th>
<th>Budgeting</th>
<th>Performance management</th>
<th>Whole of reform</th>
<th>Total counts</th>
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<td>80</td>
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<td>238</td>
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<tr>
<td>134</td>
<td>101</td>
<td>71</td>
<td>26</td>
<td>332</td>
</tr>
<tr>
<td>Westminster higher education</td>
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<td>56</td>
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<td>287</td>
<td>134</td>
<td>115</td>
<td>868</td>
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Panel B: Scotland

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<th>Performance management</th>
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Table 6.2  Legitimation (and delegitimation) strategies (Westminster and Scotland)

Panel A: Westminster

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<th>AUT2</th>
<th>MOR1</th>
<th>MOR2</th>
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<th>NAR2</th>
<th>NOR1</th>
<th>NOR2</th>
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<td>4.1%</td>
<td>24.4%</td>
<td>5.7%</td>
<td>100%</td>
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Panel B: Scotland

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<th>MOR2</th>
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</table>

Notes:
2. Legitimation strategies are indicated as ‘1’, whereas delegitimation strategies are indicated as ‘2’. The table distinguishes between the Westminster and the Scottish governments, presenting results by jurisdiction and by department.

Legitimation of accounting changes in Westminster

In the Westminster government, one of the main sources of change was Her Majesty’s Treasury (in this chapter referred to as WF for analysis purposes), one of 24 ministerial departments within the UK central government. A range of financial and accounting changes have been introduced under the auspices of WF in order to facilitate effective management in the more operationally-focused departments of government. On the side of the receivers of change, as indicated in Chapter 4, WRD falls within the competencies of DEFRA in the UK central government, whereas WHE is under the responsibility of BIS.

Legitimation at the finance department level (Westminster)

As can be seen, and as one would perhaps expect, the WF interviewees mainly referred to strictly accounting changes (such as the introduction of accruals accounting or WGA) during the interviews, with much less emphasis on budgeting
issues and, especially, on performance management (Table 6.1). This is a trend confirmed by the overall Westminster results (although the two more operational departments referred to accounting changes relatively less often).

It is worth noting that the majority of the Westminster interviewees were accountants, often with a professional accounting qualification gained in the private sector before joining central government. This is fairly typical of what was happening in the UK public sector over the past decades, with private-sector trained professional accountants often recruited to support the implementation and operation of the new accounting systems (Connolly and Hyndman, 2006). Their professional experience is likely to have influenced their perceptions and the way in which they make sense of the changes in accounting, budgeting and performance management.

The WF interviewees, when discussing the different areas of accounting change, concentrated strongly on legitimation strategies rather than delegitimation ones, i.e. were more focused on the reasons for change. As can be seen in Table 6.2, changes were largely interpreted through positive statements and with limited opposition in WF. In terms of the legitimation strategies used, the most frequently employed concerned rationalisation (for instance, when the interviewees saw changes as sensible or mentioned the importance of measurement and efficient planning or NPM concepts, RAT1 24.4% – Table 6.2), followed by authorisation (e.g. when the interviewees made specific reference to change as coming from a higher authority, be it law, or the Westminster government, AUT1 22.2%). This order was the same for each of the three specific areas of accounting change (accounting, budgeting, and performance management).

With respect to rationalisation, the interviewees reflected on the need for the new forms of accounting to support upward communication (to politicians) and within department communication (to managers) as a basis for discussion and better decisions, in particular when talking about RAB. Interestingly, delegitimation strategies linked to rationality (RAT2) accounted for only 5.7% of the cases in WF. This was not due to the unsuitability of specific individual tools, but largely in relation to implementation problems connected to the initial misalignment between accounting and budgeting systems. Some interviewees noted that in the main this was overcome as a result of the CLOS project, providing evidence of learning and adjusting as new tools and techniques are introduced and bed down.

In the case of authorisation, the main source referred to was political or
government authority. This was seen to be pushing or supporting the changes, and, in most cases, seemed to be appreciated (perhaps viewed as providing welcome back-up to accounting changes that were considered ‘rational’ and ‘normal’ by the WF interviewees). One interviewee, who had lived through the change process since the early 1990s, commented with respect to changes in governments in 2010 (when a New Labour government was replaced by a Conservative/Liberal Democrat coalition) and in 1997 (when a Conservative government was replaced by New Labour):

> With the changes in government, we’ve been very fortunate with both resource accounting and Clear Line of Sight. The changes in government have not created problems. With the Clear Line of Sight, we actually spent time talking to the shadow treasury team before the introduction. We’re obviously going to seek their agreement. With resource accounting and budgeting, in fact, the RAB reforms fitted perfectly with what the new government wanted to do in terms of moving to multi-year budgeting, in terms of resource DEL [department expenditure limit] control and so on. (WF1)

Normalisation arguments (i.e. reference to professional norms and values and to the dichotomy between public and private sectors) were also presented relatively frequently within WF (NOR1 being 11.1% – Table 6.2). In the interviews, normalisation was often related to the role professionals play because of their specialised training and active involvement in networks, and how they influence what were viewed as appropriate processes and behaviours. There is evidence that many of the accounting changes that had been introduced (particularly accounting changes, rather than performance management changes) were viewed as positive because they related to ‘what was professional’ or what ‘was done in the private sector’. For instance:

> I think there is some way to go ... we are on a journey to professionalise the senior financial management in the public sector - steps have been taken. We pretty much have people that possess an accountancy qualification occupying finance director jobs. I think pretty much all of the big departments now, well that’s a start. (WF4)
WF, like the Westminster interviewees in general, made extensive use of narratives (i.e. narrativisation strategies) and stories to describe and assess change (Table 6.2). This evidence may have been strengthened by their long-term experience in the three areas of accounting change, where the first changes were implemented in the 1980s (see Chapter 2). Finally, it is worth noting that the WF interviewees seemed relatively emotionally connected to the changes (much more so than the operational departments), with positive pathos strategies (PAT1) utilised in 7.3% of cases (Table 6.2):

... I put myself where there is an enthusiasm: where they don’t believe in the rules of a set of words, they believe in the rules of trying to achieve something. [...] I know lots of people who have the same enthusiasm as I have. It tends to come out in the anecdotes. (WF3)

As discussed before (Chapter 3), pathos strategies make appeal to personal commitment and involvement in the change, as well as shared views and patriotism. The difference between the central finance function and the other departments regarding pathos may have reflected the fact that WF was, to an extent, the persuader and implementer of the accounting changes, whereas the other departments merely had the changes ‘imposed’ upon them.

Legitimation at the implementation stage: the views of the operationally focussed departments (Westminster)

At the operational level, differences emerged with respect to the most mentioned area of change, with accounting being to the fore in the WRD interviews and budgeting in WHE (Table 6.1). This may be explained by the fact that in WHE the majority of the interviewees were accountants, but unlike WRD and WF many of them did not have previous private-sector experience. It is probable that professionally qualified accountants with private-sector training are more prone to engage with the language and processes of accruals accounting. This may explain the greater emphasis placed by WHE on budgeting (the traditional tool used in the public sector to steer and monitor policies). It is interesting to note that, with respect to performance management, the importance and usefulness of measuring education outputs (for funding and academic/research purposes) were perceived very strongly, despite the fact that activities related to higher education would be expected to be less measurable. This focus, as opposed to the engagement with more technical financial matters such as those in the WGA, perhaps reflects the fact that issues like measurement and funding of research, albeit problematical in
achieving ‘right’ calculations, have had extremely high visibility in political and media debates in education. This has particularly been the case with respect to student fees and the research ranking methodology (and subsequent potential funding impact) in the Research Excellence Framework (REF)\(^3\). To some extent, such deliberations possibly reflect attempts to ‘commodify’ these outputs and utilise them in adjusting the basis of funding.

When looking at the legitimation strategies in WRD, by far the main strategy used overall was authorisation (Table 6.2). Indeed, 31.6% of the arguments were legitimated using AUT1 (especially through references to the role played by WF and government), a much higher level than in WF and WHE. For instance, when referring to CLOS, and on being asked about who was promoting the change:

*Treasury tell us and then we ask how high they would like us to jump.* (WRD1)

In the case of WRD, rationalisation arguments (RAT1, the second most used legitimation strategy – 24.8%, Table 6.2) and ideas relating to economic logic, effective planning and optimal choice were often at the core of the responses:

*I think we probably now are just getting to the stage where we are really closely linking our decisions through our ministerial priorities that we have here. And we are really closely linking now what will happen if we take a decision and what the ministerial priorities are.* (WRD4)

Interestingly, in WRD, delegitimation, when used, often related to rationalisation (RAT2, 9.6% – Table 6.2) and occurred much more frequently than in WF and WHE. This was generally related to accounting, rather than budgeting and performance management. Staff in WRD had more doubts about the meaning of what they were doing and the changes they were implementing. As a consequence, such changes were perceived as authority-based and imposed. Moreover, as was suggested by interviewees’ responses, rural development activities (although theoretically easier to measure) are more diverse and fragmented than higher education ones.

In WHE, similar to WRD, the rhetorical strategies of rationalisation and authorisation were widely used. However, here their order of primacy was different, with positive rationalisation strategies (RAT1) mentioned substantially more often (in 35.4% of the cases – Table 6.2) than positive authorisation strategies (AUT1,
Although higher education activities, given the lower external visibility and the more subjective assessment of outputs, would be expected to be less easily measurable than rural development ones (particularly given that certain rural development activities have well established links to markets), the usefulness of accounting tools in managing and controlling these tasks seemed to be more understood and less controversial in WHE. This was particularly the case, for both accountant and non-accountant WHE interviewees, when RAB, CLOS and EYF were discussed:

*We lay out priorities for teaching grants. So our first concern relating to the teaching grant is high-class subjects, strategically important subjects, then wider participation, the additional cost of small specialist institutions. We will give priorities ... we will talk about quality in the context of HEFCE [Higher Education Funding Council for England] ... and there will be stuff in there about the REF and the priorities for research funding.* (WHE4)

Narrativisation (both to legitimate and delegitimate change) was also a widely used strategy in both WRD and WHE (where NAR1 represented 13.9% and 23.9% of the total strategies used respectively - Table 6.2), and frequently utilised in combination with rational arguments. This was used as a means of justifying and strengthening the interviewees’ perspective (recollection of events and stories helped answer the question ‘why are we doing this?’) and was particularly visible when the interviewees were making reference to performance management changes. Possibly reflecting interviewees’ background (more public-sector oriented), the use of normalisation strategies in WHE is the lowest across the three departments (NOR1 5.9% – Table 6.2). However, as in the other departments, it was largely used in relation to accounting. Differently from what is seen in WF, pathos arguments were almost totally absent in both WRD and WHE responses (Table 6.2).

**Key features of legitimating accounting change (Westminster)**

In the Westminster government, accounting changes were referred to more often than budgeting or performance management ones (38.2% of the times – Table 6.1). This may have a two-fold explanation. First, a significant emphasis has been placed in the past on financial accounting in the UK central government, and in the political debate surrounding accounting change as evidenced, for example, by RAB, WGA and CLOS. Second, because of the significant numbers of professionally-qualified accountants (particularly in WF and WRD, with accountants who qualified
and had experience in the private sector), accounting changes would have been the area where the interviewees had greatest familiarity.

While WHE, Interestingly, showed a legitimation pattern similar to WF, in WRD the changes were seen as based first of all on authorisation, and much less on rationalisation. As discussed above, while one would have expected more emphasis on general accounting practices in WRD, whose activities are more easily measurable, controllable and accounted for (Brown and Potoski, 2003), more rational arguments emerged in WHE (Table 6.2). Here, due to the research and teaching evaluation systems, as well as the university and research rankings set in place over the past number of years, accounting systems seem to have almost ‘commodified’ educational outputs and the existence and use of such systems are now taken for granted. Consistently with the high number of accountants present, normalisation strategies and profession-based arguments were used in all the three departments, although to a greater extent in WF.

**Legitimation of accounting changes in Scotland**

Since 2010, the control of finance in the Scottish government (for convenience, referred to as SF in this analysis) is exercised by the Scottish Government Finance Directorates (consisting of: the Scottish Procurement and Commercial Directorate; the Legal Services Directorate; the Planning and Environmental Appeals Directorate; and the Office of the Scottish Parliamentary Counsel Directorate). While there is now no direct relationship between minister and directorates, the activities of the latter largely fall under the purview of the Cabinet Secretary for Finance, Constitution and Economy (at present, John Swinney, MSP). Rural development in Scotland (referred to as SRD) is the responsibility of the Agriculture, Food and Rural Communities Directorate, while higher education (SHE) focus is provided by the Employability, Skills and Lifelong Learning Directorate.

**Legitimation at the finance department level (Scotland)**

Unlike Westminster, references to accounting, budgeting and performance management changes in SF were much more evenly distributed (Table 6.1), with budgeting being the area of change most talked about. The perceived relevance of budgeting tools and processes may be explained by the emphasis placed by the interviewees on the differences between the ‘Westminster model’ and the Scottish budgeting cycle, for example:
It [CLOS] didn’t have a significant impact. Obviously there was a change for the cost of capital charge and introducing it in budgets, but that was budget neutral. We have a kind of slightly different way in Scotland; we don’t consolidate our non-departmental public bodies [NDPBs] in our annual accounts … where there are NDPBs, they’re funded on a grant-in-aid basis so what we show in our budget to parliament is cash. (SF2)

With respect to performance management, the NPF in particular was often mentioned as an original Scottish tool, where the interviewees could exercise autonomy in their policy planning and control:

The whole emphasis was a change to outcomes and, you know how short term governments can be. This [the NPF] was actually saying we should be working to outcomes for Scotland, but they’ll not necessarily be able to be tested or demonstrated in the very short, you know, monthly, quarterly cycles. This is the sort of strategic objectives, so, ‘We live in a Scotland that’s the most attractive place for doing business in Europe’; you know, that’s the overall outcome … all of our directorates actually work to see how their objectives sit within this. (SF1)

In terms of legitimation strategies used, SF, perhaps unsurprisingly, differs again from its Westminster counterpart. In SF, the interviewees made greater use of authorisation strategies, rather than rationalisation (AUT1 representing 25.3% of the SF strategies used – see Table 6.2). While the main authority mentioned by SF interviewees was usually the Scottish government, they also often combined this with reference to the role played by WF in determining their overall resources and accounting policies (such as in the case of RAB and WGA).

We are taking on board the European tests, as well. So there are areas where it still gets quite confusing to be able to be transparent, and to explain clearly when parliament look at material that’s based on a budgetary and a Treasury-down construct. (SF1)

In SF, rationalisation and narrativisation both represented approximately 22% of the positive strategies employed to legitimate the changes (Table 6.2). In particular,
such strategies were often used in combination, especially to stress the importance of effective planning and control.

Legitimation at the implement stage: the views of the operationally focussed departments (Scotland)

The areas of accounting change mentioned by the interviews in SHE were similar to SF (Table 6.1). In SRD, however, performance management issues were discussed more than accounting ones, probably as a result of the strong influence of the European Union (EU) requirements and the details demanded for the performance measures relating to the Common Agricultural Policy (CAP), which had been much less emphasised in Westminster:

There are some [performance measures] from the Scottish governments for agriculture. Some of those are dictated by, an example may be carbon emissions, and you can imagine that in agriculture, CO₂ emissions are a significant output ... there are Scottish government targets but equally so there are European targets as well, they have performance indicators, more so in the new CAP. (SRD2)

In SRD the most used strategy was authorisation (with particular reference to the role of the EU), followed by narrativisation and rationalisation. This was also the department where the biggest use of delegitimation strategies based on rational arguments (RAT2, 10.3% – Table 6.2) was made, mainly with reference to accounting. For instance, when speaking about WGA:

I don’t think I’ve ever actually looked at the finished product [WGA] and I don’t know what anyone could realistically use the information for. (SRD1)

While in SRD changes were mainly seen as driven by authority, SHE saw them as more rational (Table 6.2). This result is in line with what was found for Westminster and again suggests that, surprisingly and contrary to expectations, management by numbers in higher education activities had become embedded, with educational outputs viewed as commodities. While particularly stressing efficiency and effectiveness in both the management of activities and resources, SHE was also the department with the highest occurrence of delegitimation based on pathos (5.5% of the strategies – Table 6.2). For instance, an interviewee, speaking about the introduction of RAB, pointed out:
The accounting system I think was live right at the same time [as Westminster], so you were looking at all this change going on at the same time. There were changes in the accounting system so that we could record things on a different basis. That contributed to a generally negative perception. (SHE1)

Key features of legitimating accounting change (Scotland)

In Scotland, the changes most talked about were those related to the budgeting area (42.7% of the overall mentions – Table 6.1). Often references were made to RAB and EYF, but also to the differences between the Scottish budget and the Westminster one. However, perhaps the most interesting issue to emerge was with reference to performance management and the NPF. This tool was often seen as an instrument to exercise autonomy as a devolved administration and bring about significant change. The interviewees showed ownership and knowledge of the technical characteristics and rationales behind the framework, as well as its origins and the external pressures around it:

We used the Virginia example for our performance measurement system. I don’t know who drove it; my guess is that things like the lean approach are coming from Clinton’s America and the idea to increase welfare … it’s a managerial way of government, shared by many European countries as well. (SHE3)

Interestingly, with the exception of SHE, the other departments had a similar order of legitimation strategies and showed a legitimation process mainly based on authorisation. It should be noted that in Scotland the interviewees often referred to sources of authority that were not only local (such as their own Scottish devolved government and parliament), but also UK-based (WF and Westminster government) and supranational (like the EU, especially in the case of SRD). These multiple layers and levels of government continuously interacting have most likely influenced the interviewees’ perceptions in terms of ‘who is really pushing the change’ and strengthened the role of authorisation strategies when compared to Westminster. Consistent with this interpretation and with the search for greater local identity mirrored in the exaltation of the NPF (viewed as a radical change by many interviewees), a stronger use of delegitimation strategies based on rationalisation was also evident in all Scottish departments. Positive authorisation arguments, in particular, were often used together with delegitimation strategies based on
rationality claims (RAT2), much more so than in Westminster; a scenario that, if unchanged, may hamper the actual embedding of change in the long term.

Comparison of Westminster and Scotland: some conclusions

The study shows that changes in accounting, budgeting and performance management, originally introduced to enhance ‘rational’ management and decision making, were instead often perceived as being strongly pushed by some source of ‘authority’. This duality of rationalisation and authorisation came to the fore in many of the interviews. Furthermore, both the central implementers (that is, WF and SF), who first received the political ideas and interpreted them for organisational adoption, and the more operationally-focussed departments, tended to provide positive (legitimating) justifications for modifications to systems. WF was the only department where pathos (emotional connection to the changes) was present to a significant degree; a legitimisation strategy noticeably missing in the other departments in both Westminster and Scotland. As highlighted earlier, this may reflect WF’s central position in the general UK government landscape and its more direct connection and involvement in the design of the changes.

As suggested by previous studies (Vaara et al., 2006; Green et al., 2008), Westminster and Scotland legitimation strategies were often used in combination. However, the patterns found in this study were different, possibly influenced by both the type of change and the different levels of government involved. As one might have expected with public sector organisations, authorisation was one of the most present and pervasive ways of legitimating change. This is not unusual, as many of the changes were politically driven and most of the interviewees perceived themselves to be merely implementers. In Westminster, authorisation was often used in combination with rationalisation strategies to legitimate change. The interviewees seemed to justify authority via rationality, and this may be consistent with the claims of the NPM reforms, to which many of these accounting changes are connected. In Scotland, the joint use of rationalisation and authorisation showed a different pattern, with the former much less present. The perceived strength of authority-related reasons to introduce the new changes was much higher in the devolved administration, and it is perhaps not surprising that the tool that attracted more rationalisation arguments was the Scottish NPF, the main change for which the interviewees appeared to feel particular ownership.

Finally, an interesting case is represented by higher education, which, in both Westminster and Scotland, showed a widespread use of rationalisation strategies,
especially in relation to performance management. This suggests that the type of activities performed and the services provided can also play a role in influencing the way those close to the action legitimate and see change. Over a number of years, UK universities have been subject to significant thrusts towards output and outcome measurement and target identification for both research and teaching purposes. This has unexpectedly commodified these activities, making them appear rational and sensible, despite the difficulty in actually measuring some of their targets and results.
7. CONCLUSIONS AND POLICY IMPLICATIONS

This chapter reviews some of the key themes with respect to changes in accounting, budgeting and performance management and identifies both possible implications of the research and areas for further investigation.

Objective of the research and main findings of the empirical studies

Various structural reforms in government over the last three decades can be seen as aspects of a modernisation agenda. These are often associated with attempts to improve accountability and control in the public sector. In tandem with such reforms, many governments have changed their accounting, budgeting and performance management systems. Over this period, it has been claimed that there has been a significant and progressive movement away from traditional, bureaucratic systems of public administration (PA systems), and associated accounting tools and techniques, in favour of New Public Management (NPM)-oriented systems and, latterly, Public Governance (PG) models, again, each associated with its own accounting tools and ideas.

Included in this research report is a presentation of the key changes in accounting, budgeting and performance management in the UK since the 1980s, considering both the central Westminster government and the Scottish devolved government. The main empirical research attempted to examine how these changes are argued for in political discussions, and to understand how these new techniques are implemented and legitimated. The project involved an analysis of official political documents to examine the implementation process of accounting change and the way such changes were discussed at the political level. The analysis involved a reconstruction of the history of the changes and an analysis of the arguments used in political discussions. The main legitimation strategies in the Westminster and Scottish governments were also explored with interviewees from three departments in each government (finance, rural development and higher education). The key findings of the empirical research are summarised below.

The UK embraces NPM-style accounting changes

NPM-style accounting, budgeting and performance management tools and techniques were relatively rapidly and intensely embraced in the UK. When this finding is compared to earlier literature on the intensity and speed of adoption
of reforms by other countries (Hood, 1995; Wanna et al., 2010; Ongaro, 2011), prior claims regarding the UK as a rapid, high-intensity adopter of NPM ideas are confirmed. Moreover, in the UK there is a clear alignment between the language of the political discussion and the accounting, budgeting and performance management changes introduced. Both the changes and the rhetoric around them were clearly directed towards managerial, NPM-oriented reforms. The research highlighted limited evidence to support PG as an autonomous model, as this appeared to complement, rather than replace, NPM arguments.

Changes are not necessarily replacements: ‘layering’ often occurs

PA, NPM and PG are often presented in the literature as mutually exclusive, competing systems. This research suggests that this is not the case. Critical arguments (against any of the three models) were largely absent from political discussions, even from political debates. This suggests that the process of accounting change has been generally characterised by a layering of different ideas, where ideas from certain administrative models complement, rather than supplant, each other over time. New ideas are decided upon, introduced and grafted onto existing systems by stressing complementarities rather than contradictions. This explains the tendency for the persistence of established systems and tools even when new reforms are introduced. Clearly, it does not necessarily mean that there is coherence between changes and existing systems and such tensions can provide a challenge to both stability and managers’ attempts to implement change.

Effective change requires combinations of legitimation strategies

As concepts leave the political arena and move towards the implementation stage, individuals within departments/divisions of government can translate and legitimate them differently. Undeniably, a necessary condition for the implementation of change is that it has to be considered as ‘legitimate’ within the very context in which it is applied. This research suggests that in the UK (Westminster and Scotland) public sector a combination of legitimation strategies was used at different organisational levels, with authorisation (i.e. reference to the authority of tradition, custom, law and people upon whom institutional authority of some kind has been bestowed) and rationalisation (i.e. focus on the benefits, purposes or outcomes that a certain change can bring) the strategies being mostly used. Interestingly, although the political debate and the related changes introduced were meant to introduce a more ‘rational’ way of managing and taking decisions, changes were often perceived in the departments as being based on ‘authority’.
However, the effective embedment of change requires changes to be legitimated in terms of both authorisation and rationalisation. Changes that are legitimated merely, or mainly, through authorisation will more likely bring about only cosmetic adjustments, where new systems and tools may be present but not understood or effectively utilised for daily management. From the political discussions, it is clear that this is not the intended outcome of the reform process.

Scottish differences

With respect to the areas of accounting change considered by the interviewees, financial accounting was the most referenced change by those from the Westminster government, while budgeting came to the fore in the Scottish interviews. In addition, performance management was referred to more in Scotland. It is of note that the budgeting process in Scotland is a novelty of the Scottish devolved government, and the performance-focussed NPF is an original Scottish tool, which a number of interviewees saw as enabling the exercise of autonomy in planning. RAB, on the other hand, is a framework which has received significant emphasis throughout the UK over a period of approximately 20 years (pre-dating Scottish devolution), and is not particularly felt to be a Scottish tool. It is therefore perhaps unsurprising that in Scotland the change that attracted more positive rationalisation mentions was the NPF, for which the interviewees appeared to feel a particular ownership. In Scotland, the joint use of rationalisation and authorisation strategies showed a different pattern compared to Westminster, with the former much less present. This could be explained by the multiple levels of government with which Scotland has to interact as a devolved administration and that possibly contributes to feelings that non-Scottish solutions are imposed, or that solutions do not adequately consider the Scottish dimension. The more limited combination of authority-based and rationality-based arguments found in the interviews in the devolved administration is accompanied by the stronger presence, when compared to Westminster, of delegitimating arguments. This perception of a lack of ownership of certain changes is made visible by the stronger presence of critical statements about the usefulness of particular tools and systems, especially as far as accounting and budgeting are concerned. These, indeed, were often seen as not tailored to local needs. These considerations suggest that the embedment of change may be more difficult in Scotland, compared with Westminster, particularly with respect to changes viewed as ‘coming from Westminster’.
Policy and managerial implications

From a managerial perspective, this research improves the current understanding of how accounting changes are implemented and legitimated at the organisational level. In order to implement and embed change effectively, implementers should realise that those affected, and those ultimately involved in operating the new systems, will need to see change as being, at the very minimum, logical and sensible (or rational) and as being promoted by those having the authority to do so. Moreover, real change is more likely to occur if managers have a degree of commitment (or pathos) to it. Training and education are therefore at the core. The involvement of operationally-focussed managers in the development of the changes, as well as in the early process of change, will also give them ‘voice’ and provide further legitimation. To expect to implement change successfully via solely top-down, authority-based, initiatives is short sighted. From a policy perspective, recognition of this should impact on the planning and timeline relating to the introduction of accounting changes.

The study also informs public policy makers regarding linkages between new and existing systems. Given that extant accounting approaches often have long-established validity and are largely taken-for-granted, it is important to consider the interactions between new and old tools and techniques, that is, the layering of new on the old. It is likely that any proposed abandonment, or criticism, of valued current techniques will hamper the successful implementation of new ones. In order to reduce organisational resistance to change, the integration of new ideas into existing frameworks should be handled carefully.

The comparison between Westminster and Scotland, in particular, highlights how similar changes can be interpreted and implemented in very different ways, as a consequence of greater financial and administrative autonomy. The more recent developments, such as the Scotland Act 2012 and the Smith Commission report, provide new and interesting points of discussion. As Scotland gains more autonomy, accounting decisions and subsequent changes may start to diverge more and more from Westminster. This may lead to a greater ownership of the changes and, eventually, to a stronger embedment of change itself. Such considerations further support the relevance of this study and its implications, in both Scottish and UK terms.
Limitations and areas for further research

As with all empirical studies, the research reported in this report also has its limitations. First, taken-for-granted issues and ideas may often remain ‘under the radar’ as not using certain words could also mean that the information is assumed and does not need to be stated (Green, 2004). Second, the main empirical research included here focuses on the UK, an early and strong reform initiator when compared to others. Other studies comparing different countries, possibly with differing administrative cultures and traditions, would enrich the findings.

Further research might extend the scope of the analysis by including other ministries and policy areas, and by exploring emerging patterns and constellations of rhetorical strategies among those with different education and backgrounds. In addition, similar research could be conducted in other organisational fields experiencing adjustments to accounting techniques and tools, such as those in the UK charity sector, as it introduces a new Statement of Recommended Practice.
ENDNOTES

1. As part of the research, international comparisons were also made with Italy and Austria. For brevity’s sake, these are not presented in this research report but can be accessed in Hyndman et al. (2014).

2. International comparisons of NPM reforms indicate that they have been implemented at a quicker pace and more enthusiastically in some countries compared to others, with the UK often viewed as a high-intensity, early adopter of such ideas (Hood, 1995; Pollitt and Bouckaert, 2011). NPM reforms have also brought about a process of decentralisation and devolution of government, which has fostered the increased independence of ‘devolved administrations’. The UK, in particular through the comparison of Westminster and Scotland, provides an interesting case to investigate how similar changes can be implemented and legitimated differently at different levels of government, even in the same state. Understanding the processes involved in the legitimation of change, indeed, helps explain why, in the public sector, the implementation of similar practices in similar countries has often resulted in notably different results at the organisational level (Liguori and Steccolini, 2012).

3. REF, formerly the Research Assessment Exercise, is used to influence the selective funding of research in UK universities. The REF is a performance measurement framework that utilises expert review to assess, largely, research outputs and impacts. Funding for research and teaching is channelled through various designated avenues in each of the countries of the UK (in England, it is facilitated through the Higher Education Funding Council for England – HEFCE, an executive non-departmental public body – NDPB).
REFERENCES


Waldo, D. (1968), *The novelist on organization & administration; an inquiry into the relationship between two worlds*, Institute of Governmental Studies; University of California, CA.


## APPENDIX 1

### Framework for textual analysis

<table>
<thead>
<tr>
<th>Code keywords</th>
<th>Public Administration</th>
<th>New Public Management</th>
<th>Public Governance</th>
</tr>
</thead>
</table>
APPENDIX 2
An example of coding of documents

<table>
<thead>
<tr>
<th>Text</th>
<th>Occurrence of reform models</th>
<th>Co-occurrence of reform models (sedimentation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>House of Commons Hansard Debates, 6th December 1999, p. 2</td>
<td></td>
<td>PA1/NPM1</td>
</tr>
<tr>
<td>The Bill [2000 RAB Bill] delivers four major reforms. First, it</td>
<td>PA positive (PA1): 1</td>
<td></td>
</tr>
<tr>
<td>introduces resource accounting and budgeting (NPM1) into the</td>
<td>PA negative (PA2): 0</td>
<td></td>
</tr>
<tr>
<td>government accounts and modernises the operation of other aspects</td>
<td>NPM positive (NPM1): 4</td>
<td></td>
</tr>
<tr>
<td>of the Exchequer and Audit Acts. Secondly, it improves the</td>
<td>NPM negative (NPM2): 0</td>
<td></td>
</tr>
<tr>
<td>way in which parliament votes on and scrutinises public spending</td>
<td>PG positive (PG1): 0</td>
<td></td>
</tr>
<tr>
<td>(PA1), with proper measurement of the full economic costs (NPM1)</td>
<td>PG negative (PG2): 0</td>
<td></td>
</tr>
<tr>
<td>of government activities, better treatment of capital spending</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and systematic reporting of the allocation of resources (NPM1) to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>objectives (NPM1)’</td>
<td></td>
<td></td>
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</tbody>
</table>
APPENDIX 3

Interview guide (including prompts)

1. Could you please tell us what your role and responsibilities are? How long have you been working in your present role? (and in the organisation?)

2. From your perspective, what have been the most important accounting changes since the early 1980s?
   Prompts: accruals accounting, budgeting, performance measurement/management

For each major change:

3. What changed? How did it change?
   Prompts: processes, contents, persons, tools, behaviours

4. Why was this change introduced?
   Prompts: external pressures (cognitive, coercive, normative, market forces), internal pressures (values, power, interests, leadership, etc.)

5. How was change promoted?
   Prompts: people involved/supporting the change, arguments (outside/inside the department)

6. Was change opposed? By whom (at both central and departmental level)? How?
   Prompts: people opposing the change, arguments (outside/inside the department)

7. Since the changes have been introduced, have these views (5, 6) changed over time?

8. Since the changes have been introduced, what impacts have these changes had?
   Prompts: positive and negative, decision making, accountability, day-by-day activities, behaviours

9. Since the changes have been introduced, can you give me (at least) one example of the impacts (at both central and departmental level)?
   Prompt: if the example is very positive (negative), ask if there is anything negative (positive)

10. Since the changes have been introduced, how do you think the type of information used for decision making (at both central and departmental level) changed as a consequence? Could you please give us an example?

11. What is your personal opinion on the changes that have taken or are taking place?
ABOUT THE AUTHORS

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Mariannunziata Liguori is Senior Lecturer in Management Accounting at Queen’s University Management School, Belfast, where she moved after a visiting period at the University of Alberta, Canada. She was awarded a PhD, investigating processes of accounting change in the public sector, by Bocconi University, Milan, where she has previously worked.
Change is never easy and if change is to be successful it is important that it is embedded effectively in an organisation. This report considers how accounting change in central government in both Westminster and Scotland has been argued for and implemented over the last 35 years. From this the researchers identify how any future change can be managed more effectively.

The researchers find that New Public Management style accounting changes have been relatively rapidly and intensely embraced in the UK, and the changes that have occurred tended to be achieved through a ‘layering’ of different ideas, with new ideas grafted into existing systems. A combination of legitimation strategies has been used by the different departments, but the effective embedment of change requires those involved at the operation level to see change as both rational and as promoted by those in authority. Changes perceived as merely imposed by those in authority are likely to result in only cosmetic adjustments.

Comparing Scotland to Westminster the researchers suggest that rational reasons for change were less present in Scotland, possibly explained by the multiple levels of government with which Scotland has to interact. It is suggested that the embedment of change in Scotland may be more difficult – especially if changes are viewed as coming from Westminster, an important point as Scotland is likely to receive greater autonomy under further devolution plans.

The report concludes with implications for policy makers when introducing and managing accounting change.