



PhD Thesis

The reform of governmental
accounting systems in Greece:
Evaluating the process and the outcomes

by
Sotirios Karatzimas

Supervisor: Associate Professor Sandra Cohen

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«Δηλώνω υπεύθυνα ότι η συγκεκριμένη διδακτορική διατριβή για τη λήψη του Διδακτορικού Διπλώματος του Τμήματος Οργάνωσης και Διοίκησης Επιχειρήσεων του Οικονομικού Πανεπιστημίου Αθηνών στην Οργάνωση και Διοίκηση Επιχειρήσεων (Ph.D. in Business Administration) έχει συγγραφεί από εμένα προσωπικά και δεν έχει υποβληθεί ούτε έχει εγκριθεί στο πλαίσιο κάποιου άλλου διδακτορικού ή μεταπτυχιακού ή προπτυχιακού τίτλου σπουδών, στην Ελλάδα ή στο εξωτερικό. Η εργασία αυτή έχοντας εκπονηθεί από εμένα, αντιπροσωπεύει τις προσωπικές μου απόψεις επί του θέματος. Οι πηγές στις οποίες ανέτρεξα για την εκπόνηση της συγκεκριμένης διδακτορικής διατριβής αναφέρονται στο σύνολό τους, δίνοντας πλήρεις αναφορές στους συγγραφείς, συμπεριλαμβανομένων και των πηγών που ενδεχομένως χρησιμοποιήθηκαν από το διαδίκτυο».



Dissertation Committee

Sandra Cohen (Supervisor), Associate Professor of Accounting, Department of Business Administration, Athens University of Economics and Business.

Georgios Venieris, Professor of Accounting, Department of Accounting and Finance, Athens University of Economics and Business.

Constantinos Caramanis, Associate Professor of Accounting, Department of Business Administration, Athens University of Economics and Business.

Apostolos Ballas, Associate Professor of Accounting, Department of Accounting and Finance, Athens University of Economics and Business.

Christos Tzovas, Assistant Professor of Accounting, Department of Accounting and Finance, Athens University of Economics and Business.

Ioannis Filos, Assistant Professor of Accounting, Department of Public Administration, Panteion University of Political and Social Sciences.

Emmanouil Dedoulis, Lecturer of Accounting, Department of Business Administration, Athens University of Economics and Business.

Executive summary

During the last thirty years public sector accounting has undergone considerable changes aiming at increasing the transparency, accountability and effectiveness of the public sector. These reforms are part of the New Public Management movement which is considered to draw from private sector's characteristics (Hood, 1995), and therefore differs substantially from the traditional bureaucracy which characterizes the public sector. Accounting appears to play a vital role within this context, as the use of accounting tools provides the necessary level of rationalism in the NPM reform framework. The most significant of these changes are recognized in the general trend towards migrating to accrual accounting (Christiaens and Rommel, 2008; Lapsley *et al.*, 2009) and the introduction of performance evaluation mechanisms, such as program budgeting (Gilmour and Lewis, 2006; Schick, 2007) in every level of government.

Within this realm, and by following recommendations from external organizations (International Monetary Fund, OECD and European Commission), the Greek central government proceeded gradually from 2005 onwards in modernizing its governmental accounting standards as well as the state budget. The central government recently made a transition from the cash basis of accounting to the modified-cash basis of accounting, having as an ulterior goal the transition to the accrual basis of accounting (Ministry of Finance, 2009b). Moreover, the central government attempted to adopt a performance-based budget (program budgeting) complementarily to the traditional line-item budget. While the first mentioned reform appears to be an interim stage for a greater change, the latter reform resulted to a failure since the project was suddenly abandoned after five years of intensive preparations.

On the road of implementing these reforms various factors affected more or less their end result. Special reference though, should be given to the severe debt crisis that became evident in Greece since 2009, and resulted to the country's resource dependency to external organizations. From that point, the process of the reforms was significantly affected by the intervention and pressures of these organizations.



The scope of this doctoral research is twofold: To explore the framework under which the Greek central government proceed into implementing its accounting systems' reform, and to evaluate the outcome of the reforms so far. Since the state budget's reform was abandoned, the evaluation of the outcome mainly refers to the accounting standards reform, which is assessed in terms of increased quality and decision-usefulness of the information provided to users.

Regarding the theoretical framework employed to analyze these changes, the budgeting reform process is reviewed through the lens of neo-institutional theory and the resource dependency model, with several hints from the organizational change theory. More specifically, the neo-institutional theory provides helpful explanations regarding the institutional pressures under which the Greek government had to operate in order to proceed to this change, while the resource dependency model illuminates the pressures deriving from the sudden financial crisis. Organizational change theory provides the relevant insights on the factors that may affect the successful implementation of changes in the public sector.

On the other hand, the review of the accounting standards process is built on the public choice theory and the 'garbage can' model. More specifically, the public choice theory is used in order to unravel the role and incentives of the various involved to the reform actors, while the 'garbage can' model provides possible explanations on the decision-making process during the development of the new set of accounting standards.

The empirical part of this doctoral thesis is materialized on the basis of the conduction of interviews, informal discussions and the study of relevant archival data. Moreover, the assessment of the accounting standards reform is conducted by using a web-based questionnaire that draws on both public and private sector literature. Therefore, a pluralistic framework of research methods has been applied in order to assess hypotheses informed by the relevant theoretical strands.

Greece constitutes an interesting setting to study reforms in the central government level, mainly due to the strong criticism the public sector attracts as being ineffective and in urgent need of modernization (IMF, 2006; OECD, 2008a). The severe debt

crisis makes the case even more puzzling since pressures deriving from the country's resource dependency clash with the cultivated bureaucracy inside the Greek public sector, causing several implications to governmental decision-making and determining the level of success of governmental accounting reforms. Furthermore, certain characteristics of the country's political culture that appear to affect politicians and citizens' stance on public finance matters are found to have a key role to the reform process.

The research provides helpful explanations of the rationale behind the reforms and the decision-making of policy makers that determine both the process and the actual success of the reforms so far. It is very important to gain an understanding of the reasons that could lead an accounting reform to failure or success. Especially when it comes to accounting reforms the successful implementation of which, could improve information quality, enhance decision-making and increase accountability and transparency in the strongly criticized Greek public sector.

Results highlight the multidimensionality of the factors affecting reforms that target to the modernization of the particularly sensitive Greek central government level. Throughout both reforms' timetables, the role of external resource providers appears to be very intense. During the years of the projects' development, the Greek state came across an unprecedented financial crisis. The crisis played a determining role on the process. The severity of the crisis called for external organizations involvement (i.e. the Troika). Their intervention has been materialised in a dual manner; by providing financial resources while in parallel influencing policy-making.

More specifically, the evaluation of the process in the budgeting reform, suggest that subsequent institutional pressures deriving from the country's resource dependency resulted in a re-prioritization of actions and therefore to the abandoning of the program budgeting project. What is also revealed throughout the analysis is that the cultivated culture inside a bureaucratic central government, which gives rise to resistance to change, and the poor diffusion of the new accounting philosophy, would have hampered the success of the new system even if the plan had not been abandoned. The ill diffusion of the new strategy as well as the resistance to change towards the new system ended up in program budgeting drifting away from the



initially expected objective. Notwithstanding the poor operationalization of the new system, under this new political domain the governmental decisions were driven from the need to adapt to a different strategy in order to handle the new priorities. As it appears, the program budgeting plan became a side issue while the adoption of the new recommendations and requirements “imposed” by the external parties directly related to public administration were prioritized.

As regards to the governmental accounting standards reform, the main finding of the research indicates that the change from cash to modified cash accounting paradigm has resulted to the improvement of the quality and to the increase of decision-usefulness of the information provided by the governmental financial statements. However, these improvements are assessed as moderate, which indicates the limited success of the reform. In general though, the findings provide empirical evidence in favor of the benefits associated with a move to full accruals. The research study also reveals that experts on governmental accounting and people using it in their everyday routine (i.e. public sector executives and oversight bodies’ executives) assess its quality and usefulness higher than citizens. Thus, expertise in public sector accounting appears to affect the assessments regarding the quality and the perceived usefulness of governmental financial statements. This has important implications for policy making in terms of governmental accounting information disclosure and accountability.

During the evaluation of the process of the development of the new governmental accounting standards, the findings indicate the lack of effective monitoring of the process by both politicians and external resource providers. The set of standards developed is largely the outcome of the incentives and the cooperation of bureaucrats and consultants. More specifically, the conducted analysis provides corroborative evidence that citizens were both uninformed and uninterested in the reform while the members of the parliament indifferent to the procedure, even though political will and commitment are prerequisites for the success of such reforms. Even the external resource providers (i.e. the Troika) turned their attention to other ongoing administrative reforms. Eventually, the outcome is credited to the developers of the new accounting standards; the bureaucrats and the external consultants. Within this context, the results provide evidence of absence of both shared goals, of shared and understood processes, and of a constant decision-making group, which indicate



decision-making through a “garbage can”. As politicians and resource providers were absent from leading roles in the reform process, it could be further implied that the outcome of the reform was not intended to satisfy a predefined clearly stated strategic goal.

The outcome of the dissertation has several implications for policy makers, which could be labeled under the four following major topics: the ability of the Greek central government to successfully conclude reforms, the readiness level of Greece in a future decision of the EU in favor of IPSAS or EPSAS’s mandatory adoption, the necessity of introducing a performance-based budgeting system, and the usefulness of alternative forms of reporting information to users. Finally, future research potentials bring into discussion issues such as the analysis of the differences of the Greek public sector accounting framework towards the EPSAS framework, the examination of significant issues that have to be solved before a move to accrual accounting, the measurement of the readiness for change level of the Greek central government, and the development of alternative forms of reporting.



Περίληψη

Τα τελευταία τριάντα χρόνια η λογιστική του δημοσίου τομέα έχει βιώσει σημαντικές αλλαγές, που έχουν ως στόχο την αύξηση της διαφάνειας, της λογοδοσίας και της αποτελεσματικότητας στο δημόσιο τομέα. Οι μεταρρυθμίσεις αυτές αποτελούν μέρος του κινήματος της Νέας Δημόσιας Διοίκησης (New Public Management - NPM) η οποία θεωρείται ότι έχει επηρεαστεί από τις πολιτικές του ιδιωτικού τομέα (Hood, 1995) και επομένως διαφέρει ουσιαστικά από την παραδοσιακή γραφειοκρατία που χαρακτηρίζει τον δημόσιο τομέα. Στα πλαίσια των μεταρρυθμίσεων της Νέας Δημόσιας Διοίκησης, η λογιστική εμφανίζεται να διαδραματίζει ένα ζωτικό ρόλο, καθώς η χρήση εργαλείων της λογιστικής παρέχει το κατάλληλο επίπεδο εξορθολογισμού. Ανάμεσα στις σημαντικότερες από τις μεταρρυθμίσεις αυτές εμφανίζεται η γενική τάση μετάβασης προς τη λογιστική του δεδουλευμένου (Christiaens and Rommel, 2008; Lapsley *et al.*, 2009) και η εισαγωγή μηχανισμών αξιολόγησης της απόδοσης σε κάθε επίπεδο κυβέρνησης, όπως είναι οι προϋπολογισμοί προγραμμάτων (Gilmour and Lewis, 2006; Schick, 2007).

Μέσα σε αυτό το πλαίσιο, και κατόπιν υποδείξεων-προτάσεων από διεθνείς οργανισμούς όπως το Διεθνές Νομισματικό Ταμείο (ΔΝΤ), ο Οργανισμός Οικονομικής Συνεργασίας και Ανάπτυξης (ΟΟΣΑ) αλλά και η Ευρωπαϊκή Επιτροπή, η κεντρική κυβέρνηση στην Ελλάδα προχώρησε σταδιακά από το 2005 και μετά στον εκσυγχρονισμό των λογιστικών προτύπων της και του κρατικού προϋπολογισμού. Πιο συγκεκριμένα, η κεντρική κυβέρνηση πρόσφατα μετέβη από την ταμειακή βάση της λογιστικής σε τροποποιημένη ταμειακή βάση, έχοντας ως τελικό στόχο την μετάβαση στη δεδουλευμένη βάση της λογιστικής (Ministry of Finance, 2009b). Επιπλέον, η κεντρική κυβέρνηση επιχείρησε την υιοθέτηση προϋπολογισμού με βάση την απόδοση (προϋπολογισμός προγραμμάτων), με σκοπό να λειτουργήσει συμπληρωματικά στον παραδοσιακό προϋπολογισμό κονδυλίων. Ενώ, η πρώτη από τις παραπάνω μεταρρυθμίσεις εμφανίζεται ως μεταβατικό στάδιο για μια σημαντικότερη αλλαγή, η δεύτερη μεταρρύθμιση κατέληξε σε αποτυχία, καθώς το έργο εγκαταλείφθηκε ξαφνικά, μετά από πέντε χρόνια εντατικής προετοιμασίας.



Στην πορεία αυτή προς την υλοποίηση των παραπάνω μεταρρυθμίσεων, διάφοροι παράγοντες επηρέασαν σε μικρότερο ή μεγαλύτερο βαθμό το τελικό τους αποτέλεσμα. Ιδιαίτερη μνεία θα πρέπει ωστόσο να γίνει στην σφοδρή κρίση χρέους που έκανε την εμφάνισή της στην Ελλάδα από το 2009 και είχε ως αποτέλεσμα την εξάρτηση της χώρας από την οικονομική βοήθεια ξένων οργανισμών. Από εκείνο το σημείο, η πορεία των μεταρρυθμίσεων επηρεάστηκε σημαντικά από τις παρεμβάσεις και τις πιέσεις των οργανισμών αυτών.

Ο σκοπός της παρούσας διδακτορικής έρευνας είναι διττός: να διερευνήσει το πλαίσιο μέσα στο οποίο η κεντρική κυβέρνηση της Ελλάδος προχώρησε στην υλοποίηση των μεταρρυθμίσεων στα λογιστικά της συστήματα, και να αξιολογήσει το αποτέλεσμα των μεταρρυθμίσεων μέχρι στιγμής. Από τη στιγμή που η μεταρρύθμιση του προϋπολογισμού εγκαταλείφθηκε, η αξιολόγηση του αποτελέσματος αναφέρεται κυρίως στη μεταρρύθμιση των λογιστικών προτύπων. Η τελευταία, αξιολογείται σε όρους αυξημένης ποιότητας και χρησιμότητας στη λήψη αποφάσεων, της παρεχόμενης στους χρήστες πληροφόρησης.

Όσον αφορά το θεωρητικό πλαίσιο το οποίο χρησιμοποιήθηκε προκειμένου να αναλυθούν οι αλλαγές αυτές, η διαδικασία της μεταρρύθμισης του προϋπολογισμού εξετάζεται μέσα από την οπτική της νεο-θεσμικής θεωρίας (neo-institutional theory) και του υποδείγματος της οικονομικής εξάρτησης (resource dependency model), λαμβάνοντας υπόψιν στοιχεία από τη θεωρία της οργανωσιακής αλλαγής (organizational change theory). Πιο συγκεκριμένα, η νεο-θεσμική θεωρία παρέχει χρήσιμες επεξηγήσεις σχετικά με τις θεσμικές πιέσεις, κάτω από τις οποίες έπρεπε να λειτουργήσει η κεντρική κυβέρνηση, προκειμένου να προχωρήσει στην αλλαγή αυτή, ενώ το υπόδειγμα της οικονομικής εξάρτησης, τονίζει τις πιέσεις που προήλθαν ως απόρροια της ξαφνικής οικονομικής κρίσης και της αδυναμίας οικονομικής ανεξαρτησίας της χώρας. Τέλος, η θεωρία της οργανωσιακής αλλαγής παρέχει τα απαραίτητα επεξηγηματικά στοιχεία αναφορικά με τους παράγοντες που ενδέχεται να επηρεάζουν την επιτυχία, ή όχι, υλοποίηση των αλλαγών στο δημόσιο τομέα.

Από την άλλη μεριά, η εξέταση της διαδικασίας αλλαγής των λογιστικών προτύπων γίνεται με βάση τη θεωρία της δημόσιας επιλογής (public choice theory) και το υπόδειγμα του ‘κάδου απορριμμάτων’ (‘garbage can’ model). Πιο συγκεκριμένα, η



θεωρία της δημόσιας επιλογής χρησιμοποιείται προκειμένου να διερευνηθούν ο ρόλος και τα κίνητρα των εμπλεκομένων στην μεταρρύθμιση μερών, ενώ το υπόδειγμα του 'κάδου απορριμμάτων', παρέχει πιθανές εξηγήσεις σχετικά με τη διαδικασία λήψης αποφάσεων κατά την ανάπτυξη των νέων λογιστικών προτύπων.

Το εμπειρικό μέρος της παρούσας διδακτορικής διατριβής περιλαμβάνει την πραγματοποίηση συνεντεύξεων και άτυπων συζητήσεων, καθώς και τη μελέτη σχετικών αρχειακών στοιχείων. Επιπλέον, η αξιολόγηση της μεταρρύθμισης των λογιστικών προτύπων πραγματοποιείται με τη χρήση ενός διαδικτυακού ερωτηματολογίου που βασίζεται στην αντίστοιχη βιβλιογραφία τόσο του δημόσιου όσο και του ιδιωτικού τομέα. Επομένως, ένα πλουραλιστικό πλαίσιο μεθόδων έρευνας έχει χρησιμοποιηθεί προκειμένου να εξεταστούν οι υποθέσεις που προκύπτουν από τα αντίστοιχα θεωρητικά πλαίσια.

Η Ελλάδα αποτελεί μια ιδιαίτερα ενδιαφέρουσα περίπτωση για τη μελέτη μεταρρυθμίσεων στο επίπεδο της κεντρικής κυβέρνησης, εξαιτίας κυρίως της κριτικής που δέχεται ο δημόσιος τομέας για αναποτελεσματικότητα και άμεση ανάγκη εκσυγχρονισμού (IMF, 2006; OECD, 2008a). Η περίπτωση της Ελλάδας γίνεται ακόμα πιο ενδιαφέρουσα εξαιτίας της σφοδρής κρίσης χρέους, καθώς οι πιέσεις που προέρχονται από την οικονομική εξάρτηση της χώρας συγκρούονται με τη βαθιά ριζωμένη γραφειοκρατία του δημοσίου τομέα, προκαλώντας ποικίλες επιπλοκές στη λήψη αποφάσεων σε κυβερνητικό επίπεδο και στον προσδιορισμό του επιπέδου επιτυχίας των μεταρρυθμίσεων στα λογιστικά συστήματα της κυβέρνησης. Επιπλέον, συγκεκριμένα χαρακτηριστικά της πολιτικής κουλτούρας της χώρας, τα οποία επηρεάζουν τη στάση πολιτών και πολιτικών σε θέματα δημόσιας χρηματοοικονομικής διοίκησης, εμφανίζονται να διαδραματίζουν ένα βασικό ρόλο στη διαδικασία της μεταρρύθμισης.

Η έρευνα παρέχει χρήσιμες επεξηγήσεις του σκεπτικού πίσω από τις μεταρρυθμίσεις και της λήψης αποφάσεων των διαμορφωτών των πολιτικών, οι οποίες προσδιορίζουν την διαδικασία αλλά και την τελική επιτυχία των μεταρρυθμίσεων μέχρι στιγμής. Είναι πολύ σημαντικό να γίνουν αντιληπτοί οι λόγοι που θα μπορούσαν να οδηγήσουν μια λογιστική μεταρρύθμιση σε αποτυχία ή επιτυχία. Ειδικά, όταν η επιτυχής υλοποίηση των λογιστικών αυτών μεταρρυθμίσεων θα μπορούσε να



βελτιώσει την ποιότητα της πληροφορίας, να ενισχύσει τη λήψη αποφάσεων και να αυξήσει την λογοδοσία και τη διαφάνεια στον Ελληνικό δημόσιο τομέα.

Τα αποτελέσματα της έρευνας τονίζουν τις πολλές διαστάσεις των παραγόντων που επηρεάζουν τις μεταρρυθμίσεις που στοχεύουν στον εκσυγχρονισμό της ιδιαίτερα ευαίσθητης κεντρικής κυβέρνησης στην Ελλάδα. Μέσα από τη μελέτη των χρονοδιαγραμμάτων των δύο μεταρρυθμίσεων, ο ρόλος διεθνών οργανισμών οικονομικής στήριξης παρουσιάζεται ιδιαίτερα έντονος. Κατά τη διάρκεια της ανάπτυξης των μεταρρυθμιστικών έργων, η Ελλάδα ήρθε αντιμέτωπη με μια πρωτοφανή οικονομική κρίση. Η κρίση αυτή διαδραμάτισε καθοριστικό ρόλο στην διαδικασία των μεταρρυθμίσεων. Η σοβαρότητα της κρίσης είχε ως αποτέλεσμα την ανάμειξη της Τρόικα (Διεθνές Νομισματικό Ταμείο, Ευρωπαϊκή Επιτροπή, και Ευρωπαϊκή Κεντρική Τράπεζα), η εμπλοκή της οποίας έγινε σε δύο επίπεδα: μέσω της παροχής οικονομικής στήριξης, και ταυτόχρονης επίδρασης στις πολιτικές επιλογές και αποφάσεις.

Πιο συγκεκριμένα, η αξιολόγηση της διαδικασίας της μεταρρύθμισης στο σύστημα προϋπολογισμού, υποδεικνύει ότι επακόλουθες θεσμικές πιέσεις που ήταν απόρροια της οικονομικής εξάρτησης της χώρας, οδήγησαν σε επαναπροσδιορισμό των προτεραιοτήτων αναφορικά με τις δράσεις, και επομένως στην εγκατάλειψη της εισαγωγής προϋπολογισμού προγραμμάτων. Μέσα από την ανάλυση, αποκαλύπτεται επιπλέον, ότι η κουλτούρα που καλλιεργείται μέσα σε μια γραφειοκρατική κεντρική κυβέρνηση, που ενθαρρύνει την αντίσταση στην αλλαγή, και η ανεπιτυχής διάχυση της φιλοσοφίας του νέου λογιστικού συστήματος, θα εμπόδιζαν την επιτυχία του νέου συστήματος ακόμα και αν η μεταρρύθμιση δεν είχε εγκαταλειφθεί. Η ανεπαρκής διάχυση της νέας στρατηγικής καθώς επίσης και η αντίσταση στην αλλαγή, είχαν ως αποτέλεσμα την απομάκρυνση της μεταρρύθμισης από τους αρχικούς στόχους. Εκτός από την ανεπαρκή λειτουργικότητα του νέου συστήματος, κάτω από τις νέες πολιτικές συνθήκες, οι αποφάσεις της κυβέρνησης προέρχονταν από την ανάγκη προσαρμογής σε μια διαφορετική στρατηγική προκειμένου να αντιμετωπιστούν οι νέες προτεραιότητες. Όπως προκύπτει, το σχέδιο της ανάπτυξης προϋπολογισμού προγραμμάτων κατέληξε να θεωρείται πλέον ζήτημα δευτερεύουσας σημασίας, ενώ η υιοθέτηση των νέων προτάσεων και απαιτήσεων που προκρίνονταν από την Τρόικα και είχαν άμεση σχέση με τη δημόσια διοίκηση αποτέλεσαν προτεραιότητα. Τα



παραπάνω συμπεράσματα βασίζονται στις συνεντεύξεις που πραγματοποιήθηκαν με στελέχη του Γενικού Λογιστηρίου του Κράτους, τις άτυπες συζητήσεις με πολιτικούς που διαδραμάτισαν σημαντικό ρόλο στο υπό εξέταση ζήτημα, καθώς και στα σχετικά αρχειακά στοιχεία (εκθέσεις του Υπουργείου Οικονομικών, του ΔΝΤ, του ΟΟΣΑ, κλπ.).

Όσον αφορά τη μεταρρύθμιση των λογιστικών προτύπων της κεντρικής κυβέρνησης, το κύριο εύρημα της έρευνας υποδεικνύει ότι η αλλαγή από την ταμειακή βάση προς την τροποποιημένη ταμειακή βάση είχε ως αποτέλεσμα την βελτίωση της ποιότητας και την αύξηση της χρησιμότητας στη λήψη αποφάσεων της πληροφορίας που παρέχουν οι χρηματοοικονομικές καταστάσεις της κυβέρνησης. Ωστόσο, οι βελτιώσεις αυτές χαρακτηρίζονται ως μέτριας σημαντικότητας, γεγονός που δείχνει την περιορισμένη επιτυχία της μεταρρύθμισης. Τα ανωτέρω συμπεράσματα βασίζονται στις απαντήσεις επί του ηλεκτρονικού ερωτηματολογίου το οποίο συμπλήρωσαν 95 ενδιαφερόμενοι που ανήκαν στις ακόλουθες κατηγορίες χρηστών: πολίτες (επαγγελματίες λογιστές, ακαδημαϊκοί και ερευνητές στο χώρο της λογιστικής, και οικονομικοί δημοσιογράφοι), στελέχη του δημοσίου τομέα, στελέχη εποπτικών αρχών και επενδυτές. Σε γενικές γραμμές, ωστόσο, τα ευρήματα παρέχουν εμπειρικά δεδομένα υπέρ των πλεονεκτημάτων που συνδέονται με μια μετάβαση στη λογιστική του δεδουλευμένου. Η έρευνα αποκαλύπτει επίσης ότι ειδικοί επί της λογιστικής της κεντρικής κυβέρνησης και καθημερινοί χρήστες της (δηλαδή στελέχη του δημόσιου τομέα, στελέχη εποπτικών αρχών), αξιολογούν θετικότερα την ποιότητα και χρησιμότητά της σε σχέση με τους πολίτες. Επομένως, το επίπεδο γνώσης και κατανόησης της λογιστικής του δημοσίου τομέα, εμφανίζεται να επηρεάζει τις αξιολογήσεις σχετικά με την ποιότητα και την αντιληπτή χρησιμότητα των οικονομικών καταστάσεων της κεντρικής κυβέρνησης. Το γεγονός αυτό έχει πολύ σημαντικές επιπτώσεις για τη λήψη πολιτικών αποφάσεων σε όρους γνωστοποίησης λογιστικής πληροφορίας και λογοδοσίας.

Κατά την αξιολόγηση της διαδικασίας ανάπτυξης των νέων λογιστικών προτύπων, τα ευρήματα υποδεικνύουν την απουσία αποτελεσματικού ελέγχου και παρακολούθησης της διαδικασίας τόσο από τους πολιτικούς όσο και από την Τρόικα. Τα πρότυπα που αναπτύχθηκαν αποτελούν σε μεγάλο βαθμό το αποτέλεσμα των κινήτρων και της συνεργασίας μεταξύ γραφειοκρατών και εξωτερικών συμβούλων. Πιο συγκεκριμένα,



η έρευνα που πραγματοποιήθηκε με τη διενέργεια συνεντεύξεων με μέλη της επιτροπής που συνέταξε τα νέα πρότυπα (στελέχη του Γενικού Λογιστηρίου του Κράτους, στελέχη της ΕΛΤΕ, τεχνικοί σύμβουλοι), και την μελέτη των σχετικών αρχειακών στοιχείων (εκθέσεις του Υπουργείου Οικονομικών, του ΔΝΤ, του ΟΟΣΑ, της Ε.Ε., κλπ.) παρέχει στοιχεία που επιβεβαιώνουν το γεγονός ότι οι πολίτες ήταν αδιάφοροι και απληροφόρητοι σχετικά με τη μεταρρύθμιση, ενώ τα μέλη του κοινοβουλίου αδιάφορα ως προς τη διαδικασία, παρόλο που η πολιτική θέληση και δέσμευση αποτελεί προαπαιτούμενο για την επιτυχία τέτοιων μεταρρυθμίσεων. Ακόμα και η Τρόικα έστρεψε την προσοχή της σε άλλες διοικητικές μεταρρυθμίσεις που βρίσκονταν σε εξέλιξη. Τελικά, το αποτέλεσμα πιστώνεται στην ομάδα ανάπτυξης των νέων λογιστικών προτύπων, που αποτελούνταν από γραφειοκράτες και εξωτερικούς συμβούλους. Μέσα σε αυτό το πλαίσιο, τα αποτελέσματα της διδακτορικής διατριβής, παρέχουν αποδεικτικά στοιχεία που υποδηλώνουν απουσία κοινών στόχων, κοινών και κατανοητών διαδικασιών, καθώς και μιας συγκεκριμένης και συνεχούς ομάδας κατάρτισης και λήψης αποφάσεων, κάτι που υποδεικνύει λήψη αποφάσεων που προσομοιάζει τη διαδικασία που περιγράφεται από το θεωρητικό πλαίσιο του 'κάδου απορριμμάτων'. Καθώς οι πολιτικοί και οι πάροχοι οικονομικής βοήθειας απείχαν από τους κεντρικούς ρόλους στη διαδικασία της μεταρρύθμισης, θα μπορούσε επιπλέον να υποστηριχθεί ότι το αποτέλεσμα της μεταρρύθμισης δεν στόχευε στην ικανοποίηση ενός προκαθορισμένου και ξεκάθαρα προσδιορισμένου στρατηγικού στόχου.

Τα ευρήματα της παρούσας διδακτορικής διατριβής προσφέρουν πολλά συμπεράσματα χρήσιμα για τους διαμορφωτές των πολιτικών, τα οποία θα μπορούσαν να κατηγοριοποιηθούν στα τέσσερα ακόλουθα ζητήματα: την ικανότητα της Ελληνικής κεντρικής κυβέρνησης να ολοκληρώνει επιτυχώς μεταρρυθμίσεις, το επίπεδο ετοιμότητας της Ελλάδος σε μια μελλοντική απόφαση της Ευρωπαϊκής Ένωσης υπέρ της υποχρεωτικής υιοθέτησης των IPSAS (International Public Sector Accounting Standards) ή των EPSAS (European Public Sector Accounting Standards), την αναγκαιότητα της εισαγωγής προϋπολογιστικών συστημάτων με βάση την απόδοση, και τη χρησιμότητα εναλλακτικών μορφών παροχής πληροφοριών προς τους χρήστες.



Τέλος, τα ζητήματα στα οποία θα πρέπει να επικεντρωθεί η μελλοντική έρευνα περιλαμβάνουν την ανάλυση των διαφορών μεταξύ του λογιστικού πλαισίου του Ελληνικού δημόσιου τομέα και του πλαισίου των EPSAS, την εξέταση σημαντικών ζητημάτων που θα πρέπει να επιλυθούν πριν γίνει μετάβαση στην λογιστική του δεδουλευμένου, την αξιολόγηση του επιπέδου ετοιμότητας της κεντρικής κυβέρνησης έναντι στην αλλαγή, και την ανάπτυξη εναλλακτικών μορφών παροχής χρηματοοικονομικής πληροφόρησης.



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List of abbreviations

AARF	Australian Accounting Research Foundation
AARF PSASB	Australian Accounting Research Foundation and Public Sector Accounting Standards Board
CICA	Canadian Institute of Chartered Accountants
EC	European Commission
ECB	European Central Bank
EPSAS	European Public Sector Accounting Standards
ESA	European System of Accounts
EU	European Union
FEE	Fédération des Experts Comptables Europeens
FASB	Financial Accounting Standards Board
GASB	Governmental Accounting Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFAC PSC	International Federation of Accountants Public Sector Committee
IFRS	International Financial Reporting Standards
ILO	International Labour Office
IMF	International Monetary Found
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NCGA	National Council on Governmental Accounting
OECD	Organization for Economic Co-operation and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization



1. Introduction

During the last decades public sector accounting has undergone considerable changes aiming at increasing the transparency, accountability and effectiveness of the public sector. These reforms are part of the New Public Management movement which is considered to draw from private sector's characteristics (Hood, 1995), and therefore differs substantially from the traditional bureaucracy which characterizes the public sector. Within the context of the New Public Management movement central governments internationally try to make their accounting systems more efficient and effective (Lapsley *et al.*, 2009). These reforms respond to the requests for accountability, transparency and decision-usefulness of the information provided by the public sector raised by numerous users (Kober *et al.*, 2010). The individual changes might eventually succeed or fail, but the reform processes remain an ongoing phenomenon (van der Hoek, 2005) in the quest of modernizing public sector. The most significant of these changes are recognized in the general trend towards migrating to accrual accounting (Christiaens and Rommel, 2008; Lapsley *et al.*, 2009) and the introduction of performance evaluation mechanisms, such as program budgeting (Gilmour and Lewis, 2006; Schick, 2007) in every level of government.

Among the most quoted and advertised advantages of applying accrual accounting for financial reporting are the improvement of the financial information system of public sector entities (Christiaens *et al.*, 2010), the long-term sustainability of fiscal policies and the efficient management of public assets and liabilities (Barton, 2009). Accrual accounting is considered to improve comparability of financial performance and accountability of public resources as the financial data become more transparent (Guthrie, 1998, Christiaens *et al.*, 2010; IPSASB, 2011b). Moreover, the accrual financial statements are viewed as easier to understand (Ball *et al.*, 1999; Brumby *et al.*, 1999), and harder to manipulate (Buti and Guidice, 2002) leading thus to better information for planning, financial management and decision-making purposes (Athukorala and Reid, 2003).



At the same time, performance evaluation at every level of the public sector is widely perceived as being another vital cornerstone of the public management reforms (Kong, 2005). It is believed that access to performance information enhances users' decision-making and promotes accountability in the public sector (IPSASB, 2013c), and thus the appropriate use and availability of performance information contributes to the quality of democratic polities (Pollitt, 2006). Program budgeting comprises a very significant mechanism towards this direction, as its performance orientation introduces new concepts such as the application of performance indicators and the measurement of outcomes in the rather bureaucratic public sector (Gilmour and Lewis, 2006; Williams, 2004). Other advantages that derive from the application of program budgeting include the rational allocation of public funds, the reduction of public expenditure and the increase in transparency and accountability (Amborski, 2011; Curristine *et al.*, 2007; Kong, 2005).

Within this framework, and by following recommendations from external organizations (International Monetary Fund, OECD and European Commission), the Greek central government proceeded gradually from 2005 onwards in modernizing its governmental accounting standards as well as the state budget. As for the first case, the central government has recently made a transition from the cash basis of accounting to the modified-cash basis of accounting, having as an ulterior goal the transition to the accrual basis of accounting. As for the second aspect, the central government attempted to adopt a performance-based budget (program budgeting) complementarily to the traditional line-item budget. By 2009 though, and due to the deterioration of the condition of the Greek economy, the country had to enter the financial support mechanism of the IMF, the ECB and the E.C., commonly referred to as the Troika. Therefore some of the organizations suggesting the modernization of the Greek public sector in 2005, received a new role in the financial crisis era; that of resource providers. The impact of this resource dependency is more than obvious in every political decision thereafter.

In general, although the modified cash basis of accounting is not a formal system, it presents several advantages when compared to cash accounting. Among these advantages primary role have the recognition of payable and receivable accounts at year's end. Therefore additional information is disclosed, which is useful for fiscal



management and for the improvement of control on borrowing and lending issues, as well as on managing current and contingent liabilities (Hiltebeitel, 1993; IFAC PCS, 2000; Parry, 2010).

Regarding the other case, program budgeting constitutes a budgeting system that facilitates the development of performance budgeting. In a program-based budget the overall budget is analyzed into 'Functions' which represent governmental policies. Each 'Function' is further analyzed into 'Programs', which serve the purpose of the specific policy and each 'Program' is split into 'Actions'. Thus resources are linked to expenditures providing additional information regarding the expenditures that are spent for each program. At the same time performance indicators assess the outcomes, providing information on how the programs performed.

Despite the fact that these two reforms share various similarities as they were developed within the same reforming framework, they were –at least theoretically– interrelated in terms of cause and were crucially affected by the impact of the severe financial crisis, they eventually concluded under different conditions and with different outcome. While the first reform appears to be an interim stage for a greater change (from cash to modified cash and then to accrual), the latter reform resulted to a failure since the project was suddenly abandoned after five years of intensive preparations.

1.1 Scope and Contribution

The scope of this doctoral research is twofold: Firstly, to shed light in the framework governing the Greek central government's accounting systems reform process, and secondly to evaluate the outcome of the reforms so far. In this context, it explores the reasons behind the failure of the budgeting reform, by analyzing issues such as the response to institutional pressures deriving from the debt crisis, the proper institutionalization of the change and the resistance to the change on behalf of public executives and politicians. On a parallel level, the study examines the outcome of the accounting standards reform, by attempting its format evaluation through a field study and at the same time by unraveling the role and incentives of all the involved actors



(politicians, the public, the Troika, bureaucrats and external management consultants), and by exploring the specific conditions under which decision-making actually took place.

Within this realm, the process of the budgeting reform is evaluated through the lens of neo-institutional theory and the resource dependency model, with several hints from the organizational change theory. More specifically, the neo-institutional theory provides helpful explanations regarding the institutional pressures under which the Greek government had to operate in order to proceed to this change, while the resource dependency model illuminates the pressures deriving from the sudden financial crisis. Organizational change theory provides the relevant insights on the factors that may affect the successful implementation of changes in the public sector. The analysis of the accounting standards reform process builds on the public choice theory and the ‘garbage can’ model. More specifically, the public choice theory is used in order to unravel the role and incentives of the various involved to the reform actors, while the ‘garbage can’ model provides possible explanations on the decision-making process during the development of the new set of accounting standards.

The empirical parts of this doctoral thesis are materialized on the basis of the conduction of interviews and informal discussions, and the study of relevant archival data. Furthermore, the assessment of the accounting standards reform is conducted using a web based instrument (questionnaire) that builds on both public and private sector literature. The evaluation of this reform’s outcome is assessed in terms of increased quality and decision-usefulness of the information provided to users. Apart from the needs of this study, this model could be further used, properly adapted, to assess changes in the quality and information usefulness of governmental accounting statements when reforms on accounting bases take place. Therefore, a pluralistic framework of research methods has been applied in order to address the hypotheses informed by the relevant theoretical strands.

The use of qualitative methods (i.e. interviews and archival data) is the most commonly applied research method in public sector accounting research. Studies of contemporary public sector accounting research methods (van Helden, 2003; Goddard, 2010) classify the use of interviews along with the study of archival data, as



the most frequently used methodological approaches. These studies are based on the analysis of the research methods adapted by articles published in the most quoted international journals publishing public sector accounting research (e.g. Financial Accountability & Management; Accounting, Organizations & Society; Journal of Accounting & Public Policy). In general, these means of research play a main role in governmental accounting research (van Helden, 2003), since they are perceived as being able to provide “richness and in-depth examination” to each case (Mellett and Ryan, 2008; p. 218). Thus, they help to understand *why* and *how* the under examination changes are evolving (Carmona, 2012). At the same time, the use of a questionnaire survey constitutes a very typical quantitative method for data collection in public sector accounting research, safeguarding both the reliability and validity of the results (Bisman, 2010; Goddard, 2010). Thus, these surveys facilitate the understanding of *what* is taking place and to generalize the results (Carmona, 2012).

Greece constitutes an interesting setting to study these topics mainly due to the strong criticism the public sector attracts as being ineffective and in urgent need of modernization. The severe debt crisis makes the case even more puzzling since pressures deriving from the country’s resource dependency clash with the cultivated bureaucracy inside the Greek public sector, causing several implications to governmental decision-making and determining the level of governmental accounting reforms success. Within this framework, this research by studying the Greek case contributes on various dimensions of public sector accounting literature. The country is under a vortex of financial and administrative reforms imposed by external resource providers that touch also upon several budgeting and accounting related dimensions. At the same time, the Greek public sector is characterized by a deeply cultivated bureaucracy. This latter characteristic offers another interesting dimension to the research; how decisions are made –and who eventually makes them– in a country where strong bureaucracy prevails. Furthermore, certain characteristics of the country’s political culture that have the power to affect both politicians and citizens’ stance on public finance issues, appear as playing a key role to the reform process.

At the same time, the dissertation adds to the prolonged debate on “performance budgeting” literature, regarding the efficacy of this system in practice, as various scholars argue that there is limited scope and methodology in the relevant empirical



studies. Therefore, the dissertation adds to this research agenda, providing evidence on the implications of applying performance budgeting, through the examination of the Greek case, a case where program budgeting was introduced in the central government, was highly appraised until its third year of pilot application, and was then suddenly abandoned.

Moreover, the dissertation adds to the wider debate regarding the actual benefits/costs of the transition from cash accounting to an accounting system that lies closer to accrual accounting by providing practical evidence on the matter. As Kober *et al.* (2010; p. 268) put it “it is timely to review the success, or otherwise, of the accrual system of accounting in the public sector”. The Greek case provides a unique opportunity to shed light on an actual change of the accounting basis in real time, within the spectrum of accounting information sophistication. Therefore, this research enriches literature with real case evidence on the differences on quality and decision usefulness of accounting numbers developed under different accounting bases. It further provides interesting evidence on the role of external resource providers (i.e. the Troika) during the Greek state’s attempts to change and reform public sector. The Greek government’s attempts to change and reform public sector take place during a period of extensive financial turbulence when both the pressures to change from the Troika and the need to overcome the severe debt crisis make the achievement of successful changes a one-way road.

At the same time, the methodological approach adopted to assess accounting usefulness and quality is extended and is diversified from the relevant studies on usefulness in the public sector (e.g. Brusca Alijarde, 1997; Kober, *et al.*, 2010). The applied approach is partly based on private sector literature, for reasons justified on the respective “Methodological approach” section. On a parallel level, the differences on the perceptions of different user groups are analyzed, thus adding to the vague evidence provided in literature so far on the interrelations between public sector financial reporting and users’ needs and interests. Moving a step forward, evidence on differences in perceptions between experts and non-experts on public sector accounting are also provided.



The research provides helpful explanations of the rationale behind these accounting reforms and the decision-making of policy makers that determine both the process and the actual success so far. It is very important to gain an understanding of the reasons that could lead an accounting reform to failure or success. Especially when it comes to accounting reforms, the successful implementation of which, could improve information quality, enhance decision-making and increase accountability in the strongly criticized Greek public sector.

1.2 Structure of the dissertation

The dissertation is developed as follows: the next sections cover the relevant literature review regarding New Public Management, New Public Financial Management, and the specific reforms under examination (i.e. the budgeting and the accounting standards reforms under the NPFM regime), as well as provides an overview of the Greek reform framework and resource dependency situation. Following that, the Research Development is presented. Then the thesis is separated into three parts, where the first analyzes the budgeting reform, the second the accounting standards reform and the third decision-making during the accounting standards reform. For each part, the research questions' development, the methodological approach that is applied and the results are presented together.

More specifically, the first part where the reform of the budgeting system is analyzed, examines the chronicle (or timetable) of the introduction and the sudden abandoning of program budgeting in Greece. The results indicate that subsequent institutional pressures deriving from Greece's external resource providers (the Troika) resulted to a re-prioritization of actions, which had a strong impact in the under-examination reform, and eventually led to its abandoning.

The second part deals with the assessment of the accounting system reform in terms of accounting information quality and perceived usefulness. More specifically, an assessment of governmental financial reporting in Greece under the previously applied cash basis and the recently adopted modified-cash basis of accounting is conducted. The evaluation is performed within the wider debate regarding the actual



benefits of the transition from cash accounting to an accounting paradigm that lies closer to accrual accounting. The findings provide empirical evidence in favor of the benefits associated with a move to full accruals. Nevertheless, the reform's outcome so far is not highly appraised by the respondents, and turns out to satisfy only part of the goals initially set.

The third part derives from the second part, and examines the standard-setting process during the reform of governmental accounting standards. The need for this analysis comes as a result of the poor assessment of the reform's outcome. In the analysis process, the incentives and the role played by all involved actors is also examined. Findings indicate lack of effective monitoring of the process by politicians and external resource providers, and an outcome subject to the incentives and interaction between bureaucrats and consultants.

Finally, the dissertation concludes with a thorough discussion of the findings of the survey on these major accounting reforms, the implications that arise for policy makers, and the various limitations, and provides suggestions for future steps in the research of the Greek public sector modernization.

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2. *34th Annual EGPA Conference*, Bergen, Norway, September 5-8, 2012
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4. *3rd Spring Public Sector Management and IPSAS Workshop*, Lisbon, Portugal, May 8-9, 2014
5. *36th Annual EGPA Conference*, Speyer, Germany, September, 10-12, 2014
6. *7th Annual Conference of the Euromed Academy of Business*, Kristiansand, Norway, September 17-19, 2014

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1. Cohen, S., Karatzimas, S. and Venieris, G. (2015). “The informative role of accounting standards in privatizing state-owned property: Comparing Greek Governmental Accounting Standards and IPSAS”, *Global Business and Economics Review*, Vol. 17, No. 1, pp. 51-62 (ABS rate 1)
2. Cohen, S. and Karatzimas, S. (2014), “Reporting performance information in the public sector: The moral behind the (non) application of program budgeting in Greece”, *International Review of Administrative Sciences*, Vol. 80, No. 3, pp. 619-636 (ABS rate 3)
3. Venieris, G., Cohen, S. and Karatzimas, S. (2014), “Bridging the gap: How financial reporting in the public sector can become understandable and useful to citizens”, *Epixeirisi*, No. 106, pp. 632-635, July 2014 (*in Greek*)



Moreover, two working papers are under the review process for publication consideration:

1. Cohen, S. and Karatzimas, S., “Evaluating the Accounting Information Quality and Decision-Usefulness of Governmental Financial Reporting When Becoming More Accrual Like: Evidence of a Change from Cash to Modified Cash”, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2368484
2. Cohen, S. and Karatzimas, S., “Modernizing Governmental Accounting Standards in Greece: A Case of 'Garbage Can' Decision-Making”, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2441079



2. New Public Management

The term New Public Management (NPM) refers to a reform movement in the public sector that started to gain attention from the 1980s and is still evident today. NPM targeted to the improvement of the public sector's efficiency and effectiveness. The origins of the NPM movement can be traced to Anglo-Saxon countries (UK, Australia, New Zealand, the United States of America), and came as an answer to the problematic function of the public sector mostly witnessed in the end of the 1970s. NPM replaced the traditional administrative systems of the public sector, usually referred as Old Public Administration (OPA). The traditional concepts of OPA were based on the existence of a highly distinct public sector 'group' and of a dense 'grid' of general procedural rules in business (Dunleavy and Hood, 1994). The period that favoured NPM's first launch was characterized by the turbulence of the traditional bureaucratic model that was extensively applied by governments. The period is characterized as turbulent due to multiple economic crises, a general dissatisfaction expressed by the public due to the stiffness of administrative procedures, as well as the decrease of constituents' trust towards governments.

The criticism towards the old public administration mainly focuses in two dimensions: government and administration. The first wave of criticism addressed the development of large governments that consumed scarce resources and were therefore involved in every activity, instead of leaving space for alternative means of action. As a result their intervention led to inflation growth, highly increased costs and deeply cultivated bureaucracies (Minogue, 1998; Hughes, 1998). The second set of criticism targeted the administration systems, as being among others ineffective, costly, rigid and prone to corruption (Hughes, 1998).

These factors resulted to the introduction of new management ideas in the public sector, aiming to the development of a government model that would be more efficient, outcome-oriented and citizen-oriented, and that would eventually offer increased value by spending less money. Within this framework, the adoption of models applied in the private sector was widely suggested (Pollitt *et al.*, 2007), and a



whole different perspective was provided, where the public sector appeared as not being distinctive from the private one (Christensen and Lægreid, 2001). In a wider framework, these reforms are characterized as a movement towards a “re-invention of the government” (Osborne and Gaebler, 1992; Osborne and Plastrik, 1998).

In general, six main differences are identified between the concepts of the (old) public administration and the (new) public management (Lynn, 1996; Vigoda, 2003). More specifically, NPM:

- (1) incorporates several general management functions (i.e. planning, organizing, control, evaluation),
- (2) takes into consideration the criteria of efficiency and economy instead of responsiveness and political salience,
- (3) focuses on middle-level managers rather than to political elites,
- (4) tries to minimize the differences between the private and public sector,
- (5) focuses on both external and internal relations in a rational manner, instead of strict focus on laws, institutions and bureaucratic processes, and
- (6) is linked to scientific management tradition rather than to political science.

Among the first countries that moved to significant reforms within the NPM doctrine was the United Kingdom during Margaret Thatcher’s prime ministership, and states of the United States of America, as for example California. Reasons leading to this move include the impact of the intense financial decline of the period and problems in tax collecting (Gruening, 2001). Countries as Australia and New Zealand were the next to follow this reforming stream. The success of these reforms in the public sector of the above mentioned countries and states, led to an increase of the number of countries proceeding to relevant moves; mainly -but not limited to- countries of the OECD (OECD, 1995). Nevertheless, New Zealand, Australia and the United Kingdom are widely perceived as comprising the basic core of the NPM pioneers (Pollitt and Bouckaert, 2004). The common characteristics of these reforms were later recognized and labelled under the term New Public Management (Dunsire, 1995). A categorization of these common characteristics is provided in Table 1.



Table 1: Characteristics of the New Public Management

Undisputed characteristics (identified by most observers)	Debatable attributes (identified by some, but not all, observers)
<ul style="list-style-type: none"> • Budget cuts • Vouchers • Accountability for performance • Performance auditing • Privatization • Customers (one-stop shops, case management) • Decentralization • Strategic planning and management • Separation of provision and production • Competition • Performance measurement • Changed management style • Contracting out • Freedom to manage (flexibility) • Improved accounting • Personnel management (incentives) • User charges • Separation of politics and administration • Improved financial management • More use of information technology 	<ul style="list-style-type: none"> • Legal, budget, and spending constraints • Rationalization of jurisdictions • Policy analysis and evaluation • Improved regulation • Rationalization or streamlining of administrative structures • Democratization and citizen participation

Source: Gruening, 2001; page 2

Table 2 provides the general doctrines of New Public Management as they were classified by Hood in 1991.



Table 2: NPM's general doctrines

No	Doctrine	Meaning	Typical justification
1	<i>"Hands-on professional Management"</i> in the public sector	Active, visible, discretionary control of organizations from named persons at the top, "free to manage"	Accountability requires clear assignment of responsibility for action not diffusion of power
2	<i>Explicit standards and measures of performance</i>	Definition of goals, targets, indicators of success, preferably expressed in quantitative terms, especially for professional services	Accountability requires clear statement of goals efficiency requires "hard look" at objectives
3	Greater emphasis on <i>output controls</i>	Resource allocation and rewards linked to measured performance; breakup of centralized bureaucracy-wide personnel management	Need to stress <i>results</i> rather than <i>procedures</i>
4	Shift to <i>disaggregation</i> of units in the public sector	Break up of formerly "monolithic" units, unbundling of U-form management systems into corporatized units around products, operating on decentralized "one-line" budgets and dealing with one another on an "arms length" basis	Need to create "manageable" units, separate <i>provision</i> and <i>production</i> interests, gain efficiency advantages of use of contract or franchise arrangements <i>inside</i> as well as outside the public sector
5	Shift to greater <i>competition</i> in public sector	Move to term contracts and public tendering procedures	<i>Rivalry</i> as the key to lower costs and better standards
6	<i>Stress on private sector styles of management practice</i>	Move away from military-style "public service ethic", greater flexibility in hiring and rewards; greater use of PR techniques	Need to use "proven" private sector management tools in the public sector
7	Stress on greater <i>discipline</i> and <i>parsimony</i> in resource use	Cutting direct costs, raising labour discipline, resisting union demands, limiting "compliance costs" to business	Need to check resource demands of public sector and "do more with less"

Source: Hood (1991)



Despite the many similarities in the pressures that drove states towards introducing these reforms, a great diversification on the way they are implemented is observed (Pollitt *et al.*, 2007). Rightfully, has the NPM been characterised as a “chameleon”, as it changes shape continuously in order to adapt to the specific characteristics and particularities of different countries introducing NPM policies. This adaptability allows politicians and public sector executives to modify the specific reforms in order to more easily fit and to be implemented to their specific institutional environment. Such adjustments are also necessary for the assurance that the reform complies with the existing legislation, or in order to gain the support of interested third parties. In general, it is expected that the national political and administrative system would either help or hinder these reforms. For example, the legislative context in countries such as France, Spain and Italy has affected the introduction of NPM-influenced policies (Hood, 1995).

2.1 Differences in states

Despite the dynamic of NPM worldwide, Hood and Peters (2004) point out the noteworthy fact that countries with administrative systems characterized by weak performance, as for example Italy and Greece, are proved to be especially slow in adopting NPM-influenced reforms. Contrarily, countries with effective administrative systems, as for example Australia and the United Kingdom, play a leading part in the introduction and adoption of substantial reforms. This means that countries that are in most need of these reforms are sceptical towards their implementation.

According to Pollitt (2001) the Anglophone countries, Netherlands and Nordic countries comprise the group of “most active participants” to these reforms’ framework. Especially, New Zealand, Australia and the United Kingdom lead the race of experimenting and introducing modern and innovative reforms, followed by Canada and the USA. On the other hand, continental European and Mediterranean states (e.g. Germany, France, Italy, Spain, etc.) are characterized as being very cautious in adopting such reforms, even at early preliminary stages (Pollitt, 2001). Moreover it appears that countries following the “Napoleonic tradition” respond slowly or even resist in adopting NPM-driven reforms (Spanou, 2008; Ongaro, 2012).



So it appears that there is no unanimously accepted norm of implementing NPM-inspired reforms. Pollitt (2001; 485) provides a lively overview of the way different countries or groups of countries react:

“The Finns do not aspire to the ‘New Zealand model’ and the French do not want to copy the American ‘National Performance Review’ (Guyomarch 1999; Pollitt and Bouckaert 2000). The Canadians claim to have a Canadian model (Bourgon 1998) and a number of leading German authorities believe that they have little to learn from the Anglo-Australo-American paradigm of NPM/reinvention (Wollmann 1997; Derlien 1998). Even strong believers in convergence see important differences between, on the one hand, the UK and New Zealand and, on the other, the later American attempt at ‘reinvention’ (Kettl 2000).”

On a different basis, it may be argued that the reforming attempts taking place in developing countries appear to remain mainly as part of the rhetoric, and not of an actual implementation process (Sarker, 2006). In the developing countries the role of supranational donor organizations that put pressure to developing countries to follow the steps of developed ones is crucial (Turner and Hulme, 1997; Knack, 2001). Due to the great distance between these countries, the high levels of political corruption and the absence of planning, though, most of the NPM-inspired reform cases are doomed to failure (Farazmand, 1998; Ray, 1999; Turner and Hulme, 1997; Knack, 2001). Characteristic examples of such cases are for instance, that of Asian and African countries (e.g. Bangladesh, in Mir and Rahaman, 2005; Sarker, 2006; Ghana, in Polidano and Hulme, 1999; Nepal, in Adhikari *et al.*, 2013).

Greece belongs to the cluster of European states affected by the Napoleonic administrative tradition, and if seen through a geographic perspective is categorized to the Mediterranean states. Nevertheless, it appears that the geographic concept is in general insufficient for the characterization of a public management reform’s context (Ongaro, 2008), while “tradition” provides better explanatory elements on administrative behaviour patterns (Peters, 2008).



Napoleonic tradition, as its name implies, is based on the public sector model developed by Napoleon in France. This model was spread in various south European countries (Spain, Italy, Greece) and to French colonies around the globe (Peters, 2008). The impact of the Napoleonic administrative system in the Greek public sector is undoubtable and clearly evident (Spanou, 2008). Napoleonic tradition is build on the primary and central role of the state, the emphasis on law, the uniformity and formality (Peters, 2008) presenting the following features: an administrative law system with emphasis to the distinction of the public and private sectors, a centralized administration, a career civil service, and a de-concentrated departmental administration (Spanou, 2008; p. 152; Ongaro, 2012).

Nevertheless, there is no unique Napoleonic administration model but each state has developed differences in how they conceptualize it based on their specific socio-political environment (Spanou, 2008). At the same time traditions are perceived as being quite dynamic and in position to change overtime (Peters, 2008).

2.2 A critique to NPM

In general, there is still an extensive debate as to whether and to what extent NPM had a positive influence to the public sector's functioning, and to the quality of services provided to citizens (Lapsley, 2008; Lapsley, 2009). Nevertheless, as Ter Bogt *et al.* (2010) pinpoint, this fact does not change the significant role NPM plays, neither limits its evident impact.

The fact that the NPM reform movement did no always succeed into successfully managing the various internal and external challenges faced by several countries is the main reason for this debate; for example, in cases of countries with weak regulating systems in terms of economy, health and environment, and in cases of national economies which found themselves powerless in the external impose and control of the International Monetary Fund and the World Bank (Dunn and Miller, 2007). Furthermore, NPM has been criticized that in the cases of Central and Eastern European countries the so-much-advertised outcomes of improved efficiency and effectiveness are not achieved. This is also the case in almost all developing countries.



However, it is obvious that prior to the implementation of any NPM-inspired reforms, other necessary preconditions that would secure such moves, should have to be achieved, in the philosophy of “basics first”. That is why various scholars (e.g. Schick, 1998; Bale and Dale, 1998), suggest that developing countries should not follow the examples of NPM pioneer countries such as New Zealand and Australia.

The most significant critique targeting the NPM, refers to the suitability of private sector practices to the public sector, which could threaten the character of “public” in public sector, or are not applicable at all (Savoie, 1995). For example, Haque (2007) refers to the impact of a reduction of public employment and the dismantling of public agencies to the public, and further argues on the negative effects of emphasizing in results-based performance that could lead to an expense of long-term outcomes for the sake of short-term ones. As will be later discussed in Section 3 there is also the very significant issue of inappropriate measurement of achieving outcomes and outputs. Important critique is also addressed to the treatment of citizens as ‘customers’ through NPM doctrines, as it interferes with the collectivistic character of the public sector and the specificities of disadvantaged groups (Haque, 2007).

3. The role of accounting in NPM reforms

NPM is built in two major pillars: (1) the reduction or elimination of the differences between private and public sector, and (2) the transition from accountability in terms of procedures towards accountability in terms of outcomes (Hood, 1995). Accounting plays a key role in this new framework of accountability, which expresses a great trust to the market and the methods performed by the private sector, and a low trust to bureaucrats whose actions should be more carefully controlled and evaluated (Hood, 1995). To Guthrie *et al.*’s (1999; p. 211) words accounting provides the technical ‘lifeblood’ in NPM reforms.

In general throughout the last decades the public sector has been shaped by economic rationalism and accounting techniques (Watkins and Arrington, 2007). At the same



time, the ideas forming NPM, promote economic rationality in the public sector. According to Meyer (1998), accounting constitutes a part of the rational activities during the development of a new public sector. Subsequently, accounting is more than just a practice that provides assistance to a significant change; accounting rather acts as an integral part of the reform aiming to the widening of rationalism and modernization in the new public sector (Lapsley, 1999). Especially, from the 1990's and onwards accounting practices are applied "as symbols of the new managerial ideas" that could help to change the traditional bureaucratic culture of the public sector, through the promotion of rational concepts with the emphasis on measures and quantification (Grossi and Steccolini, 2014).

Lapsley (1999) recognizes the cruciality of the role of accounting within the NPM context for the conduction of measurements and negotiations, and the documentation of achievements, while according to Hoskin (1994) accounting in the public sector has the power to turn old-style bureaucrats to accountable and evaluated –through performance measurement indicators– executives. From another perspective, the penetration of accounting in the public sector appears to close the gap that is left by the "demise of political foundationalism", as "power comes to be justified through calculative accounts of costs and benefits; competence (the central political virtue) is judged through calculi of job performance, and the cherished liberal partition of public and private spheres gives way to an economistic assimilation of each into the other" (Watkins and Arrington, 2007; p. 55).

At the same time, and for the opposite reasons, in many cases such reforms are not supported by the involved local actors (e.g. bureaucrats) and eventually result to the widening of the gap between the rhetoric of modernization and the reality of poor implementation of financial management and accounting reforms due to resistance performed by politicians and bureaucrats (Lapsley, 1999).



3.1 New Public Financial Management

The financial management techniques related to the introduction of NPM policies, are often referred to with the term New Public Financial Management (NPFM). According to Olson *et al.* (1998) the concept of NPFM constitutes actually a reform trend that aims at the increase of the use of financial techniques during the decision making process in the public sector. Therefore, it constitutes an integral part of the wider reforms. To Andrews' (2013) view the adoption of NPFM systems, actually results to the improvement of resources management and use. Guthrie *et al.* (2005) recognize that NPFM operates in five basic dimensions:

1. Move of the **financial reporting systems**, from the traditional system of the cash basis of accounting, to the accounting system of the **accrual basis of accounting**.
2. Development of the **budgeting systems**, with emphasis placed to the introduction of **performance-based budgets**.
3. Development of the **costing and pricing systems**, based on the **market**.
4. Development of **performance measurement systems**.
5. Development of both **internal and external auditing systems** based on **performance** (performance audits).

Nevertheless, as Olson *et al.* (2001) observe, when comparing national experiences there appears to be no uniformity in practice. That is why NPFM has been characterized as being a “reforming spirit” (Olson *et al.*, 1998) and not so much of a global movement offering a pre-prepared, off-the-shelf package that would guarantee positive results (Olson *et al.*, 2001; p.506). To Newberry and Pallot's (2005) opinion, although the progress deriving from NPFM reforms is undoubtable, there are several concerns regarding the continuously increase of financial and accounting systems' complexity which could eventually hamper, instead of facilitate, accountability and control on behalf of politicians.

Once more, the cultural background of countries seems to affect the willingness and effectiveness of NPFM-inspired reforms implementation. The direction and speed of these reforms appear to be significantly related to the various social and political characteristics of different countries (Pretorius and Pretorius, 2009). According to



literature (Pina *et al.*, 2010) in south-European countries the degree of implementing NPFM reforms is relatively low compared to Anglo-Saxon and Nordic countries. This comes mainly as a result of the difference on how these countries perceive the concepts of accountability and transparency towards citizens.

Reforms of the budgeting and the financial reporting systems constitute two very important aspects of NPFM. According to various scholars these two pillars constitute major cornerstones of the public sector reform attempts (Lapsley, 1999; Ouda, 2004; Kong, 2005; Christiaens and Rommel, 2008), with the first referring to the application of performance based budgets, while the second to the introduction of accrual accounting principles. In both cases the influence that is exercised by the International Public Sector Standards Board (IPSASB) through the publishing of the relevant IPSASB's frameworks is noteworthy. In the following sections these two NPFM-inspired reforms are further analyzed.



3.2 Budgeting in the public sector

Strategic management in public sector organizations is heavily based on the proper preparation and execution of the budget. The use of budget can be generally perceived in three dimensions: as an accountability mechanism, as a management tool, and as a means of performing economic policy (Premchand, 1994). Nevertheless, budget functions vary to a great extent and include among others, the recognition of the necessary revenue levels, the programming of the expenses level, expenses control, while at the same time budgeting acts as a tool of communication and motivation (Coombs and Jenkins, 1994; Budding and Grossi, 2015). Eventually, a proper use of budgeting would lead to the setting of applicable targets which correspond to the public entity's specific needs, and at the same time safeguard the entity's resources from spending and mismanagement.

Within the NPFM framework, the basic targets of the budgeting reform lie on the basis of expense cutting and performance evaluation. At the same time in several countries the format of the budget report also changed, towards the incorporation of additional information regarding performance indices, as well as of additional documents (Pollitt and Bouckaert, 2004). The following table (Table 3) presents the budget trajectories and typical countries applying each budget status as they were recognized by Pollitt and Bouckaert in 2004.

Table 3: Budget trajectories

Budget status	Routes
Input-oriented line item budget	1. Germany, Belgium
A: include some performance information	2. France, Italy
A+B: change format and content and add other documents	3. USA
A+B+C: adapt procedures and timing	4. Netherlands, Canada, Sweden, Finland
A+B+C+D: adapt method of charging (accrual basis)	5. UK, Australia, New Zealand

Source: Pollitt and Bouckaert, 2004; p. 70



As it appears, the norm followed in the budgeting reforms of the public sector, is characterized from a move from the traditional line-item form towards accrual budgeting, while emphasis is gradually placed on performance-based concepts.

3.2.1 Line-item budgeting

Line-item budgeting constitutes the traditional way of preparing a budget, and provides the amounts that are to be allocated for every item. Expenditures for each item are categorized based on their purpose, as for example salaries-wages, materials, procurements, etc. This traditional type of budgeting focuses on the amounts that are to be spent, and monitors what they were spent for. This method constitutes the most simplistic –in terms of preparation– form of budget. Nevertheless, it does not provide any information about actions and functions (Jones and Pendlebury, 2010). Therefore, eventually, line-item budgeting has several shortcomings (Curristine *et al.*, 2007; Budding and Grossi, 2015):

- Decision-making is focused on specific items and not the overall targets, the strategy and performance evaluation, limiting thus sound programming,
- The budget is developed bottom-up with the departments providing their resource requirements for approval, without specific targets and strategy,
- The budget fails to link inputs to outcomes, resulting to a limited evaluation of expenditures allocation

As a result of these weaknesses many countries either complement or substitute traditional line-item budgets with performance-based budgets (Budding and Grossi, 2015). The basic characteristic of this type of budgets is the focus on performance evaluation through the linkage of expenditures directly to results. Thus it is easier to determine targets, develop alternative ways of achieving them, develop performance indices and perform cost-benefit analyses.



Performance-based budgets allocate the available monetary amounts in actions or programs and at the same time provide for the outcome of their use. Thus, they present both actions and service provision levels, helping towards a rational allocation of resources.

3.2.2 Performance-based budgeting in the public sector

To understand better the idea behind performance-oriented budgeting, a brief description of the basic differences from the expenditure-oriented budget would be useful. Traditional line-item (expenditure-oriented) budgeting although simple and applicable for stewardship purposes, does not provide any information regarding activities and functions, and therefore it is not characterized as a mechanism for enhancing decision-making (Schaeffer and Yilmaz, 2008; Amborski, 2011). While traditional budgeting focuses only on inputs, performance budgeting provides additional information for the programs for which the expenditures are being made as well as their outputs. This information is useful for prioritization of expenditures and identification of the programs that should be financed or cut (Schaeffer and Yilmaz, 2008).

Therefore, performance budgeting promotes the concept of measuring government activities' performance (Williams, 2004) by linking the outcomes to budget allocations (Joyce, 1999). A government is able to set programs and activities and create performance indicators in order to evaluate the outcomes. According to Gilmour and Lewis (2006), probably the most important reason for adopting performance budgeting is the belief that it determines the programs which “produce results and thus deserve budget increases” (Gilmour and Lewis, 2006; p.742). From the international experience it is evident that the application of performance-based budgeting could potentially lead to a more rational allocation of funds, reduction of public expenditures, increase of transparency and provision of higher quality information to the users for decision making (Joyce, 1999; Diamond, 2005; Kong, 2005; Curristine *et al.*, 2007; Sterck, 2007). The greater flexibility in managing and allocating resources, inherent in the performance budgeting concept, could improve planning, organizing and management in the public sector. Additionally, the



performance orientation promotes accountability and priority setting (Kelly and Rivenbark, 2003; Sterck, 2007; Amborski, 2011).

However, as Schick (2007) comments, it is easy to explain performance budgeting but difficult to implement it. Its practical implementation is cumbersome for several reasons. According to Gilmour and Lewis (2006, p. 743) “it is difficult to know how to use performance information”. Pollitt (2006) considers performance management as difficult to implement *per se*. He comments that the effort to simultaneously implement a budget reform and introduce performance management, may augment difficulties and increases the possibility of plan failure. Moreover, as performance budgeting is deeply politically-driven, the rational prioritization of expenditures might eventually be negatively affected (Robinson and Brumby, 2005), while the use of improper performance indicators might cause further implications on funding and budget re-allocations (Heckman *et al.*, 1997). As it turns out, in spite of the theoretical support there is no clear empirical evidence that performance budgeting eventually enhances decision-making on budgeting (Gilmour and Lewis, 2006; Melkers and Willoughby, 2001).

3.2.3 Program budgeting

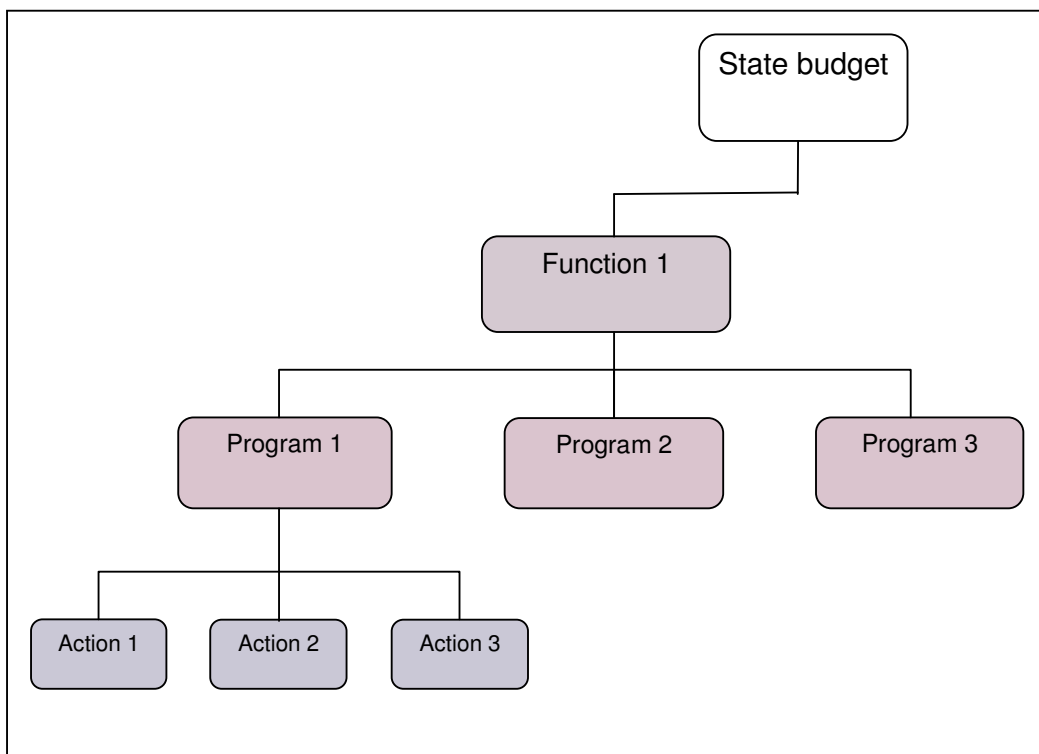
Program budgeting is a system whose structure facilitates the development of performance budgeting. However, there are many cases in the international literature where no distinction between the two terms is made (Wholey, 1999; Kong, 2005). In general, there are many terms in literature which are used more or less synonymously. According to Kong (2005) any reform that incorporates performance measures includes performance budgeting, results-based budgeting, program budgeting, outcomes-based budgeting and so on. Since the formal reports of the Greek Ministry of Finance use the terms program budgeting and performance budgeting interchangeably, the same approach is adopted across the text. In simple words, the philosophy of program budgeting is characterized by a strong focus on performance and outcome evaluation of the public sector institutions. Since the beginning of the 1980's, program budgeting constitutes a basic tool of public sector reforming in many



European Union (E.U.) and Organization of Economic Coordination and Development (OECD) countries.

In a program based budget resources and outcomes are recognized through programs, while expenditures are categorized by actions. Eventually, performance indices are developed for the assessment of the outcomes. Thus, a program-based budget provides for additional information for the programs that the expenditures are taking place and their results, thus helping in recognizing which programs should receive financing or should be cut, as well as regarding the expenditures that should be prioritized. Figure 1 below, provides a depiction of how a state budget that follows a program-based structure, is divided in Functions, Programs and Actions.

Figure 1: Program budgeting



3.2.4 Performance indicators

For the proper function of a program-based budget the development of proper performance indices is necessary. Despite of whether these are qualitative or quantitative they should be characterized by a series of qualities. Thomas (2006) identifies these qualities as follows: clarity, consistency, comparability, controllability, contingency, comprehensiveness, relevance and feasibility. A brief overview of the ideal characteristics performance indicators should posses, is provided in Table 4 below.

The establishment of performance indicators in the public sector is extremely important and rather complicated, since due to the nature of the government activities, performance measurement cannot be reported through the “conventional” financial indicators that are applied in the private sector (Guthrie and English, 1997). Without the concept of profitability it is difficult to determine financial performance indicators. Consequently, multifaceted indicators for evaluating performance information are needed. Eventually, the introduction of performance indicators could serve not only towards the measurement and evaluation of public entities by politicians, but could also increase the chances to account for performance (Van Thiel and Leeuw, 2002; Jenkins *et al.*, 2003).

Table 4: Ideal performance indicators

<u><i>Clarity:</i></u> Performance indices should be simple, well defined, and easily understood.	<u><i>Comprehensive:</i></u> Do the indicators reflect those aspects of behaviour that are important to management decision-makers?
<u><i>Consistency:</i></u> The definitions used to produce the indicators should be consistent over time and between units.	<u><i>Bounded:</i></u> Concentrate on a limited number of key indices of performance – those most likely to give the biggest pay-off.
<u><i>Comparability:</i></u> Following from consistency, it is only reasonable to compare like with like.	<u><i>Relevance:</i></u> Many applications require specific performance indicators that are relevant to their special needs and conditions. Do the indicators service these needs



<u>Controllability:</u> The manager's performance should only be measured for those areas over which he/she has control.	<u>Feasibility:</u> Are the targets based on unrealistic expectations? Can the targets be reached through reasonable actions?
<u>Contingency:</u> Performance is not independent for the environment within which decisions are made. The environment also includes the organization structure, the management style adopted, as well as the uncertainty and complexity of the external environment	

Source: Jackson (1995)

However, many attempts to introduce performance measurement systems in the public sector were proven unsuccessful, since according to Van Thiel and Leeuw (2002, p.267) “output-measurement in the public sector can lead to several unintended consequences” and even affect performance negatively. Among other, these unintended consequences include wrong assumptions concerning the content and amount of measures and the clarity level of what is being measured (Bouckaert and Balk, 1991), while the pressure to achieve the objectives could lead to several types of dysfunctional behaviors (Smith, 1995). A lively example of such disorientation as a result of mismanagement of measurement's meaning (this one is known as the ‘Mandelbrot disease’) is provided by Bouckaert and Balk (1991; p. 231):

“[...] if we put more police on the streets, you will measure more crime. As the number of centers of the human rights movement increases, more violations of human rights will be reported. Northern Great Britain seems to have more fires than other European countries because it has a better statistical technique for measuring fire”.

Detailed information on other categories of such performance measurement diseases (e.g. the Pangloss disease, the impossibility disease, the convex/concave disease, organizational paralysis effect, tunnel vision effect, suboptimization effect, etc.) can be found in the seminal works of Bouckaert and Balk (1991), Smith (1995) and Van Thiel and Leeuw (2002). There is moreover the so-called “performance paradox”,



which refers to the tendency of performance indicators to lose their value over time and not being able to distinguish the good performance from the bad (Van Thiel and Leeuw, 2002).

3.2.3 IPSAS on performance evaluation

The worldwide interest on performance information reporting in the public sector is illuminated by IPSASB's recent efforts to develop a 'practice guideline'. The Board proceeded in reviewing and comparing existing national frameworks (national standards, guidance, and regulatory requirements) from several national jurisdictions, the U.N. and the OECD and issued a Consultation Paper on "Reporting Performance Service Information" (IPSASB, 2011a). The outcome was that each jurisdiction had its own framework for service performance reporting. At the same time though, many similarities in the service performance information that was reported, were revealed.

Having observed this diversity of reporting performance information, the IPSASB proceeded in creating a framework focusing on the users' needs as it is very important to provide access to performance information to the users; they are thus able to evaluate the public entity's outcomes and therefore their decision-making is enhanced, while at the same time the entity's accountability is promoted. In December 2013 IPSASB issued a "Proposed recommended practice guideline on Reporting Service Performance Information" (IPSASB, 2013c) in an attempt to fill in the missing gap by providing guidance on reporting service performance information to users concerning an entity's service performance objectives, its achievement of those objectives, and the services that the entity provides.

3.3 Governmental financial reporting

Governmental accounting presents fundamental differences between -and within- countries. These differences range from the recording systems to the measurement rules and the disclosures (Grossi and Soverchia, 2011). Traditionally, countries like the United States, Australia, New Zealand, U.K. and Ireland are characterized as oriented to the Anglo-Saxon approach, and their accounting for the public sector is



influenced by the privatistic model. On the other side, continental European countries like Germany, France, Portugal, Italy, Spain and Greece adopt a different orientation, where the influence of the private sector accounting is basically absent (Grossi and Soverchia, 2011).

Depending on the specific needs of different countries, four different bases of accounting have been developed and adopted. The cash basis and the accrual basis of accounting constitute the two opposite poles, while the other two bases that are recognized in between are the modified cash basis and the modified accrual basis of accounting.

3.3.1 Accrual accounting in the public sector

According to Christiaens *et al.* (2010) accrual accounting was introduced to improve the financial information system of public sector entities. In general, under accrual accounting, transactions and other events are recognized when occurred and not only when cash is received or paid. The IMF (2001a) considers the accrual basis as superior compared to other models, since it is more comprehensive and consistent. Moreover, accrual accounting is considered to improve comparability of the financial performance between jurisdictions and provide a greater accountability of public resources, as the financial data will become more transparent (Guthrie, 1998, Christiaens *et al.*, 2010). The accrual financial statements are viewed as simpler and easier to understand (Ball *et al.*, 1999; Brumby *et al.*, 1999), and harder to manipulate (Buti *et al.*, 2002). Furthermore, accrual financial statements are believed to provide a richer set of information for analyzing the sustainability of fiscal policy and the quality of fiscal decision-making (IMF, 2001a). More specifically, accrual accounting provides disclosures in supplementary notes, which include information on contingent liabilities and commitments (IMF, 2001b), provide a longer-term perspective for judging policy impacts (Athukorala and Reid, 2003) and better information for managing liquidity (IMF, 2001a). All the above are believed to lead to better information for planning, financial management and decision-making (Athukorala and Reid, 2003; FEE, 2007).



3.3.2 International Public Sector Accounting Standards (IPSAS)

The IPSAS project was introduced in 1996 and is heavily influenced by the International Financial Reporting Standards (IFRS). Although IFRS were issued for the private sector, they are reviewed and amended so that they can be applied to the public sector. However, a lot of debate has been taking place whether standards that were developed for the private sector are suitable for the public sector as well (e.g. Chan, 2003; Christensen, 2007; Johansen and Lapsley, 2005). The IPSAS Board though, supports the notion that the ultimate objective of financial reporting is the same for both sectors. Moreover, many international organizations which promote sound financial management and accountability (e.g. OECD, NATO, United Nations, European Commission) and support the modernizing of the financial information system, have adopted an accrual accounting system compliant to IPSAS (Harthorn, 2008; Christiaens *et al*, 2010). Despite this support, though, Christiaens *et al.*'s (2010) survey concluded that IPSAS do not play a significant role in the majority of the local and central government accounting reforms in Europe. What is more than that is the fact that many of the examined countries that are planning to introduce accrual accounting, are not going to use IPSAS. According to IFAC (2008) although accrual accounting practices are spreading within the public sector, the majority of the governments adopting IPSAS, choose the cash basis IPSAS. Nevertheless, although IPSAS provide a more uniform, transparent and commonly accepted standard that could help the public sector to operate with integrity and professionalism (UNESCO, 2008) there is still a lack of empirical research that would indicate that the benefits of a transition from the cash to the accrual basis, outweigh the relative costs (Wynne, 2007).

IPSAS is the only internationally recognized set of public sector accounting standards. They are accrual accounting standards¹ and are heavily influenced by IFRS. This means that, except for cases where public sector specificities need to be taken into account, the majority of the accrual-based IPSAS are based on existing IFRS. Although, a lot of debate has been taking place whether standards developed for the private sector are suitable for the public sector (e.g. Christensen, 2007; Johnsen and Lapsley, 2005), IPSAS are viewed as providing a more uniform, transparent and

¹IPSAS consist of 32 accrual-based accounting standards and one on cash basis



commonly accepted accounting framework that could help the public sector to operate with integrity and professionalism (UNESCO, 2008). That is why the international organizations that were previously mentioned choose to adopt accrual accounting systems compliant to IPSAS.

3.3.3 Modified accounting bases

The two modified accounting bases refer to the modified cash and the modified accrual basis of accounting. As mentioned before these two usually constitute interim steps on the move from cash to accrual accounting. Nevertheless, in specific cases, as for example in the U.S., the GASB standards require from state and local governments to present two sets of statements in order to satisfy different goals of reporting. One set is on a modified accrual basis, while the other on a full-accrual basis.

In general, the modified cash accounting system recognizes transactions and other events on a cash basis, but also takes into account the unpaid accounts and the receivables at year's end (IFAC PCS, 2000). The modified cash basis captures all financial assets and liabilities and the flows related to such assets and liabilities, but excludes physical assets (current and non-current) as well as intangible assets. Therefore depreciation and amortisation are excluded and replaced by the actual cash flows involved with the acquisition and disposal of assets (Hiltebeitel, 1992). However, as the modified cash basis paradigm is not a formal system and therefore it is not governed by generally accepted principles, its application in practice, internationally, takes different forms albeit based on the basic theme discussed above. As it will be discussed later on ("Results" section), the application of modified cash basis in Governmental Accounting in Greece differentiates in several aspects from the basic format encountered in literature.

According to literature (Hiltebeitel, 1992; Parry, 2010), the modified cash basis presents several advantages, since it is broadly in line with the approach currently adopted by most governments. These are mainly related to the disclosure of additional information which is required for fiscal management and for control improvement on government borrowing and lending and on current and contingent liabilities. At the



same time, many of the technically complex issues of valuation, mainly of fixed assets, associated with the application of accruals are avoided.

On the other hand, the modified accrual basis of accounting recognizes economic events when occurred instead of when received or paid and provides information on financial assets and liabilities, but differentiates from full accrual on that it expenses physical assets at the time of their purchase; thus no matching of non-financial assets costs to the period when they occur takes place (IPSASB, 1996; IFAC PSC, 1998).

3.4 Reforms in financial reporting systems

Disclosure of information is considered to be more important in the public sector in comparison to the private sector, mainly due to the absence of a market (Guthrie, 1998; Mack and Ryan, 2007). As explicitly stated in the conceptual frameworks of accounting standard setting-bodies the objective of financial reporting by public sector entities is to provide information about the entity that is useful to users (GASB, 1987; AARF, 1990a; CICA, 2009b; IPSASB, 2013a). In this context, *usefulness* is generally determined in relation to decision-making and accountability (Rutherford, 1992). Guthrie (1998) argues that despite public sector accounting being often characterized as neutral to decision-making, in reality it is neither socially nor politically or economically neutral. As accounting constitutes a form of communication representing and constructing reality (Hines, 1988) it could not be neutral regarding the above aspects. What moreover appears as affecting decision-making is the nature of the accounting basis on which accounting information is produced (IPSASB, 2011b; Bergmann, 2012).

3.4.1 Pros and cons of a transition to accrual

In fact, the adoption of or the transition to accruals has been given a central role in the NPFM reform movement (Pallot, 1992; Lapsley, 1999; Ouda, 2004; Christiaens and Rommel, 2008). Among the most quoted and advertised advantages of applying accrual accounting for financial reporting is the improvement of the financial



information system (Christiaens *et al.*, 2010), the long-term sustainability of fiscal policies and the efficient management of public assets and liabilities (Barton, 2009). Accrual accounting is considered to improve comparability of financial performance and accountability of public resources (Guthrie, 1998, Christiaens *et al.*, 2010; IPSASB, 2011b). The accrual financial statements are viewed as easier to understand (Ball *et al.*, 1999; Brumby *et al.*, 1999), and harder to manipulate (Buti and Guidice, 2002) leading thus to better information for planning, financial management and decision-making purposes (Athukorala and Reid, 2003).

The aforementioned benefits of accrual accounting have motivated many governments to prepare the ground for a transition to the new system (Khan and Mayes, 2009). As Carlin (2005) comments though, the widespread adoption of accrual accounting does not mean that the reform has been accepted without considerable debate and scepticism. Paullson (2006) and Anessi-Pessina *et al.* (2008) refer to a significant number of public sector empirical studies in which the introduction of accrual accounting is criticized and questioned. Many are thus the scholars who consider a transition to accruals as being problematic (e.g. Barton, 1999; Christiaens and Wielemaker, 2003; Conolly and Hyndman, 2006; Lapsley *et al.*, 2009). According to Hepworth (2003) the failure to understand accrual accounting requirements may jeopardize the whole transition process. More specifically, the lack of cultural willingness to accept the reform as well as the technical ability to understand, implement and maintain the reform, constitute characteristics that would probably lead to a reform failure (Hepworth, 2003). As a result, the assessment of the costs and benefits of adopting accrual accounting is a difficult task (Christensen, 2002).

3.4.2 Users of public sector financial information

Another dimension to the significance of financial reporting in the public sector, and therefore to the implications of different accounting bases on decision-making, emerges from the fact that public sector accounting has to satisfy the needs of a large number of different users (Hernández and Pérez, 2004). These users should be able to base their decisions on reliable and relevant information about the financial position, financial performance and cash flows of the government. Satisfying their needs has



some prerequisites; at first, it requires the identification of the users and their needs. Secondly, it asks for the matching of the information needs of users with the information provided by the statements or, alternatively stated, it requires users considering at least some of the information disclosed in the statements to be useful (Gaffney, 1986). As different user groups are recognized as having different information needs (Lüder, 1992), they might also view and assess in a different manner the information provided. Moreover, the production, the provision and the understanding of accounting information is more complicated than just providing information “when a specific decision has been identified that needs it” (Jones, 1992; p. 260).

Mack and Ryan (2007) note that there have been internationally numerous attempts to determine the relation between public sector financial reporting and the recognition of potential users. In the late 1970's and the 1980s, various surveys were conducted in order to identify who the actual users of public accounting information are (e.g. Anthony, 1978; Drebin *et al.*, 1981; GASB, 1987). Having Anthony's (1978) work on behalf of the Financial and Accounting Standards Board (FASB) as a starting point, many researches followed a normative approach in identifying the users of public sector accounting information (e.g. Drebin *et al.*, 1981; Jones *et al.*, 1985; Hay and Antonio, 1990; Daniels and Daniels, 1991; Coy *et al.*, 1997; Priest *et al.*, 1999; Mack and Ryan, 2006). By the 1990s the catalogue of users was already extended (e.g. IFAC, 1991; Ingram *et al.*, 1991), introducing more and more potential users. A brief presentation of the users recognized by authors and accounting bodies by the 1990's and early 2000's is provided in Table 5. The Table is adopted by Hernandez and Perez's (2004) study. In general, the studies reviewed coincide in identifying the following user groups: governing bodies, investors and creditors, resource providers, oversight bodies, and constituents (Mack and Ryan, 2007). During the empirical examinations, the users were further categorised as external (i.e. citizens, investors, oversight bodies) and internal (i.e. management) (Steccolini, 2004).



Table 5: Users of public accounting information

Users	Anthony 1978	Holder 1980	NCGA 1983	GASB 1987	AARF 1990	CICA 1990	IFAC 1991	IGAE 1991	AECA 2001
Creditors and investors	x	x	x	x	x	x	x	x	x
Resource suppliers	-	x	x	x	x	x	x	x	x
Financial institutions	x	x	x	x	x	x	x	x	x
Financial analysts	-	-	-	-	x	x	x	x	x
Managers	x	-	x	x	x	x	x	x	x
State and other governing authorities	x	-	x	-	x	x	x	x	x
Controlling bodies	-	-	-	x	x	-	x	x	x
Elected representatives	x	-	x	x	x	x	x	x	x
Employees	-	-	x	x	x	-	-	-	x
General public	x	-	x	x	x	x	x	x	x

Source: Adapted from Hernandez and Perez (2004)



The development of the IPSAS by the IPSAS Board, and the IPSAS conceptual framework of 2013, introduced new terms and concepts in the quest of recognizing potential users of public sector financial reporting. Table 6 provides a comparison between the relevant frameworks developed by the four most quoted international accounting standard setting boards for the public sector (IPSASB; the Governmental Accounting Standards Board (GASB); the Canadian Institute of Chartered Accountants (CICA), and the Australian Accounting Research Foundation (AARF)), as well as FASB's framework regarding "Non-business organizations".

Table 6: The users according to accounting standards setting bodies

Accounting standard-setting bodies	Users
FASB (1978) <i>Non Business organizations</i>	<ul style="list-style-type: none"> • Governing bodies • Investors and creditors • Resource providers • Oversight bodies • Constituents
GASB (1987)	<ul style="list-style-type: none"> • Citizenry • Legislative and oversight bodies • Investors & creditors
CICA (2009a)	<ul style="list-style-type: none"> • Legislators • Policy makers • Administrators • Analysts • Investors • The public
IPSASB (2013a)	<ul style="list-style-type: none"> • Service recipients and their representatives • Resource providers and their representatives
AARF SAC 2 (1990a)	<ul style="list-style-type: none"> • Resource providers • Recipients of goods and services • Parties performing a review or oversight function • Managements & governing bodies

Regarding the Conceptual Framework developed by IPSASB (IPSASB 2013a) the users are recognized in two wider categories: 'Service recipients and their representatives' and 'Resource providers and their representatives'. Resource providers include both "involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees. Citizens are primary users as they belong to both



categories; they both receive services and provide resources. Legislature and parliament members are also primary users, as well as, lenders, creditors, investors and donor agencies. Other identified groups include government statisticians, analysts, the media, financial advisors, public interest and lobby groups. Finally, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers and entity management, may also use this published information.

In general, all four public sector accounting standards setting bodies recognize in their conceptual frameworks user groups that fall into the same categories (GASB, 1987; CICA, 2009a; AARF, 1990a; IPSASB, 2013a).

3.4.3 Users' information needs

Due to the different profile of the groups of users, it is expected that according to their interests, functions and competences, they will have different information needs. This fact could also lead to complicated inter-relations as some of these users might occupy multiple roles (Drebin *et al.*, 1981). The identification of the needs of these users has been dealt with in various studies carried out by accounting bodies and scholars.

By examining relevant studies (e.g. Anthony, 1978; Drebin *et al.*, 1981; Mautz, 1981; NCGA, 1983; GASB, 1985; Likierman, 1989; Ingram *et al.*, 1991), general patterns that show the needs of each user group can be found. Other studies highlight the specific needs of certain user groups that they consider to be significant as regards to their relevance in the use of public sector accounting information (e.g. FASB, 1985; Henke, 1988).

However, as Jones (1992) points out, taking certain users and certain needs, for which there is no empirical evidence, to establish the objectives of public accounting information, can lead to an output of information that is not as useful as it is expected to be. Mayston (1992) considers that a great step forward would be to study what information is relevant in order to protect the individual interests of each information-



user group, instead of analysing the users and their needs. This would allow an optimisation of the financial information that is to be produced.

Regarding the information needs of the different categories, by consulting the frameworks developed by these five bodies (FASB, 1978; GASB, 1987; CICA, 2009a; AARF, 1990a; IPSASB, 2013a) the following information types are identified:

Table 7: Users needs as recognized by accounting standards setting bodies

Accounting standard-setting bodies	User needs
FASB (1978) <i>Non Business organizations</i>	<ul style="list-style-type: none"> • Financial viability • Fiscal compliance • Management performance • Cost of service provided
GASB (1987)	<ul style="list-style-type: none"> • Making economic, social and political decisions • Assessing accountability by: <ul style="list-style-type: none"> ◦ Comparing actual financial results with the legally adopted budget ◦ Assessing financial condition & results of operations ◦ Assessing in determining compliance with finance-related laws, rules & regulations ◦ Assisting in evaluating efficiency & effectiveness
CICA (2009a)	<ul style="list-style-type: none"> • The allocation & use of financial resources • The sources & types of government revenues • The extent to which revenues are sufficient to meet expenditures • How the government finance its activities & how it meets its cash requirements • The government's financial condition • Actual results of financial activities in comparison with those originally forecast & those of past periods • That public financial resources are managed in accordance with legislative authorities
IPSASB (2013a)	<ul style="list-style-type: none"> • The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interests; • The range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate; and • Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.



	<ul style="list-style-type: none"> • Is achieving the objectives established as the justification for the resources raised during the reporting period; • Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and • Is likely to need additional (or less) resources in the future, and the likely sources of those resources.
AARF SAC 2 (1990a)	<ul style="list-style-type: none"> • Whether the reporting entity is achieving the objectives which formed the reason for the provision of resources in the past and is operating economically and efficiently and using resources as prescribed • Whether the entity is able to continue to provide goods and services in the future, which is the likely level at which the goods and services will be provided, and which their likely cost. • Parties performing review or oversight services of interest to members of the community want to know whether the reporting entity has been operating in the interests of such members

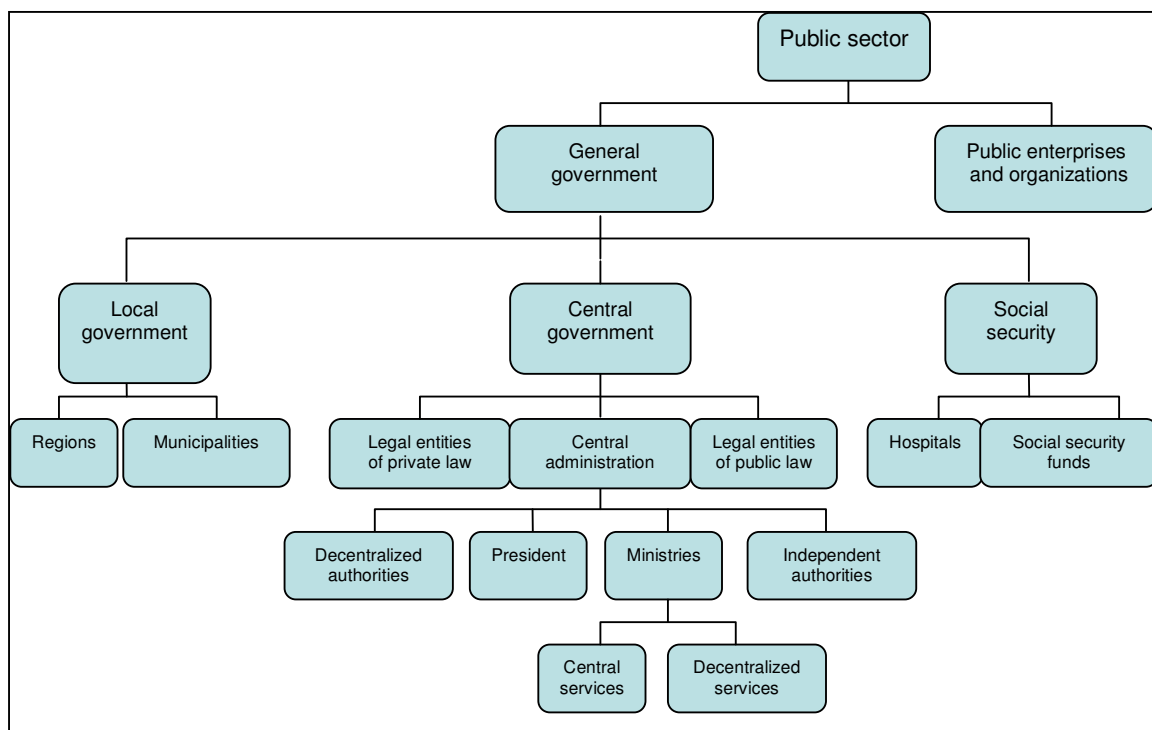
Within this framework, though, the search of who actually uses public sector annual reports has been characterized as a “recurrent ambition” (Skaerbaek, 2005) and “somewhat chimerical” (Hay, 1994). Most importantly, citizens who constitute the prominent group of users (Daniels and Daniels, 1991) appear to make limited use of governmental financial statements in practice (Zimmerman, 1977; Jones, 1992). Although Hay (1994) points out that previous research indicates relatively few actual users of public sector financial reporting, Mack and Ryan (2007) provided evidence of an increased emphasis of public sector organizations on financial reporting, as a means to further engage with their users. Therefore further evidence on the relation between users and financial reporting in the public sector is required.



4. The Greek Central government

Central government in Greece comprises of the central administration and the legal entities governed by public and private law that are controlled and funded mainly from the government. Along with local governments and social security bodies, they compose the Greek general government. Central government –alternatively in Greek referred to as Dhimosio (public) or Cratos (state)– incorporates the Presidency of Democracy, the Ministries and the Decentralized Administrations, as well as, the Independent Authorities (Presidential Decree 3871/2010). The following figure (Figure 2) depicts the structure of the Greek public sector.

Figure 2: Structure of the Greek public sector



Source: Adapted figure from OECD (2011) Greece: Public governance reviews

4.1 The reform framework of accounting systems in the Greek central government

As it is highlighted in the Introductory Report of the State budget for the year 2008, in the section entitled “Reform of the budgeting system” (Ministry of Finance, 2008a; Chapter 2; page 65; emphasis added):

*“The Ministry of Finance recognizing the need for **more efficient, effective and transparent management of public resources**, proceeded to the design and implementation of significant reforms for the modernizing of fiscal management, aiming at the improvement of the quality of the provided public goods and services. These reforms include **both the change in the way of preparing, executing, monitoring and evaluating the state budget through the adoption of a form of program budgeting, and the application of a new accounting reporting system, that would support the state budget for the sound and true representation of public finance.**”*

Therefore, two dimensions are recognized in the reform framework of the accounting systems in the Greek central government level:

1. The reform of the budgeting system
2. The reform of the financial reporting system.

The above reform framework constitutes since 2005 the general modernizing framework recommended by supranational organizations, such as the OECD and the IMF, through their reports (Ministry of Finance, 2009b; *Chapter 4*). Thorough reference to these reports is provided later on (“Results” section). Nevertheless, despite the use of cash based accounting in the central government level, several agencies of the wider public sector already applied accrual accounting since 2000. Such examples are the first degree local governments (P.D. 315/1999) and social security bodies (P.D. 80/1997). The latter commenced with significant delays.



4.1.1 The reform of the budgeting system

Central government prepares the central government (or state) budget under the cash basis, which is annually approved by the Parliament. Although, the state budget does not include public enterprises and organizations, social security funds and hospitals, regions and municipalities, and public law entities, still budgetary transfers to these organizations are included.

The structure that the Greek state budget presented previous to the reform comprises of two parts which are distinct as regards to their preparation and execution:

- The Ordinary Budget, and
- The Public Investment Budget

The ordinary budget is prepared and executed under the form of a line-item budget, depicting the various expense categories based on their nature. The most significant weaknesses of line-item budgeting as recognized by the Greek Ministry of Finance are the following (Ministry of Finance, 2008a; *Chapter 1*):

1. It lacks of a clear description of the policies and actions that are funded.
2. It lacks of clear description of the agencies/ institutions implementing these policies and actions. This results in several cases to the involvement of many agencies which might eventually overlap. Therefore, in such cases, resources could be further wasted as well as effectiveness could be reduced.
3. There is inadequate evaluation of the results of these policies, as the evaluations do not take place systematically, but rather segmentally, and are not related with the material and human resources used.

On the other hand, the public investment budget, although presented in the form and structure of a program budget, it does not have the qualitative characteristics of such a structure. For example, there is no matching between the inputs and the outputs and outcomes (Ministry of Finance, 2008a; *Chapter 1*).



Inevitably, these characteristics were enough to start the discussion of proceeding in a reform inside the central government. As it is reported in the State budget report of 2008 (Ministry of Finance, 2008a; *Chapter 1*) the above mentioned weaknesses of the line-item budget, combined with the requests of citizens for transparency and effective resources management, the need of reducing the fiscal deficits and the need for long-term planning and programming, has led many countries to the decision to adopt new forms of budget management, such as program budgeting.

Already from 2005, the Greek Ministry of Finance proceeded by requesting the International Monetary Fund's assistance for technical support in administrative reforms. IMF responded to this call through the conduction of a report regarding the improvement of fiscal management. The first reference to the government's decision to proceed into adopting a program budget that would operate complementarily to the existing line-item budget can be found in the Introductory Report of the State budget for the year 2006.

It should be noted here, that a substantial difference exists between the concepts of 'governmental accounting' and 'national accounting'. Governmental accounting is responsible for the preparation of the State budget, and therefore for the programming and allocation of resources and expenditures; thus it has a microeconomic perspective. On the other hand, National accounting is used for the evaluation of the national economy as a whole, through calculating key aggregate indicators, as for example gross domestic product (GDP), volume growth, national income, savings and consumption. Moreover, it is used for cross-national comparisons with the respective indicators of other countries. Therefore National accounting, serves for external accountability and decision making purposes, but from a political and macroeconomic perspective (Jones, 2000; Martí, 2006). For the needs of the EU, the European System of Accounts (ESA 95, and lately ESA 2010) has been developed and is used, and all EU member states are required to provide their data according to it.

Eventually, the basic difference is that national accounting and consequently ESA is not an accounting system, as it does not produce budgetary or financial reporting but is rather a statistical tool used for the control of the European monetary policy, that is –among others– the GDP, debt and deficit (Eurostat, 1996; Jesus and Jorge, 2010).



4.1.2 The reform of the financial reporting system

Until 2011, the central government applied the cash basis of accounting as the basis of financial reporting. In order to report the financial condition of the state as well as revenues and expenditures, public accounts were used. More specifically, these accounts were further distinguished into those used for the monitoring of the budget's execution and those which are used for the out-of-budget cash management. It is very important to note that the classification of these accounts into accounts of assets, liabilities, memo accounts, etc. does not coincide with the accounting dimension of these concepts, and is rather far from their use in the accrual basis of accounting.

Nevertheless, according to the Ministry of Finance, this system served adequately the information needs in terms of the state's fiscal management, and was perceived as preserving the reliability of the provided information; it had only to do with receipts and payments. Receipts and payments are characterized as being easily measurable and unchallengeable (Ministry of Finance, 2009b). Despite, though, of these characteristics, the cash basis system of accounting was not able to adequately cover the needs of modern fiscal management. In this context, various weaknesses accompanied the cash basis system.

As it is reported in the accompanying to the 2009's State Budget report, entitled "Program budgeting", the most important weaknesses of the previously applied cash basis system of accounting were the following:

1. The Balance Sheet:
 - a. Did not applied the accrual principle, and
 - b. Did not depict the assets and liabilities of the state
2. Was characterized by lack of qualitative information, since a great part of the data was not reported in accounts of assets or liabilities. On the contrary, it was mandatory to record them either as cash inputs or outputs.



3. Due to the recording of all transactions in the cash basis, the system failed to achieve adequate determination of the actual cost of the state's activities.

Consequently, the discussion of reforming the system opened. According to the Ministry of Finance, the following goals appear to comprise the cornerstones of the accounting systems modernization (Ministry of Finance, 2010; *Chapter 6*):

1. The provision of more information
2. The improvement of transparency
3. The improvement of the quality of the provided accounting information.

In order to achieve these goals, the introduction of rules and procedures that would substantially assist to the distinction and clear determination of the concept of revenue and its receipt, expenditure and its payment, receivable and payable accounts. Furthermore, the presentation of capitalized assets and investments of the state, in cases where that would be possible, was considered as material. The above features characterize a transition from the cash basis of accounting to a modified cash basis system (*State Budget, 2009; Chapter 4*).

This move had as a result the central government achieving its compliance with the requests for modernizing the financial reporting system, and at the same time, the transfer in future of the resolution of certain problems and difficulties faced by countries which apply full accrual accounting. For example, the conduction of inventory recording in the beginning of the fiscal year in order to record the value of assets, and the height of accumulated receivables and payables of the central government (*State Budget, 2010; Chapter 6*).

4.1.3 Overall view of the reforms framework

If seen in its overall view, what the Greek central government wanted to achieve with the combination of the two reforms, was:

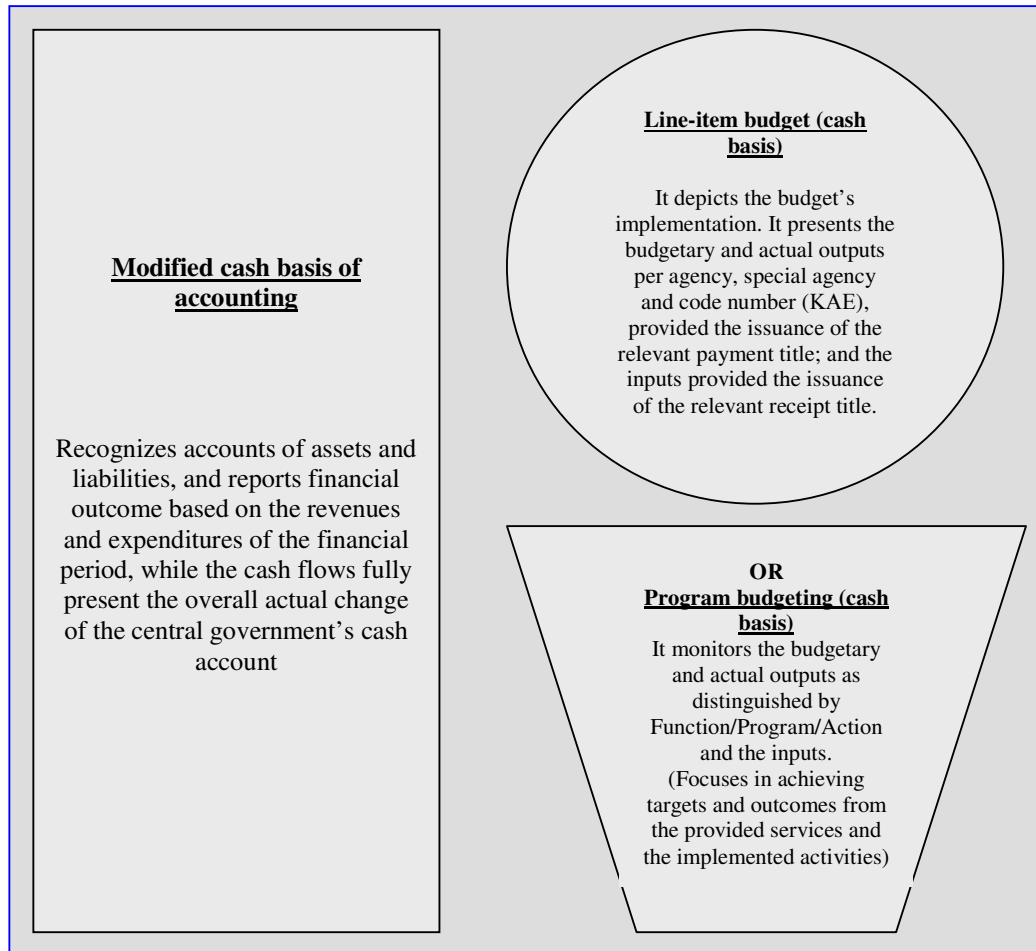


- Transition from the cash basis of accounting to a modified cash basis of accounting system, for financial reporting purposes, and
- Either:
 - Maintenance of the cash basis for the preparation and execution of the line-item budget,
 - Or to a parallel level to the traditional budgeting system, an implementation of a program-based budgeting system, still based on the cash basis of accounting.

A depiction of the reform's plan is presented in Figure 3.



Figure 3: An overall view of the reforms in the accounting systems of the central government



Source: Ministry of Finance, Greek State Budget, 2010; p. 154

For the categorization of the budget data special code numbers for revenues and expenditures referred to as KAE (Kodikoi Arithmoi Esodon-Exodon), are used. With the application of the modified cash basis these code numbers are linked with the third-level accounts of the accounting plan. Eventually, the accounting framework to be developed was intended to be a unified system including the KAE of both the ordinary and public investment budgets. Therefore, it would comprise a structured set of financial statements that would include data from both parts of the state budget. In order to achieve greater transparency and understandability of the provided fiscal data, as well as for the execution of material and sound fiscal management, the accounts linked to KAE would compose first-level accounts which in turn could comprise parts of groups of accounts.

Eventually, the budget reform was abandoned after years of efforts, although it produced results that were highly appraised by that time, while the financial reporting system reform resulted to an outcome that left several pending issues and thus did not achieve to satisfy the initial goals set. What is more important is that in both cases there is not a long term plan in place, and thus the next steps in both cases are completely vague. Some vague references on both cases are provided to the recently published Law 4270/2014. For example that the state budget can be structured based on programs that incorporate expenses that match to public policies. In the following parts of the doctoral research an evaluation of the process and the outcomes of these reforms take place.



4.2 Greece under resource dependency

After enjoying a period of economic growth between 1995 and 2000, Greece experienced a period of public finance imbalances with an increasing gap between national savings and investments, which gradually, from 2000 to 2009, led to a significant increase of the Greek deficit (OECD, 2011). The following years (2009 – 2010) Greek public finances presented a deteriorating and rather upsetting picture, with an indirect global impact and a direct one threatening eurozone's stability (Zahariadis, 2013). The Greek debt crisis has been characterized as multidimensional, involving high both public and private debt, high borrowing from external sources and increased corruption (Zahariadis, 2013). The significance and specificity of the Greek condition is illustrated in OECD's (2011, p. 36; emphasis added) report as follows:

*“Even though the outbreak of Greece’s ongoing public finance crisis coincided with the global economic downturn, the situation had paradoxically developed as the country was experiencing **one of the most dynamic episodes of growth in its post-war history.**”*

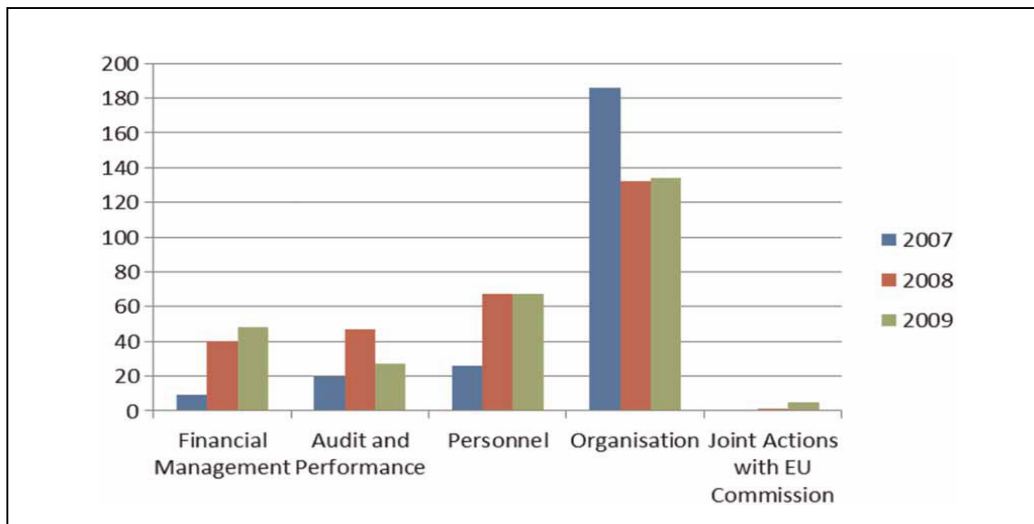
Eventually, in May 2010 Greece had to receive financial support from the IMF, the E.U. and the European Central Bank (ECB), commonly referred to as the ‘Troika’. For that purpose, Greece signed a Memorandum of Understanding (Law 3845/2010), with the total amount of the bail out program reaching 230 billion euros. According to Featherstone (2014; p.1) this loan was tied to “tough conditions” and referred to an enormous amount of administrative reforms. Among other measures that were included in the MoU between Greece and the Troika (e.g. administration, personnel), public financial management reforms were prioritized targeting to improving short-term fiscal challenges, long-term performance, and increasing accountability and transparency (OECD, 2011).

By applying Ongaro's (2009) typology on Greek Ministry of Administrative Reform data in order to categorize the actions that affect Greek central government administration, Featherstone (2014) developed five categories of reform actions:



Financial management, audit and performance management, personnel, organization, and joint actions with the EU Commission. The latter serves for the capturing of specifics during the Memoranda period. According to his study prior to Greece's entering the financial support mechanism of the Troika the emphasis on "financial management" and "audit and performance management" is, as depicted in Figure 4, comparatively low.

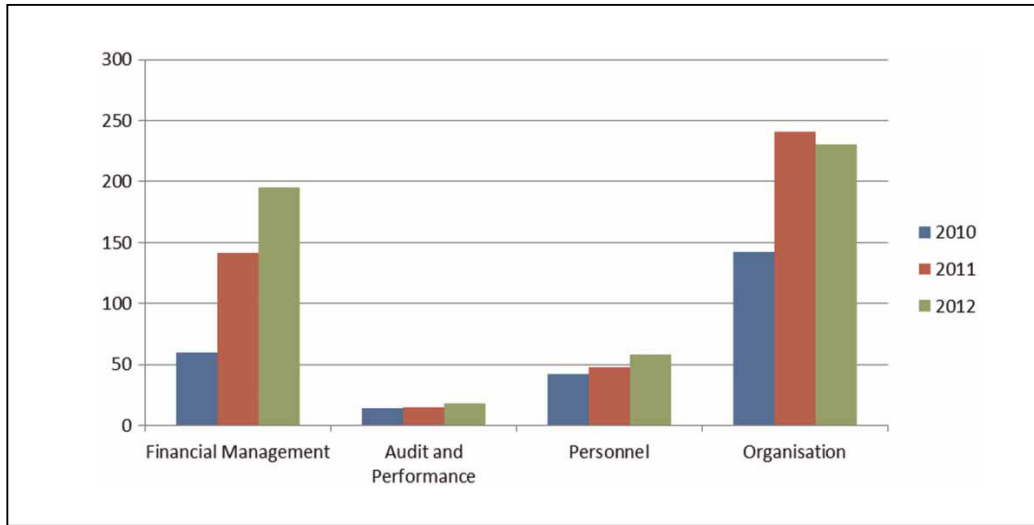
Figure 4: Greek ministry data on administrative reforms pre-MoU by subject category



Source: Featherstone (2014; p.8)

As the author comments, the results suggest that at this point actions focused to the operational mode, and not public spending effectiveness or performance evaluation. Nevertheless, the picture changes when it comes to the after Memorandum period. As it is depicted in Figure 5 significant attempts have taken place at least in terms of "financial management".

Figure 5: Greek ministry data on administrative reforms of Greek government by type, 2010-2012



Source: Featherstone (2014; p. 10)

Thus it appears that the MoU had a direct impact in the reforms targeting into improving public financial management of the Greek central government. International literature provides several examples where supranational external resource providers such as the IMF and the World Bank, put pressure for the implementation of specific reforms (Carpenter and Feroz, 2001; Sahlin-Andersson, 2001; Mimba *et al.*, 2007; Timoshekno and Adhikari, 2009). Such cases are mostly evident in developing countries with supranational organizations trying to spread the Anglo-American experiences to the globe (Pina and Torres, 2003). The general conclusion drawn from several relevant studies though is that supranational organizations impose accounting and financial management reforms mainly in order to assure their own legitimization, rather than to resolve the actual needs of the states (Rahaman and Lawrence, 2001; Uddin and Hopper, 2001; Uddin and Hopper, 2003; Neu *et al.*, 2009; Rahaman *et al.*, 2007; Uddin *et al.*, 2011), while characterizations such as “imperialistic institutions” and “neo-colonization” are not lacking from the relevant literature, especially regarding developing countries (Annisette, 2004; Mir and Rahaman, 2005; Rahaman and Lawrence, 2001).

As it will be shown later, on the “Results” section of this research, the Troika acting as external resource provider had a significant role to play in the Greek reform process. Their presence in each of the examined reforms is intensively evident; the

efficiency though of their interference to decisions made, is questionable. This fact provides another very interesting insight in the attempt to evaluate Greek central government's financial management reforms, as in several cases Greek administrative culture would come in contrast to external resource providers requirements.



5. Research development

The research is developed in two parallel albeit complementary levels. Its first strand of research deals with the introduction and subsequent abandonment of program budgeting. More specifically, it tries to shed light to the reasons behind the failure of the budgeting reform, rising issues such as response to institutional pressures deriving from the debt crisis, proper institutionalization of the change, diffusion of the new philosophy, resistance to change on behalf of public executives and ministries, and readiness to change. The second examines the process and evaluates the outcome of the accounting standards reform. As part of the process examination, the incentives of the developers of the accounting standards and the rationale of their choices during the development of the new standards are studied. Moreover, the analysis tries to evaluate whether the desired outcomes of the accounting standards reform have been achieved. For this reason, a web-based instrument to assess the quality and decision-usefulness of financial reporting in the central government level has been developed and applied. The methodology treats users as the best judges of these attributes, since as mentioned by Christiaens (2003), the opinion of governmental accounting users, plays a key role in the process of accounting change. Finally, the study concludes with an assessment of the decision-making process during the development of this new set of modified cash-based accounting standards, raising issues regarding the role and incentives of the various different involved –to the reform- actors (politicians, the public, external resource providers – i.e. the Troika, bureaucrats and external management consultants).

The research questions raised in each of the three parts of the thesis are analyzed through interviews, the use of archival data and a questionnaire. The use of qualitative methods (i.e. interviews and archival data) is the most commonly applied research method in public sector accounting research. Studies of contemporary public sector accounting research methods (van Helden, 2003; Goddard, 2010) classify the use of interviews along with the study of archival data, as the most frequently used methodological approaches. These studies are based on the analysis of the research methods adapted by articles published in the most quoted international journals publishing public sector accounting research (e.g. Financial Accountability &



Management; Accounting, Organizations & Society; Journal of Accounting & Public Policy). In general, these means of research play a main role in governmental accounting research (van Helden, 2003), since they are perceived as being able to provide “richness and in-depth examination” to each case (Mellett and Ryan, 2008; p. 218). Thus, they help to understand *why* and *how* the under examination changes are evolving (Carmona, 2012). At the same time, the use of a questionnaire survey constitutes a very typical quantitative method for data collection in public sector accounting research, safeguarding both the reliability and validity of the results (Bisman, 2010; Goddard, 2010). Thus, these surveys facilitate the understanding of *what* is taking place and to generalize the results (Carmona, 2012).

The dissertation surveys **two distinct cases of reform** and is divided into **three parts**:

- The **first** part examines the process and the outcome of the **budgeting reform** towards the introduction of program budgeting.

This part explores through the examination of the relevant archival data enriched with the outcome of interviews and informal discussion with politicians, the framework of the introduction of program budgeting in Greece. More specifically, the analysis concentrates on the reasons that led to the adoption of program budgeting, the difficulties faced during the pilot stage of its implementation, the reasons that led to the abandonment of the system, and the potential benefits that could have been gained if the system was operational during the financial crisis. As previously explained, program budgeting is a budgeting system that facilitates the linkage of resources with expenditures, and at the same time measures the outcome based on the use of relevant performance indicators. The analysis is conducted through the lens of neo-institutional theory and organizational change theory. Further insights from the resource dependency model provide explanatory dimensions to the case.

- The **second** part analyses the outcome of the **financial reporting reform** under the modified cash basis of accounting.



This part evaluates the quality and decision usefulness of the provided information deriving from the new financial reporting standards. The modified cash basis is not a formal accounting system and thus it can be operationalized according to the specific needs of a country. It recognizes payables and receivables, and thus provides additional key information compared to cash accounting, useful for fiscal management. The developed methodology builds on the characteristics the accounting information produced by central government should possess according to theory and accounting standard setting bodies' frameworks (i.e. GASB, CICA, AARF and IPSASB). For the quality evaluation dimension, the model draws from methodologies developed for the private sector by Jonas and Blanchet (2000) and McDaniel *et al.* (2002) taking into consideration the specific particularities of the central government. The decision-usefulness dimension of the provided information is evaluated on the basis of Larcker and Lessig (1980) methodology that has been already used in studies referring to local governments (Gaffney, 1986; Daniels and Daniels, 1992). The instrument is applied on the financial statements produced by the Greek government for the years 2010 (cash basis) and 2011 (modified cash basis) in order to evaluate the outcome of the transition. The views of users are gathered through an advanced web-based questionnaire that made possible the review of significant accounting information with a flexible and user-friendly way. The questionnaire has been administered to the main users' categories as recognized by public sector accounting standards setting bodies: citizens, investors and creditors, public managers and governing bodies.

- The **third** part examines the process of the **financial reporting reform** and the development of the new accounting standards.

As the success of accounting reforms relies heavily on the role and incentives of the involved actors (Niskanen, 1971; Giroux, 1989) the theoretical lens of public choice theory are applied. The theoretical framework aims to provide guidelines useful to unravel the incentives of bureaucrats, external consultants, voters, political leaders and external resource providers that have played a role in the reform process. Decision-making in the public sector is characterized by limited economic rationality, which often drives public sector entities towards acting as “organized anarchies” (Cooper *et al.*, 1981). The “garbage can” model provides insights that facilitate the



understanding of the choices made while deciding on the set of governments accounting standards. This theoretical framework is informed by the outcome of interviews and informal discussions with members of the commission that developed the new set of accounting standards, as well as by relevant archival data (e.g. IMF and OECD reports, Greek Ministry of Finance reports.).

In the following sections (Sections 6, 7 and 8) each of the above parts is presented separately in the following format: research questions development, theoretical framework, methodological approach and results. While this general template is followed in all three sections, it is slightly modified to account for the specific content and presentation needs of each part.



Part I:

The reform of the budgeting system



6. The reform of the budgeting system

6.1 Research question development

Performance evaluation in every level of the public sector is widely perceived as being the cornerstone of the public management reforms (Kong, 2005). The access to performance information enhances users' decision-making and promotes public sector's accountability (IPSASB, 2011a). In other words, the appropriate use and availability of performance information could contribute to the quality of a democratic polity (Pollitt, 2006). Program budgeting constitutes a very important mechanism towards this direction. Its performance orientation introduces new concepts in the rather bureaucratic public sector, such as the application of performance indicators and the measurement of outcomes (Williams, 2004; Gilmour and Lewis, 2006). Other highly appraised advantages of applying program budgeting include the rational allocation of public funds, the reduction of public expenditures and the increase of transparency and accountability (Kong, 2005; Curristine *et al.*, 2007; Amborski, 2011). Nevertheless, in practice, there is a variety of reasons why applying performance budgeting has been disappointing. Such reasons include -but are not limited to- technical complexities during implementation (Robinson and Brumby, 2005), the fact that decision making in the public sector is not always characterized by rationality (ter Bogt, 2004) and that changes in the deep rooted governmental routines, which involve powerful players and heavy political interests, are likely to fail (Pollitt, 1999). In total, Schick (2007) concludes that performance budgeting is one of the most prominent reforms on budgeting that has not yet achieved the progress the reformers would aspire.

Within this realm and by following recommendations made by the International Monetary Fund (IMF) in 2005, concerning the modernization of the budget management, the Greek government decided to proceed in applying program budgeting. This strong will was clearly stated in the 2006 state budget report, and since then the Greek government started to pave the way in order to publish the first official program budget incorporating the activities of the whole government by 2012.



During the years 2008, 2009 and 2010 pilot program budgets were prepared and published along with the traditional state budgets with the intense involvement of ministries. Suddenly, after a five-year preparation period, the plan to introduce program budgeting by 2012 was not only abandoned but also disappeared from official budgeting documents.

Being a very important issue, the adoption of performance-oriented budgeting in terms of information quality, decision-making and accountability in the public sector, many questions arise regarding the reasons that led to this change in plans. In a very crucial period for the Greek economy², where budget-cutting is more than ever a necessity for public funds saving, a tool for budget management such as the program budgeting would appear to be ideal for the rationalization of the Greek state budget. To avoid horizontal or unjustified budget cuttings, the utilization of performance information emanating from program budgeting application could potentially offer a solution; the state would be able to achieve better fund re-allocations as well as improvements of specific operations' performance.

Therefore the first part of the doctoral research tries to answer the following research question:

RQ1: Which were the reasons that led to the change of the initial goals on the budgeting reform and resulted to the abandoning of the program budgeting's implementation?

While Schick (2007, p.121) characterizes performance budgeting as “a case of repeated failure”, Robinson and Brumby (2005) argue that due to the limited scope and methodology of the relevant empirical studies it is difficult to safely conclude on the efficacy of the system. This study, therefore, contributes to this research agenda. The study adds to the debate on the implications of performance budgeting by examining a case where program budgeting was gradually introduced in the central

² As previously discussed the deterioration of the Greek economy's condition from 2009 onwards resulted in Greece entering into the financial support mechanism of the European Commission (EC) and the IMF in 2010 (Law 3845/2010). The impact of this condition is discussed in more detail in the Results Section.



government, was highly appraised in its third year of pilot application, and was suddenly abandoned in the year that followed. Moreover, it is a case where a reform that lies within best practices is abandoned at the time that it is mostly needed; during the period of a deep financial crisis. By analyzing the program budgeting chronicle, evidence on a change of directions due to subsequent institutional pressures and on the impact of this conflict on governmental decision-making is found. Furthermore, indications of resistance to change as well as of an ill diffusion of the new philosophy are identified.

6.2 Theoretical framework

In order to follow the chronicle of the introduction of program budgeting in Greece, a theoretical framework is used that incorporates neo-institutional theory, organizational change theory and the resource dependency model.

According to neo-institutional theory, organizations respond to pressures deriving from their institutional environments. Therefore, their choices regarding the adoption of procedures or structures will be driven from what is socially accepted as being the appropriate way to act (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). These actions are performed regardless of whether the organization will increase its efficiency by adopting these changes or not. What matters most is the compliance of the organization with its institutional environment in terms of legitimacy (DiMaggio and Powell, 1983; Carpenter and Feroz, 2001). These institutional pressures may be exercised by external organizations as well as other bodies such as professional organizations or the public opinion (Järvinen, 2006). Therefore, according to the neo-institutional theory, governmental decision-making is highly vulnerable to institutional pressures deriving from external organizations and the public opinion with which governments will have to comply in order to “survive”. As a result, as Buckho (1994) noted, institutional pressures could act as a powerful force leading to organizational change.

From another standpoint, that of the resource dependency model, a government is constrained by those it depends on for resources (Mizuchi and Fein, 1999). As noted



by Carpenter and Feroz (2001), elected officials try to ensure that the government has continuous flows of financial resources particularly during fiscal stress periods. Therefore, governmental decision-making is heavily influenced by such pressures. This phenomenon is also known as coercive isomorphism. As stated by Carpenter and Feroz (2001; p. 573), “Resource dependency results in coercive isomorphic pressures for change which can be a dominant factor in influencing a government’s choice of accounting practices”.

Change in the public sector is an interesting subject per se. Organizational change theory provides interesting insights on how a change can be successfully introduced in the public sector. More specifically, the success in the introduction and implementation of a new system (e.g. an accounting system) is subject to various factors. To begin with, the importance in such cases lies in the degree of succeeding in institutionalizing the new system (Kong, 2005; Fernandez and Rainey, 2006). Otherwise resistance to change or unwillingness to cooperate might arise among those participating in the change. As stated by Trader-Leigh (2002; p.140) “It is critical to understand how [public sector] stakeholders are affected and understand the often hidden dynamics and cost of change”. According to Kong (2005) leadership plays the most significant role for the adoption of a reform in the public sector, by providing a clear vision of the change and the new system as well as detailed directives. As stated by Fernandez and Rainey (2006), there is evidence of the critical role of public managers in implementing organisational changes, as they should be the ones to effectively communicate to the involved parties the need for change. Therefore, public sector executive actions should be aligned with a “managerial” dimension in the public sector overcoming its bureaucratic nature. In order to succeed in their role, public managers need to create a clear and inspiring vision and provide a clear strategy. An ill diffusion of the new philosophy to all parties involved in the implementation of the project including improper training and inadequate communication, constitute factors which would eventually impair the level of change success.

However, as Pollitt (2001; 2003) remarks, a public management reform which succeeds in one country might not work at all in another, depending on various assumptions (cultural, legal or organizational). Even if applied with “exemplary



energy”, some reforms “just do not work” (Pollitt, 2001; p. 476). Eventually, the results of major public sector reforms cannot be clearly seen for at least three years after their adoption (Pollitt, 2001), and at each step of the reform process, the project might fail or be modified or collide with other priorities. It might even quietly fade into oblivion (Pollitt and Bouckaert, 2004).

6.3 Methodological approach

In order to answer the first research question the study uses the methods of interviews and archival data analysis. The archival data refer to the state budget reports, the pilot program budgets and from relevant reports produced by the E.C., the IMF and the OECD. The interviews were conducted with four public executives. Also, non-formal open discussions with three politicians took place. As it is explained in more detail in the “Limitations” section, the attempts to approach also members of Troika’s task force and of the OECD were unsuccessful. The informal discussions were conducted with three high-level politicians that have played or still play key roles in the Greek political scene. Two of them were members of governments during the examined period, while the third was a member of the opposition. The interviews were semi-structured and each one of them lasted between 25 to 35 minutes. The four public executives were directly involved from different posts in the development and preparation of the program budgets and the choice of performance indicators. More specifically, two of them held top positions, namely the first as Director of the “Unit A for Ordinary Budget Expenditure” and the other as Former Supervisor of the “Government Budget Report Unit”, both executives of the General Accounting Office (GAO), in the Ministry of Finance, who were in charge of the design and monitoring of the process. The other two were executives involved during the implementation of the project. On the basis of these interviews an overall view of the situation and the conditions that prevailed during the reform process that cannot derive from written documents, was gained. Also, the informal discussions with politicians provided valuable input regarding their personal experiences that widened the study’s view on behind-the-scenes history of the reform.



6.4 Results

6.4.1 Institutional pressures leading to the adoption of program budgeting

Following IMF's recommendations published in 2005 in the report entitled "Greece: A Strategy for Modernizing Budget Management" (IMF, 2005a; as cited in Ministry of Finance, 2009), the Greek government started to work on the idea of proceeding to radical changes in the state budget philosophy, that would be accomplished by adopting program budgeting. As stated by the Ministry of Finance (2009a; p.3) this IMF report "was the basis for decision making". At that time IMF recognized two important weaknesses in the traditional Greek budgeting system that resulted in a lack of clarity: the absence of a program structure and the lack of multi-year perspective. Therefore, as IMF recommended "operations will require a fundamental reorientation of budget management. In this respect the importance of introducing a program structure is emphasized" (IMF, 2005b; p.9).

One year later, IMF continued to suggest that the Greek central government should "Inject a policy perspective into the budget by introducing a program structure that clearly identifies the government's objectives, encouraging an evaluation of the efficiency and effectiveness of government activities" (IMF, 2006; p.1). OECD's review (OECD, 2008a) on "Budgeting in Greece", that was carried out at the request of the Greek authorities, was in the same realm. The review concluded that the budget system in place was "too focused on input details, which effectively hinders the use of the budget as a strategic political steering document". Therefore "The first priority should be given to introducing a program budget" (OECD, 2008a; p. 26). In another part of the report (OECD, 2008a; p.5) it is further recommended "the program budget reform [to] be implemented as quickly as possible".

In order to better understand the Greek state budget's functionality prior to the decision to adopt program budgeting, the outcomes of the European Commission's report on "Public Finances in European Monetary Union" for the year 2007 are



provided. In this report Greece receives the lowest scores in terms of budget transparency, budget quality and budget procedures, while, at the same time, it receives the first place in terms of centralization during the budget execution compared to all other European Monetary Union (EMU) countries. In the report it is clearly stated that “Greece lacks a well-developed system for reporting multi-annual effects of new policy measures”, that “the economic assumptions underpinning the budget are not publicly available” and that “the central budget authority can withhold funds during budget execution” (E.C., 2007; p.132).

Besides these two external sources of stimulus for adopting a modern budgeting structure, the Greek Ministry of Finance claimed that the change complied also with the citizens’ requirements for more effective and transparent management of the state resources (Ministry of Finance, 2008a, p. 2). More specifically, the Ministry of Finance indicated that “The detection of several major weaknesses as well as the requirement of citizens for transparency and efficiency in public resources management [...] led to the decision of adopting the new form of program budgeting”. While the views of IMF, OECD and EU are based on written documents, the view that constituencies ask for better information in relation to public financials, at least in the form of program budgeting, is not encountered in any document and did not follow the execution of any public consultation procedure. Additionally the conclusions of several international studies (e.g. Rutherford, 1992; Mayston, 1992; Jones, 1992) agree on a lack of interest on behalf of the public, for public sector financial reports. As stated by Jones (1992; p. 262) “The publication of financial statements is not in the public interest because the public has no interest”.

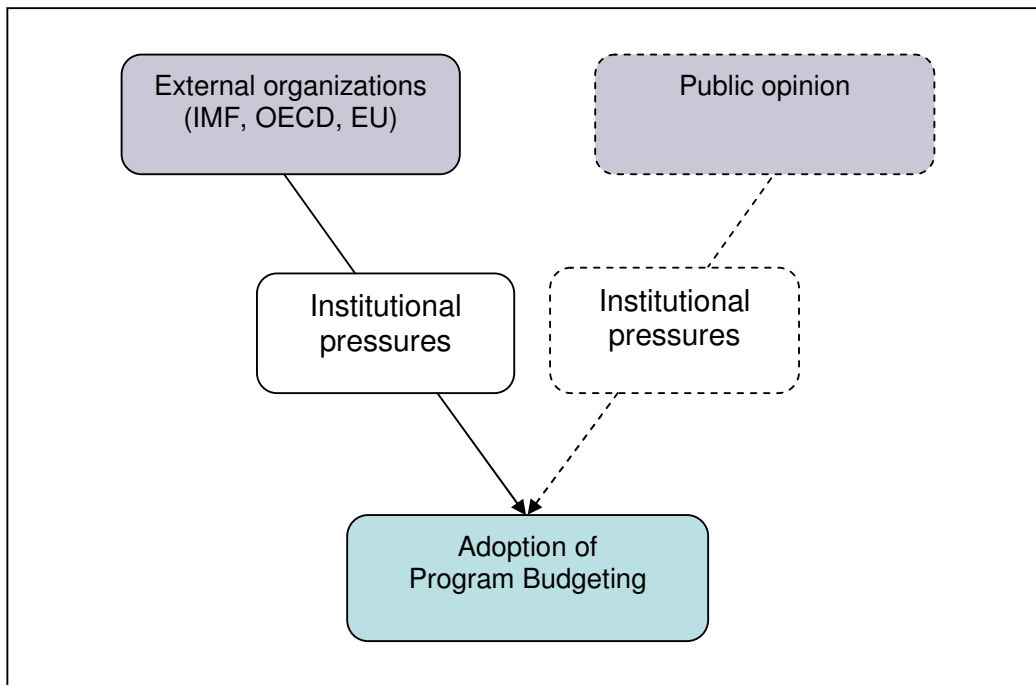
Neo-institutional theory could be useful in analyzing Greek government’s decision to reform the traditional budgeting scheme. Neo-institutional theory would suggest that the decision to change the state budget system is a result of specific well defined institutional pressures deriving from external parties (i.e. IMF, OECD, E.U. and even citizens) for reasons of legitimacy. However, the role of the citizens’ demands appears to be more rhetoric than real. The politicians were also critical concerning the role of citizens in the specific change. During the discussions with politicians the view that society has been keeping a distance from the parliament activities and more



particularly from the budgeting procedure was expressed. Moreover the fact that citizens were not even aware of the whole reform process was emphasized.

The reasons that led to the decision to adopt program-based budgeting could be depicted in the following figure (Figure 9).

Figure 9: Institutional pressures leading to the decision to adopt program budgeting by 2006



6.4.2 Program budgeting operationalization

In 2005, when the idea was firstly conceived, the Greek state budget consisted (and it still consists) of two parts (i) the ordinary budget, which is an expenditure-oriented budget and (ii) the public investment budget, which has a program-oriented structure, but without the qualitative characteristics of program budgeting. According to the Ministry of Finance (Ministry of Finance, 2008b, p. 2) the major weaknesses of the budgeting system in place were firstly, the absence of the explicit description of the policies and actions financed and the institutions that materialise them, secondly, the lack of efficient evaluation of the implemented policies' results and of matching

between the inputs and the outputs and outcomes, and thirdly the involvement of more than one ministry/agency in certain government policies which led to overlaps, waste of resources and low effectiveness.

The public executives agreed that the decision to adopt the new approach derived from the ineffectiveness of the traditional expenditure-oriented budget and the need to move forward to a more informative and functional system. The politicians highlighted the ineffectiveness of the traditional system by mentioning the flexibility of ministers to change the budget lines on their own will, after the budget has been voted.

In order to abide by the shortcoming of the existing budgeting system the advisory help of OECD was asked and OECD actively responded to this call. During 2006 two new units were established in the GAO in order to deal with the requirements of the reforms and in 2007 they started to operate. Especially the “Government Budget Report Unit” was commissioned with the evolvement of the project. According to IMF, “Given the urgent need for fiscal consolidation in Greece, program budgeting with performance measurement and analysis should be initiated in the GAO where it could play an important role in supporting allocative decision-making and reducing inefficiencies” (IMF, 2006; p. 44). The Introductory Report of the 2008 state budget displays the clear will of the state to introduce program budgeting to the central government by 2012, and to the agencies of the central government between the years 2012 and 2015. Indeed, during the years 2008, 2009 and 2010, pilot program budgets were developed and published along with the official (traditional) budget.

The structure of the program budgeting is as follows: The overall budget is analysed into functions, each function into programs and each program is further split into actions. Each Function represents a Governmental policy, each Program a total of actions which serve the purpose of the specific policy, while each Action constitutes the last level of specification. For example 2008 program budget’s Function 05 “Culture-Religion-Sports” contains several programs among which Program 05.01 “Ancient times-Byzantine-Cultural inheritance” which is further analyzed into actions, such as Action 05.01.01 “Archaeological and historical museums”. The pilot program budget for the year 2008 was highly experimental and contained 12



Functions and 73 Programs. The program budget of 2009 contained 12 Functions, 80 Programs and 710 Actions, while for the year 2010 the relative program budget consisted of 13 Functions, 92 Programs and 605 Actions, splitting in two a Function of the previous year.

Regarding the pilot program budgets and the choice of performance indicators, from the interviews with the public executives it was indicated that the pilot programs were a process under constant development and revision in order to cover the needs that occurred in the meantime. The choice of performance indicators was influenced by “the international experience”, although adjusted to the Greek public sector particularities in cooperation with the OECD. However, in certain cases these indicators were perceived as a panacea and not as a useful managerial tool even if they were difficult to measure and out of scope. To one of the middle-level executives’ words:

“There were many cases where the developed indicators were either difficult to measure or out of the scope.”

While the Director expressed the opinion that:

“Performance indicators help but there is always the risk of perceiving them as a panacea, due to the particularities of the public sector. We always have to keep in mind that they are a tool and not an end in themselves”.

It is interesting to note that although OECD’s review in 2008 characterizes the 2008’s pilot program budget as “An excellent first step that will clearly be a great help in making the budget a more modern strategic policy document” (OECD, 2008a; p. 5), a subsequent review in 2011 criticizes the reform process as being far from complete and finds it unclear to what extent and how the existing budgetary procedures and practices will be transformed. The review pinpoints also that “There has been practically no use of output information and performance information in the budget process” (OECD, 2011; p. 88) and that “Most measures reported in the 2010 budget are programme outputs, not outcomes” (OECD, 2011; p. 90), making thus the budget very detailed and still input oriented.



Despite these reservations, the results from the implementation of the pilot program budgets for the years 2008, 2009 and 2010 were highly appraised by the Greek Ministry of Finance (Ministry of Finance, 2010). More specifically, according to the Ministry of Finance the pilot program budgets assisted in several fronts. Firstly, important policies and activities financed by the State were brought into focus. Secondly, through the recognition of agencies' important activities transparency has been achieved. Thirdly, by presenting all the activities developed for the implementation of agency's mission, improved programming of resources has been accomplished. Fourthly, full documentation of the activities that the agencies perform through the legal entities they supervise was sought. Finally, cases where legal entities receive funding from multiple sources/ supervising agents resulting in absence of central coordination were identified and the organizational weaknesses of the agencies were detected.

However, as derived from the interviews with the public executives, the change to the new system was ill institutionalized. Despite the training through a number of seminars, information days and workshops, held in cooperation with OECD representatives, in many cases the involved personnel did not completely comprehend what was to be done and furthermore resistance to change was more than evident. To their personal experiences the diffusion of the new idea was facing difficulties and moreover not everyone embraced the change. In the Director's personal experience:

“Those supporting this change were a minority, and it is possible that certain political leaders did not adequately support the change”.

This particularly sensitive issue was also implied by the politicians. To their views certain ministers were opposing to the change since they preferred to safeguard flexibility that was restricted when acting under specific programs. Further difficulties during the development of the pilot programs were recognised in the lack of both technical knowledge and know-how regarding the new system.

The executives referred to difficulties in persuading institutions and ministries on the necessity of the new system. Moreover, the lack in creating a culture for the change at the beginning of the project was highlighted. However, this was progressively shaped in the process. The two middle-level executives reported that they experienced



pressures in performing their work on the project, while at the same time, they did not get all the information they would like to have. A middle-level executive adds that:

“My supervisor just told me what to do, but I did not have an overall picture. I gained an understanding after a while, but I believe that other employees did not. Those in charge did not achieve to create a culture that would help the involved personnel to understand the philosophy of the change”.

The origins of the experienced staff resistance can be traced on the cultivated culture within which the Greek central government is used to operate. The OECD report of 2011 pinpoints the existence of very little coordination and cooperation between and within ministries and the absence of collective commitment to an agenda. The report concludes with the remark that the administration operates in silos, “a striking recent example of which is programme budgeting, which was developed without any link to performance management.” (OECD, 2011; p.17).

This ineffectiveness in managing the introduction of a new system goes way beyond the case of program budgeting. Many reform attempts have achieved limited success or even none at all with lack of strategic vision and resistance to change being the cornerstones of these failures (Phillipidou *et al*, 2004; Zampetakis and Moustakis, 2007). In general, the Greek government human resources management has been criticized for lack of strategic vision, absence of workforce planning, short-term focus on reforms and absence of linkages with other areas of public management. The staff is described as “fairly old and rapidly ageing”, indicating thus difficulties of the personnel in embracing changes. Management appears also to block the mobility of younger people inside the Greek public sector (OECD, 2011). In general as implied by OECD the internal resistance to reforms is not only a result of rent-seeking bureaucratic behaviors but goes beyond that³.

Regarding program budgeting, OECD describes the staff of the Greek ministries as being relatively weak and the budget staff as having little experience in program review and evaluation. In order for the program budgeting to be implemented, “all budget personnel will be required to acquire new skills focused on the substance of

³ Philippidou *et al*. (2004) provide an extensive literature review on cases of resistance to change in the Greek public sector.

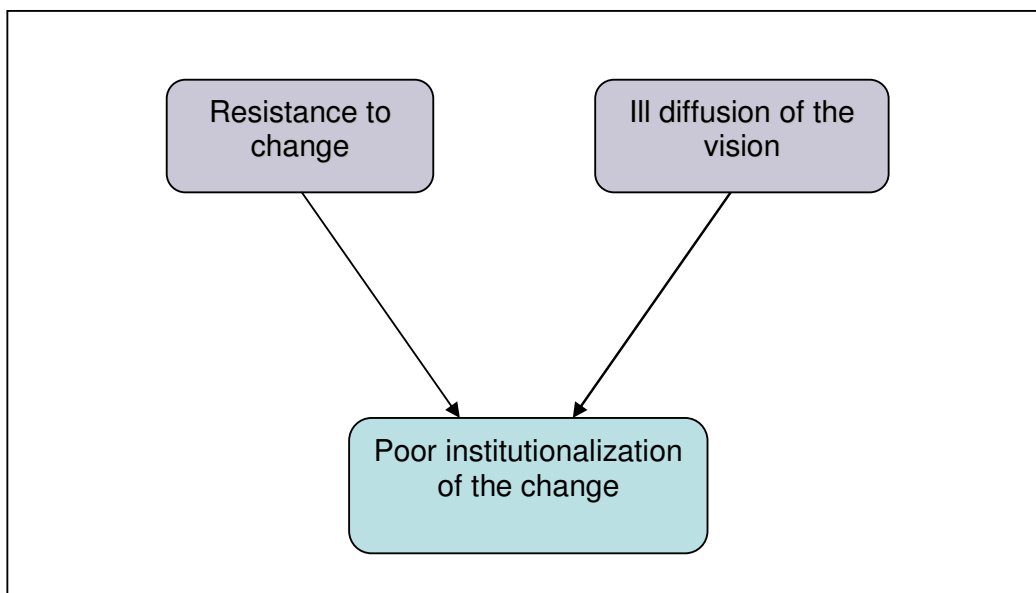


budget formulation and management” (OECD, 2011; p.93). After all, as Schick (2004) mentions, a reason of failure in implementing program budgeting is that budget offices are not prepared to change their own behaviour. Eventually, one of the major challenges performance budgeting initiative was facing was, according to OECD (2011, p.93) “the capacity of ministries to accept responsibility and accountability for their budgets”.

The major difficulties recognised lie in the field of diffusing the new philosophy and the imperative need for change to all people involved in the implementation of the project; from politicians to public managers and personnel. Subsequently, several aspects that according to the organizational change theory would result in a low level of success in the implementation of the change are evident in the Greek case. Eventually, even if the plan had not been abandoned, it is likely that the change would not have been a very successful one.

The difficulties and other issues that hampered the operationalization of the development of the new budgeting system are presented in Figure 10 below.

Figure 10: Institutionalization of the change between 2006 and 2010



6.4.3 Reasons behind the decision to abandon the project

Despite the extensive preparation phase, notwithstanding the practical problems, and without any prior warning, the plan to introduce program budgeting was suddenly abandoned. Although the 2011 Budget was not accompanied by a program budget, in its introductory report the program budgeting full scale implementation date was postponed for 2013 (instead of 2012) and reference to initiatives towards introducing multi-year program budgeting were recognized. It is further interesting the fact that although the last pilot program budget was produced in 2010, an OECD report published in 2011, keeps recommending the central government to “Continue to strengthen the reforms to install programme and performance linked budgeting” (OECD, 2011; p. 18). Eventually, in the Budget report of 2012, one year later, even the terms “program budgeting” or “performance budgeting” were absent.

However, the sudden disappearance of program budgeting is not independent from the financial conditions prevailing in Greece at this period. Since autumn 2009, the Greek budgetary information has started being scrutinized by Eurostat after four successive upwards revisions of the expected deficit to GDP ratio for 2009. After a period of high uncertainty about the capability of Greece to deal on its own with a profound financial crisis during which the public debt reached 127.1% of the GDP and a deficit around 15% of GDP, Greece signed a memorandum with European Commission, European Central Bank and IMF (forming what is known as the ‘Troika’). The memorandum provided for a significant financial aid of 110 billion euros to Greece. A second memorandum followed, increasing the financial aid to 230 billion euros. In return Greek government had undertaken to proceed with significant public administration reforms and public sector budget cuts (ILO, 2011).

An IMF report published in 2010 sheds some light in the case. According to the report (IMF, 2010) during this period it was important for the central government to reprioritize some of the reforms that were taking place. Those reforms included also the efforts made to set up an advanced system of program budgeting. The whole procedure was characterized as being “too far-reaching for Greece at this moment” (IMF, 2010; p.14). Instead, as the report suggests, it would be more important for the



government to focus on the most urgent challenges, such as the strengthening of fiscal monitoring and the improvement of commitment controls. From the discussions with the politicians the view that the Troika requested the cease of the project was offered, implying that this could not have been a decision taken by the Greek government alone. To their views the origins of the abandonment decision can be found in the outbreak of the financial crisis in Greece in 2009. The Director comments that:

“The economic developments and financial crisis got ahead of us. Inside the crisis we had to review the function of the public sector and find out how to overcome the crisis in cooperation with the foreign organizations. Under this framework the application of performance budgeting was considered as being a luxury”.

While, the Former Supervisor agreed that:

“At that time, it was more important to face other priorities. Nevertheless, the project should have still been running, since we will have to do it some time in the future, and then we will have to start all over again.”

Under these circumstances the Director believes that:

“There was no possibility to run the new project and at the same time to face the new challenges deriving from the crisis and the responsibilities against the external organizations. It would have been useful if we had managed to complete the project prior to the crisis, as it could offer valuable information and could help us gain a clearer view of the resources, how we allocate them and what their outcomes are which consequently enhances political decision-making. A chance was lost to achieve performance measurement and to finally evaluate the outcomes of the undertaken actions. Unfortunately the crisis got ahead of us, without us having made the necessary steps in order to be ready to apply performance budgeting as one of the means to face it (the crisis)”.

Under this framework the application of performance budgeting was considered as being a luxury. IMF's view is in accordance with scholars that support that the introduction of a “best practice” such as performance budgeting to a country with a weak budgeting system could hinder several risks and might not always lead to the desired outcomes (Andrews, 2006; Schick, 1998). The advocates of this approach ask



for the establishment of financial management basics (e.g. line-item controls, effective cash accounting and controls, reliable financial reporting and compliance audits) prior to the performance-based reforms (Andrews, 2006). However, from another point of view the introduction of performance-oriented budgeting systems comes mainly as a response to a financial crisis, to pressures towards reducing public expenditure and after government changes (OECD, 2008b).

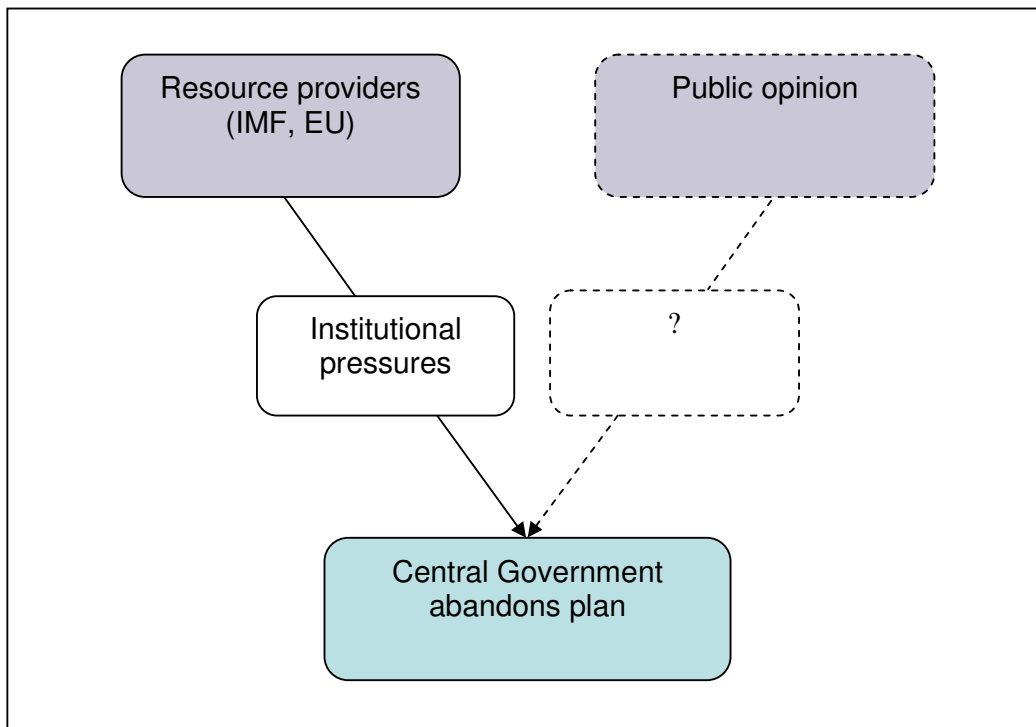
The basic notion gained from the interviews is that program budgeting would have been useful if the project had been completed prior to the outbreak of the crisis, as it could offer valuable information on resources and outcomes. Unfortunately the crisis broke out at a time when the Greek government was not prepared to apply performance budgeting as a shield to face it. As all executives agreed, the application of program budgeting would probably offer significant help to decision makers; a better overall picture of the state budget would provide useful information for rational budget-cutting. Nevertheless, the politicians considered that program budgeting would not have solved the problem, since the benefits of its application would not have been direct. In this sense, they share the opinion that the excessive budget deficit could have been limited, but the crisis not avoided. Although there is no formal information about such a future action, hopes were expressed that sooner or later the project would start again. However, the politicians raised concerns about the results, unless significant changes in institutional and cultural terms occurred first. They kept on highlighting the technical differences between the two systems and characterized the application of program-based budgets in Greece as a very ambitious act.

As deducted from the interviews, the informal discussions and the IMF report the project's cease lies in the re-prioritization of actions that emerged from the financial crisis. Schick (2004) comments that at periods of financial crisis governments have to make hard choices and to scale back commitments. Due to the turmoil in the financial environment, even the external organizations that recommended the change fell back. This attitude could be analysed through the lens of neo-institutional theory. Greek government had again to conform to institutional pressures, albeit of different nature compared to the pressures to adopt program budgeting, in order to achieve external legitimacy, increasing thus its chance to "survive" (Järvinen, 2006; Carpenter and Feroz, 2001). More importantly, due to the timing, Greek government had to abide by



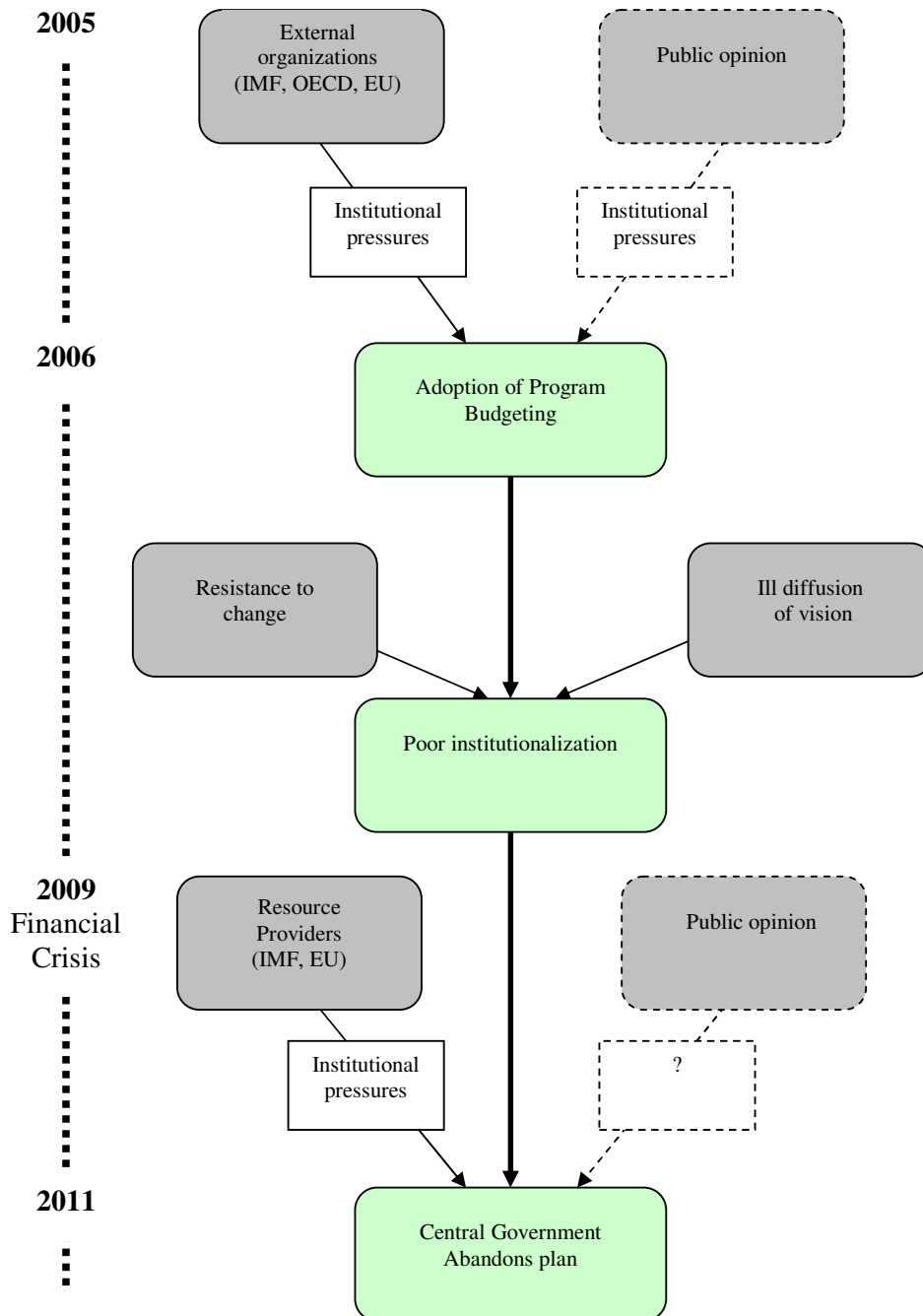
the new pressures deriving from external organizations that from 2009 onwards acted as resource providers to the Greek state (E.C. and IMF). In this case, the resource dependency model would suggest that these organizations have the power to “drive” the Greek government towards specific decisions. Therefore, it is evident that a decision opposite to their former recommendations could not have been taken by the Greek government alone; external partners’ consensus was probably a prerequisite.

Figure 11: Pressure to abandon the reform



The figure in the page that follows (Figure 12) depicts an overall view of the evolution of the program budgeting reform from its conception (year 2005) to its abandoning (year 2011).

Figure 12: The chronicle of the program budgeting introduction and abandonment by the Greek central government



Part II:

The reform of the financial reporting system

*(An assessment of the reform's
outcome)*



7. The reform of the financial reporting system

7.1 Research questions development

During the last decades NPFM serves the quest of making public sector more efficient and effective through the use of financial management techniques. In this realm, central governments internationally try to modernize their accounting systems (Lapsley *et al.*, 2009). These accounting reforms respond to the requests for accountability, transparency and decision-usefulness of the information provided by the public sector raised by numerous users (Kober *et al.*, 2010). The calls for improvement in the quality and usefulness of accounting data have been intensified thanks to the recent financial crisis. The individual reforms in governmental accounting systems might eventually succeed or fail, but the reform processes remain an ongoing phenomenon (van der Hoek, 2005) in the quest of modernizing public sector.

While the level of success in implementing accounting reforms in the public sector undoubtedly varies, the achievement of the objectives of governmental financial reporting could be used as benchmark for assessment purposes. The conceptual frameworks developed by the four most quoted accounting standard setting-bodies (i.e. the GASB in the United States, the Canadian CICA, the Australian AARF and the IPSASB) largely coincide on the objectives of financial reporting; they unanimously agree on the need of financial statements providing useful information to users.

The usefulness of accounting information is, however, subject to the accounting basis on which it is reported since the latter appears to affect decision making (Bergmann, 2012). After analyzing evidence from various countries Pollitt and Bouckaert (2004, p. 71) concluded that a pattern emerges in the use of accounting bases: while in the beginning there is a traditional cash- based accounting system, at the end there is a move to full accrual accounts. On the way to full accrual, two modified accounting



bases constitute interim steps to the transition; the modified cash basis and the modified accrual basis of accounting.

Nevertheless, there is an ongoing debate as to whether accrual accounting is indeed the solution to the public sector accounting riddle (Carlin, 2005). On one hand, there are several supranational agencies such as the International Monetary Fund (IMF), World Bank and Organization of Economics Cooperation and Development (OECD) recommending a move to accrual (Paulsson, 2006; Ellwood and Newberry, 2007). On the other, there are many who support the opposite view; that the application of accrual accounting by governments that are not ready, in terms of culture and technical ability, to understand its implications could lead to the exact opposite results (Hepworth, 2003; Wynne, 2007).

Thus, Greek central government by following the international trend and at the same time by reacting to the turbulent financial environment where the demand for high quality and useful governmental financial information is pressing proceeded in reforming its financial reporting systems. In 2011 the modified cash basis of accounting superseded the cash basis, as an interim step before moving to accrual accounting (Ministry of Finance, 2009). However, the actual value of this transition in terms of information quality and decision-usefulness, apart from the political rhetoric, has not yet been evaluated.

As the scope of the change in the accounting basis was to provide information of higher quality and usefulness to users, the present study aims at assessing whether this goal has been achieved in practice. The main research questions that arise are the following:

RQ2: Has the quality of the accounting information provided by the Greek governmental financial statements improved due to the change of the accounting basis from cash to modified cash?

RQ3: Has the perceived usefulness of the accounting information provided by the Greek governmental financial statements increased due to the change of the accounting basis from cash to modified cash?



RQ4: Do different user groups perceive in a different manner the qualitative characteristics and decision-usefulness of the information provided by the governmental financial statements?

In order to answer the above set of questions a survey instrument, building on methodologies applied to the private and the public sector has been developed. The instrument was applied on the Greek central government financial statements for the years 2010 (i.e. cash based statements, last year of cash basis application) and 2011 (i.e. the first year of modified cash basis application). The instrument aimed at the measurement of accounting information quality and decision-usefulness.

7.2 Methodological approach

In this part of the dissertation an evaluation of the outcome of this transition is performed by assessing the perceived usefulness and quality of accounting information provided by the cash basis of accounting on the one hand and the modified cash basis of accounting on the other. The evaluation is conducted within the wider debate regarding the actual benefits/costs of the transition from cash accounting to an accounting paradigm that lies closer to accrual accounting.

The assessment of the perceived usefulness and quality of accounting information of governmental financial statements is performed through a methodological approach that treats users as the best judges of these attributes. As mentioned by Christiaens (2003), the opinion of governmental accounting users plays a key role in the process of accounting change. The methodology is applied through a web-based questionnaire on the financial statements of the Greek central government for the years 2010 (cash basis) and 2011 (modified cash basis), which is however generic and could therefore be used for the comparison of any different accounting bases when a central government proceeds in accounting reforms⁴. The methodological approach on this topic is extended - diversifying from the relevant studies on usefulness in the public

⁴ The comparison does not conclude on whether any accounting basis is better than the other. It concludes on whether the actual implementation of each one of them for the preparation of a state's financial statements achieves in a better way the standards set by the government and satisfies the demands of the users.



sector (e.g. Brusca Alijarde, 1997; Kober *et al.*, 2010) - by applying an approach that also touches upon private sector literature. This comes in line with the European Commission's (2013) suggestion that governments need to achieve the same high quality of financial reporting as the private sector firms. On a parallel level, the differences on the perceptions of different user groups are analyzed, aiming at providing additional insights on the interrelations between public sector financial reporting and users' needs and interests given that the reported evidence so far is rather vague. Moving a step forward, evidence on differences in perceptions between experts and non-experts on public sector accounting is also provided. The fact that the background of users affects the perceived usefulness of accounting information has significant implications on the format and content of governmental financial statements, especially when it comes to citizens, that should be taken into consideration by policy makers.

7.2.1 Assessing quality

Although a plethora of studies addresses the quality of financial reporting in the private sector, this research area is rather underdeveloped in the public sector. Most of the private sector studies deal with value relevance focusing on stock market prices (e.g. Barth *et al.*, 2001; Nichols and Wahlen, 2004) and earnings management (e.g. Healy and Wahlen, 1999; Van Tendeloo and Vanstraelen, 2005). Other surveys study financial reporting quality through assessing the emphasis put on fair values (Hirst *et al.*, 2004), internal control and risk disclosure information (Beretta and Bozzolan, 2004), auditor's reports (Gaeremynck and Willekens, 2003) or corporate governance (Cohen *et al.*, 2004). The non-profit orientation of the public sector entities, however, results in the majority of methodologies applied to the private sector for assessing the quality of governmental financial statements not being relevant and suitable. Only the surveys that address the qualitative characteristics of financial reporting based on the frameworks developed by FASB and IASB could be applicable (e.g. Jonas and Blanchet, 2000; McDaniel *et al.*, 2002).

The four international standard setting boards for the public sector recognize a set of qualitative characteristics that should be evident in the financial reporting in order for



the latter to be useful⁵ (GASB, 1987; AARF, 1990b; CICA, 2009a; IPSASB, 2013a). The following table (Table 8) presents an overview of the qualitative characteristics of the accounting information recognised by the public and private sector standard setting boards.

Table 8: Qualitative characteristics of accounting information

	Public sector Boards				Private sector Boards
<i>Characteristics</i>	<i>GASB</i>	<i>IPSASB</i>	<i>AARF</i> <i>PSASB</i>	<i>CICA</i> <i>PSAB</i>	<i>CF joint project</i> <i>IASB – FASB</i>
Relevance	√	√	√	√	√
Understandability	√	√	√	√	√
Comparability	√	√	√	√	√
Timeliness	√	√	-	-	√
Consistency	√	-	-	-	-
Reliability	√	-	√	√	-
Faithful representation	-	√	-	-	√
Verifiability	-	√	-	-	√

As it is evident from Table 8, with the exception of some limited differences, the qualitative characteristics for the public sector are almost identical to the ones identified for the private sector. In most cases the differences may be more a matter of terminology and less of substance. For example, although IPSAS identify “reliability” as a qualitative characteristic of accounting information, for reasons of alignment with the IASB, the conceptual framework uses the term “faithful representation” instead of “reliability”. Actually, even the joint project of IASB and FASB prefers the term “faithful representation” instead of “reliability” for reasons of better common understanding (IASB, 2010). At the same time the meaning of “consistency” is close to that of “comparability”. Finally, “verifiability” appears as part of reliability/faithful

⁵ It should be noted that these qualitative characteristics are not applicable only for accrual accounting. They are also recognized as regards to the cash basis. For example, consult the “Cash basis IPSAS” (IPSASB, 2013b).



representation as it helps users assuring that information “faithfully represents the economic and other phenomena that it purports to represent” (IPSASB, 2013a; p.29). It could be concluded therefore that the four public sector accounting frameworks broadly agree on the following quality characteristics of financial information: relevance, understandability, comparability, timeliness and reliability/faithful representation.

Due to the similarities on the qualitative characteristics of accounting information recognized in both sectors the study builds on the research done on the private sector on the quality of financial reporting and adapts it to the public sector. More specifically, in order to assess the accounting information quality McDaniel *et al.*'s (2002) methodology is applied, enriched with insights from the Jonas and Blanchet (2000) proposed framework for assessing financial reporting quality, both developed for the private sector. Based on these two methodologies the overall governmental financial reporting quality in terms of relevance, faithful representation and understandability of the financial statements is assessed. Apart from the overall assessment, a more in depth analysis is conducted by assessing the predictive value, feedback value, faithful representation, understandability, verifiability, neutrality and completeness of five distinct financial items reported in the financial statements (i.e. total assets, total debt, receivables and payables, revenues and expenditures).

7.2.2 Assessing perceived usefulness

In order to assess the perceived usefulness of accounting information, the instrument developed by Larcker and Lessing (1980) is applied. This specific instrument has already been used in studies referring to public sector and in particular to local governments (Gaffney, 1986; Daniels and Daniels, 1991). Larcker and Lessing's (1980) model aims at measuring two aspects of perceived usefulness, namely perceived importance and perceived usability, both in relation to a particular decision context. Perceived importance refers to “the quality that causes a particular information set to acquire relevance to the decision maker”, while perceived usability refers to “the information quality that allows a decision maker to utilize the set as an input for problem solving” (Larcker and Lessing, 1980; p. 123). In the



present study the respondents were called to assess (i.e. to decide on) the financial condition of the Greek central government based on the information disclosed in the financial statements.

7.2.3 Assessment tool

The survey instrument has been operationalized in the form of a web-based questionnaire. The development of the web tool was considered necessary due to the large number of pages comprising the central government's financial statements of each year (i.e 83 pages for 2010 and 64 pages for 2011). The tool aimed at making the presentation of the information more user-friendly and easily accessible. Figure 6 provides a screenshot of the homepage.

Figure 6: Registration to the web-based questionnaire

The screenshot shows the homepage of the 'Ερωτηματολόγιο - Governmental Accounting Evaluation' in a Mozilla Firefox browser. The page is in Greek and features a blue header with the text 'ΠΑΝΕΠΙΣΤΗΜΙΟ ΑΘΗΝΩΝ' and 'Διοίκησης Επιχειρήσεων'. The main content area is titled 'Αξιολόγηση της παρεχόμενης λογιστικής πληροφόρησης από τις οικονομικές καταστάσεις της κυβέρνησης στην Ελλάδα'. There are four green callout boxes with white text pointing to specific parts of the page: 'Scope' points to the title, 'Anonymous registration' points to the 'Αποθήκευση & Έναρξη' button, 'Instructions' points to the 'Οδηγίες για την συμπλήρωση του ερωτηματολογίου' section, and 'Level of accounting knowledge' points to the 'Επίπεδο γνώσης λογιστικής' dropdown menu. The registration form includes fields for 'Ιδιότητα' (Identity), 'Επίπεδο γνώσης λογιστικής' (Level of accounting knowledge), and 'Επίπεδο γνώσης δημοσίου τομέα' (Level of knowledge of the public sector), along with a 'Βαθμολογία' (Rating) dropdown and a 'Βαθμολογία' (Rating) dropdown. The 'Οδηγίες για την συμπλήρωση του ερωτηματολογίου' section lists three steps: 1. Συμπληρώστε τα 'Προσωπικά Στοιχεία' στο δεξί μέρος της οθόνης και πατήστε 'Αποθήκευση & Έναρξη'. 2. Επιστρέψτε στο πάνω μέρος της οθόνης με ποια από τις δύο λογιστικές βάσεις - '2010: Ταμειακή Βάση' ή '2011: Τροποποιημένη Ταμειακή Βάση' - επιθυμείτε να ξεκινήσετε την αξιολόγηση. 3. Βήμα 3.

The characteristics of the questionnaire that succeeded in materializing these qualities could be summarized as follows: (a) there were definitions available for all quality characteristics found on the questionnaire accessible through a help button (Figure7), (b) the questionnaire was constantly available to respondents to complete while browsing through the financial statements as it comprised half of the screen on the

web-based tool. For this reason the respondent was given at first only the balance sheet and income statement of the specific year he/she decided to start with, either 2010 (cash basis) or 2011 (modified cash basis).

Figure 7: Web-questionnaire's features

The screenshot displays a web browser window with the title "Ερωτηματολόγιο - Governmental Accounting Evaluation - Mozilla Firefox". The URL is "195.251.253.37/Governmental_Accounting_Evaluation/". The page header includes the logo of the Athens University of Economics and Business and the text "ΟΙΚΟΝΟΜΙΚΟ ΠΑΝΕΠΙΣΤΗΜΙΟ ΑΘΗΝΩΝ Τμήμα Οργάνωσης και Διοίκησης Επιχειρήσεων". The main content area is titled "Κατάσταση Χρηματοοικονομικής Θέσης έτους 2011" (Financial Statement of Position for the year 2011). It shows a table with columns for "ΕΝΕΡΓΗΤΙΚΟ" (Assets) and "ΚΥΚΛΟΦΟΡΟΥΝ ΕΝΕΡΓΗΤΙΚΟ" (Current Assets). The table includes items like "Εξοπλισμός" (Equipment), "Ακίνητοποίησης υπο απόθεση" (Fixed assets under construction), "Συμμετοχές και Μακροπρόθεσμες Απαιτήσεις" (Participations and long-term receivables), and "Δαπάνες Πολυετούς Απόσβεσης" (Multi-year depreciation expenses). A pop-up window titled "Definition of each term" is overlaid on the table, providing a definition for "Ανατροφοδότηση αξία" (Value of feedback). The definition states: "Ο βαθμός στον οποίο η χρηματοοικονομική πληροφορία παρέχει γνώση σχετικά με παρελθόντικές δραστηριότητες και οικονομικά γεγονότα." (The degree to which financial information provides knowledge regarding past activities and economic events). The pop-up also includes a table with columns 1 through 7 and rows for "Ανατροφοδότηση αξία" and "Υποχρεώσεις" (Liabilities).

ΕΝΕΡΓΗΤΙΚΟ	Σημείωση	Από 1.1. έως 31.12.2011
ΜΗ ΚΥΚΛΟΦΟΡΟΥΝ ΕΝΕΡΓΗΤΙΚΟ		24.944.749.584,90
Εξοπλισμός	20	24.553.029,21
Ακίνητοποίησης υπο απόθεση	21	136.035.319,42
Συμμετοχές και Μακροπρόθεσμες Απαιτήσεις	22	23.584.612.211,23
Δαπάνες Πολυετούς Απόσβεσης	23	1.199.549.025,04
ΚΥΚΛΟΦΟΡΟΥΝ ΕΝΕΡΓΗΤΙΚΟ		55.620.816.963,73
Χρεώστες	24	48.523.630.415,28

Definition of each term

Ανατροφοδότηση αξία: Ο βαθμός στον οποίο η χρηματοοικονομική πληροφορία παρέχει γνώση σχετικά με παρελθόντικές δραστηριότητες και οικονομικά γεγονότα.

Υποχρεώσεις	1	2	3	4	5	6	7
Προβλεπόμενη αξία							
Ανατροφοδότηση αξία							

Each item reported in the financial statements has been developed as a hyperlink. Therefore, by clicking on an item (e.g. Debtors) all the additional information and notes regarding this specific item (e.g. the accounts comprising the Debtors account and explanatory notes for each one of them), in whichever page they were placed on the report, would appear in a pop-up window. In this way the respondent was given the ability to browse through all the additional information he/she needed to review, without having to search among countless pages.

Having all the necessary information available the respondent was asked to complete at his/her convenience and in whatever order fitted best the questions of the survey instrument. There were questions regarding the qualitative characteristics of specific financial items (i.e. total assets, total debt, receivables and payables, revenues and expenditures) and questions regarding the overall level of information quality of the balance sheet and the income statement. Finally, the respondent had to assess the

perceived usefulness of the yearly governmental financial statements. The same procedure had to be repeated twice, one time for each accounting basis. Respondents were not asked to make comparisons between the information disclosed under the two accounting bases; on the contrary they had to rate the examined parameters independently. The following figure (Figure 8) provides a screenshot of the hyperlinks and questionnaire.

Figure 8: Hyperlinks and areas of assessment

Hyperlinks to notes

ΕΝΕΡΓΗΤΙΚΟ	ΜΗ ΚΥΚΛΟΦΟΡΟΥΝ ΕΝΕΡΓΗΤΙΚΟ	24.944.749.584,90
Εξοπλισμός	20	24.553.029,21
Ακίνητοποίησης υπο αδιάθεση	21	136.035.310,42
Συμμετοχές και Μακροπρόθεσμες Απαιτήσεις	22	23.584.612.211,23
Δαπάνες Πολυετούς Απόσβεσης	23	1.199.549.025,04
ΚΥΚΛΟΦΟΡΟΥΝ ΕΝΕΡΓΗΤΙΚΟ		55.620.816.963,73
Χρεώστες	24	48.523.630.415,28

The 3 areas of assessment

- Ποιοτικά χαρακτηριστικά ανα κατηγορία στοιχείων
- Ποιοτικά χαρακτηριστικά σε Συνολικό Επίπεδο
- Αξιολόγηση χρησιμότητας

7.2.4 Questionnaire structure

The questionnaire had three sections. In Section 1 the respondents were asked to rate seven elements comprising the reporting quality characteristics (i.e. predictive value, feedback value, verifiability, faithful representation, completeness, neutrality and understandability) for five (5) distinct financial items found in the balance sheet and the income statement (i.e. total assets, total debt, receivables and payables, revenues and expenditures). Comparability and consistency were not included in the instrument's questionnaire since the Greek financial statements did not provide



information for previous periods⁶. Timeliness has also been excluded since it was considered to be out of the scope of the Greek governmental financial statements as the statements are published with considerable delay⁷. In Section 2 the respondents were asked to rate the balance sheet and the income statement at an overall level, therefore to provide feedback on their perceptions regarding overall financial reporting quality, overall reliability, overall relevance and overall understandability. Finally, in Section 3 respondents had to rate the usefulness of each year's financial statements if they had to express an assessment on the financial condition of the central government. In all cases, the scale used for the measurements was from 1 to 7, where 1 indicates the “minimum” level of quality, or “totally disagree” or “none” and 7 the “maximum” level of quality, “totally agree” or “all”, respectively. The web based tool can be found in the following link: http://195.251.253.37/Governmental_Accounting_Evaluation/ and it is in Greek.

7.3 Characteristics of the Greek case

The Greek central government's decision to move away from the cash basis of accounting and adopt the modified cash basis of accounting came as a response to recommendations from IMF and OECD (IMF, 2006; Ministry of Finance, 2009b). According to literature, the modified cash basis is considered to provide increased information compared to the cash basis (Hiltebeitel, 1992; Parry, 2010) as well as key information that is required for fiscal management (Parry, 2010). The Greek Ministry of Finance identified the necessity of the change on the basis of the weaknesses evident in the existing cash accounting system. The cash system had several shortcomings including the lack of information quality mainly due to the non recording of a wide range of accounting data as assets or liabilities, the difficulties faced by users when trying to understand the provided information and the lack of reliable information regarding government's operations costs (Ministry of Finance, 2009b; p.104). The above limitations advocate that cash accounting is insufficient for decision-making purposes (Bergmann, 2012).

⁶ Under the modified cash basis comparative information would be presented after the first year of implementation (i.e. the 2012 statements include comparative information of 2011).

⁷ The modified cash basis financial statements of 2011 were published in October 2012, while the cash-based statements of 2010 in September 2011.



Within this context, the first step towards the ultimate goal of accrual accounting adoption was to improve the existing cash basis system. The Greek government declared that the objectives of the accounting paradigm change were the provision of more useful information, the improvement of transparency as well as the strengthening of the accounting information quality (Ministry of Finance, 2009b; p.108).

Since modified accounting systems are not formal systems, each country operationalizes them according to its own needs. In the Greek case, modified cash basis borrows several characteristics from full accrual while it adopts several others stemming from cash. The rules governing the modified cash basis are found in P.D. 15/2011. In general, the new accounting basis in Greece presents the picture a hybrid that has been built by getting bits and pieces from different accounting standards, with principles of cash and accrual accounting mingled together, with clear influences from international accounting standards (mostly IFRS and to a lesser extent IPSAS). Among other particularities, the Greek modified cash basis treats acquisitions of fixed assets as assets and not as expenses, while at the same time it does not allow for fixed assets' depreciation (depreciation is only executed for "expenses of perennial depreciation"). This provision holds, however, only for newly acquired fixed assets because there is no registration and valuation of fixed assets that were already in the portfolio of Greek government property before 2011 (year of modified cash implementation). Due to the non presentation of public property values on 2011's balance sheet, equity has a negative value. Under a quite different regime, the financial statements reported until 2010 following the cash basis of accounting used a different format from that of the budget while at the same time they contained additional information. The accounts used in the cash-based balance sheet, although categorized into accounts of assets and liabilities, did not coincide with the strict accounting dimension of these accounting concepts (Ministry of Finance, 2009b). Table 9 presents the basic characteristics and differences in the format and context of the two accounting bases.



Table 9: Characteristics of the Greek financial statements under the cash and the modified cash basis

	2010 – Cash Basis	2011 – Modified Cash Basis
Financial statements	Balance sheet Income statement (<i>in the form of a profit and loss account</i>) Accompanying notes	Statement of financial position Statement of financial performance Statement of changes in net assets/equity Statement of cash flows Accompanying notes
Assets	Cash Accounts that fall in the general concepts of: Receivables Investments	Non-current assets: Equipment, Fixed assets in course of construction. Investments, Expenses of perennial depreciation <i>Note:</i> No information on public property Current assets: Debtors, Doubtful debtors, Prepayments Cash and cash equivalents
Liabilities	Public debt Accounts that fall in the general concepts of: Payables Long-term liabilities	Public debt Other Long-term loans Short-term liabilities: Creditors, Provisions
Revenues	When Cash is received	Revenues are recognized independently of the receipt period. Revenues are accounted for when certain and of fixed amount.
Expenditures	When Cash is paid	The expenses are recognized independently of the payment period provided that they fall into the following categories: Expenses other than those made for the purchase of fixed assets, for investments and interest payments Expenses of continuous nature (e.g. lease rentals) Purchase of inventories Accrued expenses for which provisions are conducted at the end of the year (e.g. public debt interest).



7.4 Results

7.4.1 The sample

The users sample employed to evaluate the quality and usefulness of the financial statements included users from all main user categories recognized by public sector accounting standards setting bodies, i.e. citizens⁸, investors and creditors, public sector executives and oversight bodies' executives. All respondents were expected to have accounting knowledge and to be familiar with financial reporting; they could be therefore characterized as having the necessary skills to evaluate (Milne and Chan, 1999).

For the purposes of the study, all Universities in Greece having accounting departments, six auditing firms (including the Big Four), four large accounting offices, five economic newspapers, six big banks, the General Accounting Office (GAO), accounting departments of various Ministries and four oversight bodies⁹ have been approached. In total 114 responses were received. However, 19 of them were not complete, and were therefore excluded from the analysis¹⁰. Eventually, the governmental accounting statements under both accounting bases have been assessed by 95 respondents. The distribution of the responses is presented in Table 10.

⁸ Citizens correspond to the so-called “interested” or “informed” citizens, terms used in literature to describe citizens groups with interest in governmental financial reporting (Gaffney, 1986; Daniels and Daniels, 1991).

⁹ Ministries: Ministry of Finance, Ministry of Interior, Ministry of Defence and Ministry of Education; Oversight bodies: Bank of Greece, Hellenic Competition Commission, Hellenic Capital Market Commission and Hellenic Accounting and Auditing Standards Oversight Board.

¹⁰ As the questionnaire was completed anonymously, with respondents indicating their business title, going back to ask them filling in the missing information was not possible.



Table 10: Distribution of responses

Status	Sub totals	Total
Citizens		51
<i>Professionals (certified auditors, business consultants and accountants)</i>	34	
<i>Academics, researchers and press journalists</i>	17	
Public sector executives		18
Investors and creditors		14
Oversight bodies		12

All respondents had sufficient knowledge or expertise in accounting, but only less than one third claimed an expertise in public sector accounting (Table 11).

Table 11: Level of accounting knowledge

Level of knowledge	Accounting N=95		Public sector accounting N=95	
Minimum	-	-	32	33.7%
Sufficient	50	52.6%	40	42.1%
Expert	45	47.4%	23	24.2%

The respondents were at first asked to rate specific elements of financial reporting quality focusing on specific financial items of the financial statements. They were expected to answer these questions after having carefully analyzed the statements. They were then asked to rate the overall information quality on the balance sheet and the income statement. However, for presentation reasons results are presented in the reverse order. More specifically, first the presentation of the results at the overall level is provided, followed by the presentation of the results on the specific financial items.



7.4.2 Quality of the financial statements at the overall level

The respondents were asked to rate the overall financial reporting quality, overall faithful representation, overall relevance and overall understandability of the balance sheet and income statement for the two periods. The ratings are presented in Table 12.

Table 12: Overall quality level

	Balance sheet		Income Statement	
	2010 Cash basis	2011 Modified cash basis	2010 Cash basis	2011 Modified cash basis
	<i>Mean value</i>	<i>Mean value</i>	<i>Mean value</i>	<i>Mean value</i>
Overall Financial reporting Quality	3.05	4.86	3.07	4.93
Overall Faithful Representation	3.08	4.74	2.98	4.77
Overall Relevance	2.98	4.76	3.04	4.80
Overall Understandability	3.17	5.07	3.21	5.09

1-7 scale, where 1: minimum and 7 maximum
N = 95

From the results it is evident that both statements under the cash basis received poor quality scores as all ratings are below the average (i.e average = 4). On the other hand, the two statements prepared under the modified cash basis receive scores above the average indicating the provision of higher quality accounting information. However, the increase could be characterized as only of moderate magnitude. By conducting a paired sample t-test between the two different periods, all differences proved to be statistically significant at the 1% significance level. Therefore, there is a statistically significant increase in the quality of financial statements due to the change in the accounting basis. To test the level to which the three characteristics (i.e. faithful representation, relevance and understandability) contribute to the overall quality level of the new accounting basis (2011) the following regression was used applicable to both the balance sheet and the income statement:



$$\text{Overall financial reporting quality} = \alpha + \beta_1 * \text{Overall faithful representation} + \beta_2 * \text{Overall relevance} + \beta_3 * \text{Overall understandability} + e$$

The results shown in Table 13 indicate that relevance and understandability have a statistically significant, at 1% significance level, and positive effect on the overall quality of the information provided by the new financial statements. On the other hand, faithful representation has a non significant positive effect on the overall quality of both balance sheet and income statement. This may imply that users consider that faithful representation is a “sine qua non” characteristic of the financial statements and as such it does not influence their overall quality assessments of governmental financial statements. Another interpretation might be that faithful representation is a subjective characteristic that is influenced by the perceptions of different users on aspects that are beyond their knowledge spectrum like completeness and neutrality of information.

Table 13: Regression of qualitative characteristics on overall quality level for 2011

	Overall quality Balance sheet			Overall quality Income statement		
	value	p-value	VIF	value	p-value	VIF
Constant	0.872	0.003		0.819	0.006	
Faithful representation Balance sheet Coefficient	0.070	0.367	2.864			
Relevance Balance sheet Coefficient	0.419	0.000	3.287			
Understandability Balance sheet Coefficient	0.329	0.000	1.983			
Faithful representation Income statement Coefficient				0.100	0.270	3.182
Relevance Income statement Coefficient				0.435	0.000	3.841
Understandability Income statement Coefficient				0.303	0.001	2.540
	N= 95 Adj. R square = 0.694			N= 95 Adj. R square = 0.694		
	F = 71.923, p-value = 0.000			F = 72.190, p-value = 0.000		

Model: *Overall financial reporting quality* = $\alpha + \beta_1 * \text{Overall faithful representation} + \beta_2 * \text{Overall relevance} + \beta_3 * \text{Overall understandability} + e$



7.4.3 Elements of governmental financial reporting quality

The conduction of an in-depth analysis on the qualitative characteristics of the financial statements was based on a separate set of questions. The results are presented in Table 14.

Table 14: Elements of financial reporting quality (mean values)

	Total assets		Total debt		Receivables and Payables		Expenditures		Revenues	
	2010 Cash	2011 Modified Cash	2010 Cash	2011 Modified Cash	2010 Cash	2011 Modified Cash	2010 Cash	2011 Modified Cash	2010 Cash	2011 Modified Cash
Predictive value	3.00	4.37	2.92	4.43	2.91	4.35	2.97	4.48	2.93	4.41
Feedback value	3.17	4.57	3.16	4.66	3.07	4.58	3.09	4.56	3.11	4.64
Verifiability	3.36	4.74	3.29	4.86	3.33	4.73	3.32	4.83	3.38	4.84
Faithful representation	3.45	4.71	3.37	4.83	3.35	4.68	3.38	4.83	3.36	4.87
Completeness	3.19	4.87	3.17	4.93	3.21	4.74	3.16	4.78	3.20	4.95
Neutrality	3.53	4.67	3.44	4.79	3.28	4.64	3.44	4.71	3.48	4.73
Understandability	3.40	5.18	3.37	5.23	3.39	5.05	3.57	5.14	3.60	5.25

*The scale is 1-7 scale, where 1: minimum and 7: maximum
N=95*

Again, the scores of all elements of financial reporting quality for each of the financial items analysed under the cash basis received low ratings; they received scores well below average. On the contrary, under the modified cash basis, the assessment revealed scores above the average. The differences between the scores of the two periods further proved to be statistically significant at the 1% level by conducting a paired-sample t-test. From a closer look at 2011's statements however it is evident that although the level of understandability has noticeably increased, the predictive and feedback value of the information lie in low scores, indicating a limited



level of success of the new system in meeting the improvement expectations under these two criteria.

7.4.4 Assessment of decision-usefulness

In order to evaluate the perceived usefulness of financial reporting under the two accounting bases the respondents were asked to use the financial information provided by the statements to assess the financial condition of the central government. For this purpose they answered two sets of questions. The first set of questions (Table 15) measured perceived importance, while the second set (Table 16) measured perceived usability. According to Larcker and Lessig (1980, p. 123) each one of these two dimensions “bears a logical relationship to perceived usefulness”. The average of the responses to each set of questions was used to compose the index of perceived importance and the index of perceived usability respectively.

Table 15: Perceived importance

	2010 Cash Basis	2011 Modified Cash Basis
	<i>Mean value</i>	<i>Mean value</i>
It would be extremely difficult to assess the financial condition without at least the information presented.	4.82	4.99
The information presented is sufficient to assess the financial condition	2.81	4.48
What portion of the information presented is essential for or instrumental in assessing the financial condition?*	3.96	4.95
<i>Index of perceived importance</i>	<i>3.86</i>	<i>4.81</i>

The scale is 1: Totally disagree – 4: Neutral – 7: Totally agree, except for * where 1: None – 4: About half – 7: All
N= 95



The scores of the indices reveal that the perceived importance of the accounting information provided by the modified cash basis (mean value: 4.81) has increased compared to the relevant metric produced by the cash basis of accounting (mean value: 3.86).

Table 16: Perceived usability

	2010 Cash Basis	2011 Modified Cash Basis
	<i>Mean value</i>	<i>Mean value</i>
Extremely complex recalculations or adjustments are necessary in order to use the information presented to assess the financial condition* (<i>reverse coded</i>)	3.12	4.18
What portion of the information presented is in the correct form for the assessment of the financial condition?	3.09	4.88
What portion of the information presented is interpretable without any recalculation or adjustment for the assessment of the financial condition?	2.98	4.67
<i>Index of perceived usability</i>	<i>3.06</i>	<i>4.57</i>

The scale is 1: None – 4: About half – 7: All, except for * where 1: Totally disagree – 4: Neutral – 7: Totally agree

N=95

The results also indicate an increase of perceived usability due to the change of the accounting basis. As perceived importance and perceived usability constitute dimensions of perceived usefulness, accounting information prepared under the modified cash basis receives higher scores. However, these, albeit higher scores, are just above average; therefore the increase of perceived usefulness although evident does not indicate a fundamental change.

It is important to note, that the only case where the two accounting systems receive similar scores refers to the just-above-average necessity of the provided information for assessing government's financial condition. Therefore, accounting information disclosed is not enough for sufficiently serving corresponding purposes. By conducting a paired sample t-test between the two different periods, all differences



apart from the above-mentioned one proved to be statistically significant at the 1% significance level.

7.4.5 Users' perceptions

The users of accounting information constitute a research topic in public sector accounting literature that has attracted considerable interest (e.g. Coy *et al.*, 1997; Mack and Ryan, 2007). According to Skaerbaek (2005) the production and publication of financial reporting is resource consuming, therefore it is important to know the stakeholders that actually make use of it. It could be added on that, that it might be of equal importance to know the perceptions of the users on the usefulness and the quality of these reports as well. Different user groups are considered as having different information needs. They might also have a different focus on their evaluation. The following Table (Table 17) presents the assessments made by each of the four user groups regarding the balance sheet and the income statement at the overall level.

Table 17: Mean values of Overall quality level

Balance Sheet	Overall Financial reporting Quality		Overall Faithful Representation		Overall Relevance		Overall Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	3.10	4.65	3.02	4.43	3.00	4.55	3.02	4.82
Public sector (n=18)	3.06	5.11	3.44	5.00	3.17	4.94	3.50	5.50
Investors (n=14)	2.71	5.00	2.50	4.93	2.64	4.79	2.86	5.14
Oversight (n=12)	3.25	5.25	3.50	5.42	3.00	5.33	3.67	5.42
Income Statement	Overall Financial reporting Quality		Overall Faithful Representation		Overall Relevance		Overall Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	3.08	4.71	2.96	4.47	3.04	4.63	3.06	4.80
Public sector (n=18)	3.22	5.17	3.28	5.17	3.28	4.94	3.56	5.50
Investors (n=14)	2.71	5.00	2.36	4.79	2.64	4.93	2.93	5.21
Oversight (n=12)	3.25	5.42	3.33	5.42	3.17	5.17	3.67	5.58

The scale is 1-7 scale, where 1: minimum and 7: maximum

Statistically significant differences among groups indicated with bold type letters



By analyzing each group separately, a significant increase on the quality of the financial information due to the accounting change is evident based on their perceptions (paired sample t-tests indicate statistical significance at 1% level of significance for each group). In all cases citizens rate with lower rates the qualitative characteristics of the new financial statements compared to all other users. To better understand the differences in the assessment scores among the four groups one-way ANOVA test for both years was conducted. While the test did not reveal any statistically significant differences among the views of different groups for cash basis statements, the results present evidence of the existence of statistically significant differences at 5% in terms of faithful representation of the balance sheet (sig. = 0.042), as well as the faithful representation and understandability of the income statement (sig. = 0.026 and 0.031 respectively) between the groups of citizens and oversight bodies' executives for the modified cash statements. Non-parametric tests (Kruskal Wallis test) confirm these results. It appears that citizens trust less and understand less the information in financial statements compared to oversight bodies' executives.

Citizens are the group which rates with the lowest scores the majority of the quality characteristics, but for the predictive value, of all examined financial items in 2011 financial statements (a detailed presentation of the results can be found in Appendix 2, Table 21). The highest rates, in general, are placed by public sector and oversight bodies' executives. Moreover, the lowest scores of all groups refer to the predictive and feedback value of the financial information, both of which fall within the wider "relevance" concept (results not tabulated).

Moreover, citizens and investors perceive the new financial statements as providing information of lower importance for decision making compared to the other two groups (Table 18; a more detailed presentation of the differences on the perceptions of the four user groups is provided in Appendix 2, Table 22). When it comes to usability, all groups give low rates. The difference on perceived importance was proved to be of statistical significance at the 5% level (One-way ANOVA test; sig. = 0.032) between the groups of citizens and public sector executives, citizens and oversight executives, investors and public sector executives, as well as investors and



oversight executives. Non-parametric Kruskal Wallis test provides evidence of the same statistically significant differences.

Table 18: Mean values of Perceived importance and usability

	Index of perceived importance		Index of perceived usability	
	2010	2011	2010	2011
Citizens (n=51)	3.63	4.66	3.29	4.46
Public sector (n=18)	4.07	5.19	2.98	4.70
Investors (n=14)	4.00	4.48	2.60	4.79
Oversight (n=12)	4.36	5.25	2.78	4.64

The scale is 1: Minimum – 4: Average– 7: Maximum

The differences in citizens and investors' perceptions show that these groups require more or differently presented information. In every case, statistically significant differences are revealed among groups that actually use the information (public sector executives, oversight bodies) and groups that do not use it (citizens, investors) as part of their routine.

7.4.6 Experts versus non-experts in public sector accounting

International literature provides evidence that judgement and decision-making of experts differs from that of non-experts (Shanteau, 1995; McDaniel *et al.*, 2002), mainly due to knowledge differences (Shanteau, 1992). The different experiences between those individuals that actually use, or are familiar with, governmental financial information and those that do not, might also affect the evaluation process. By comparing the responses (Mann-Whitney U-test) given by those who claimed an expertise in public sector accounting (n=23) and those who stated a minimum knowledge level (n=32), several statistically significant differences on the evaluation were revealed. These differences are mainly evident in year 2011 (Table 19).



Table 19: Differences on Overall reporting quality and on Elements of financial reporting quality between experts and non-experts (Mann Whitney U-test)

Balance sheet	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Overall financial reporting quality	5.09	4.62	0.082
Overall faithful representation	5.22	4.16	0.002
Overall relevance	5.17	4.28	0.003
Overall understandability	5.39	4.72	0.022
Income statement	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Overall financial reporting quality	5.26	4.59	0.032
Overall faithful representation	5.26	4.19	0.002
Overall relevance	5.22	4.28	0.003
Overall understandability	5.43	4.78	0.043
Total assets	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Predictive value	4.48	4.25	0.382
Feedback	4.91	4.31	0.028
Verifiability	5.26	4.31	0.011
Faithful representation	5.39	3.97	0.000
Completeness	5.43	4.31	0.000
Neutrality	4.83	4.22	0.024
Understandability	5.35	4.81	0.038
Total debt	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Predictive value	4.43	4.34	0.744
Feedback	4.91	4.50	0.083
Verifiability	5.43	4.44	0.000
Faithful representation	5.52	4.03	0.000
Completeness	5.57	4.31	0.000
Neutrality	4.83	4.50	0.153
Understandability	5.52	4.88	0.013



Receivables and payables	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Predictive value	4.43	4.22	0.523
Feedback	4.87	4.44	0.090
Verifiability	5.35	4.34	0.000
Faithful representation	5.35	4.06	0.000
Completeness	5.22	4.22	0.000
Neutrality	4.78	4.28	0.050
Understandability	5.30	4.78	0.047
Expenditures	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Predictive value	4.48	4.34	0.656
Feedback	4.91	4.31	0.068
Verifiability	5.43	4.25	0.001
Faithful representation	5.52	4.00	0.000
Completeness	5.35	4.19	0.001
Neutrality	4.74	4.31	0.113
Understandability	5.30	4.78	0.098
Revenues	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Predictive value	4.35	4.28	0.783
Feedback	4.91	4.47	0.155
Verifiability	5.30	4.38	0.002
Faithful representation	5.43	4.03	0.000
Completeness	5.57	4.31	0.000
Neutrality	4.91	4.25	0.029
Understandability	5.61	4.88	0.011

The scale is 1-7 scale, where 1: minimum and 7: maximum

Statistically significant differences among groups indicated with bold type letters

The results also indicate statistically significant differences on the perceptions of the two groups, as regards the decision usability of both sets of financial statements (Table 20). However, it is not only the statistical significance of the difference that



matters; it is also its sign that is interesting. In 2010 the experts-group rated the usability of the financial statements less than the non-experts group. In 2011, under the modified cash basis, the experts-group rates the usability of the financial statements more than the non-experts group. This finding provides corroborative evidence that financial statements under the cash basis of accounting had serious shortcomings in terms of usability that were somehow overcome thanks to the transition to the new accounting system (a more detailed analysis of the differences of experts and non-experts perceptions is provided in Appendix 2, Table 23).

Table 20: Differences on Perceived importance and usability between experts and non-experts (Mann Whitney U-test)

2010	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Perceived importance	4.12	3.54	0.102
Perceived usability	2.67	3.30	0.003
2011	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Perceived importance	4.94	4.59	0.358
Perceived usability	4.81	4.34	0.018

The scale is 1: Minimum – 4: Average – 7

The consistency of assessments for 2010 can be explained by the fact that although cash-based financial statements are supposed to be presented in a simple and plain manner, the Greek case appears to be the exception to the rule. From informal discussions with GAO executives during the questionnaire distribution process, even public sector executives who actually use this information consider the understanding of several accounts incorporated in the cash based financial statements rather complex. On the other hand, the differences between experts and non-experts on the evaluation of the 2011 financial statements can not be sufficiently explained as based on the different perspectives of individuals actually using the accounting information



and those who are just asked to evaluate it¹¹. Nevertheless, the experts sub-sample corresponds to public sector executives and oversight bodies' executives, the majority of which use governmental accounting statements for their everyday job and may find them more convenient. The analysis provides corroborative evidence that non-experts still face many difficulties and are still unconvinced to perceive governmental accounting information as useful for them. This finding highlights that the way accounting information is presented to user groups with limited knowledge of public sector accounting is less than optimal. Therefore there may be a need for a different way of presenting governmental accounting information to those who want to be informed but are not skilled enough (e.g. citizens). This issue is revisited in the "Implications" and "Further research" sections.

¹¹ A generalization of this comparison by conducting Mann Whitney U-test between public sector executives and private sector executives (i.e. certified auditors and accountants) revealed only a few statistically significant differences for 2011.



Part III:

**The reform of the financial
reporting system**

*(An analysis of the decision-making
process)*



8. Developing process and decision-making assessment

As already discussed, the changes of financial reporting systems emphasising on the application of accrual based accounting and even towards the adoption of international accounting standards (e.g. IPSAS) constitute typical forms of NPFM reforms (Guthrie *et al.*, 1999; Lapsley *et al.*, 2009). The reasons leading to such reforms could be traced in the need for improved accountability, transparency and decision-usefulness of the information provided by the public sector requested by numerous different users (Kober *et al.*, 2010). These users are not only members of the parliament and constituents of the state, but also other interested parties such as investors and various resource providers. Especially in periods of severe global recessions, states have to abide by recommendations deriving from external resource providers (Carpenter and Feroz, 2001). Therefore, resource dependency plays also a significant role in the accounting reforms in the public sector.

Independently, however, of the aforementioned pressures, and even of the genuine will of states to proceed in drastic reforms, the success of these reforms is not always guaranteed. According to Hood and Peters (2004) it has been noticed that countries in a greater need of reform (i.e. those with the poorest performing administrative systems) are actually the slowest to reform. Countries like Italy and Greece are given as examples of remarkably slow reaction to New Public Management (NPM) reforms (Hood and Peters, 2004). In general, states in the Napoleonic tradition such as France, Italy and Greece seem to respond slowly or even resist to the adoption of NPM inspired reforms (Spanou, 2008). The success of the reforms may be further hindered when the institutional pressures to reform exercised by external organizations and the public are not embraced by the local reform-agents. Therefore, a common vision shared among all participating actors is a prerequisite for increasing the chances for a successful reform.

Within this context, the Greek central government has proceeded in the reform of its governmental financial reporting system. The Greek state assigned this task to a



commission of experts which brought together public sector executives and external consultants. The output of the commission was a set of new accounting standards under the modified-cash basis of accounting which superseded the until-then applied cash based standards. The set of new accounting standards took the form of a Presidential Decree which was passed in 2011 (P.D. 15/2011). This move intended to improve the quality and usefulness of the provided accounting information, which had been questioned by supranational organizations such as the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD), the European Commission (EC), as well as by internal users (voters and public managers) (IMF, 2006; OECD, 2008; Ministry of Finance, 2009). Furthermore, this reform was launched as an interim step before the move to full accrual accounting (Ministry of Finance, 2009b).

8.1 Research questions development

From the analysis that preceded in the previous part, it has been shown that although the new accounting system introduced various improvements, it is viewed as being rather suboptimal. Although, the goal of the central government is to abide by best practices and adopt full accrual, the choice was to move first to a modified cash basis, which incorporates various different accounting characteristics. The third part of the dissertation aims at the examination of the standard setting process at the central government level in a country that operates under special circumstances of financial strain. As Greece has been deeply injured by a severe financial crisis that has been evident since 2009, and resulted in the country's entering in 2010 the financial support mechanism of the Troika, the fund providers, via the technical memoranda emphasize and demand the modernization of the Greek public sector, indicating several structural reforms that touch upon financial management and governmental accounting systems. Within this framework, an analysis of the decision-making process during the development of the new set of accounting standards by unraveling the role of different actors is conducted. The research questions the study tries to answer are the following:



RQ 5: Which was the role played by each of the involved-to-the-reform actors (politicians, citizens, the Troika, bureaucrats)?

RQ 6: Which factors led to the final decision-making and the development of the accounting standards to the present form?

RQ 7: Did the final outcome of the reform satisfy the initially-set targets of the reform?

Greece constitutes a very interesting setting to study accounting standards decision making in the central government level mainly for two reasons: Firstly, the country is under a vortex of financial and administrative reforms imposed by resource providers that touch upon several budgeting and accounting related dimensions. Literature provides evidence of the vital role that supranational organizations, such as the IMF and the World Bank, play in initiating and monitoring the achieved progress of such reforms (e.g. Mimba *et al.*, 2007; Timoshenko and Adhikari, 2009). Secondly, Greek public sector is characterized by a deeply cultivated bureaucracy (Sotirakou and Zeppou, 2005). This latter characteristic offers another interesting dimension to the research; how decisions are made –and who eventually makes them– in a country where strong bureaucracy prevails.

8.2 Theoretical framework

Reforms in the public sector financial reporting systems come to satisfy the requests for the provision of reliable, transparent and qualitative information that would, in turn, enhance accountability and decision-making. Due to the nature, however, of these reforms, the involved actors play the most significant role to the end results of the change attempts. By reviewing the relevant literature Cheng (1992) concluded that choices in accounting policy are more than a function of economic or political factors; they rather come as a result of “legislative/governor/bureaucratic decisions shaped by voter preferences, interest-group pressures, party competition, institutional forces, external demands and constraints, and the financial condition of the states” (Cheng, 1992; p. 5). In other words politicians, voters, assigned preparers of new accounting standards, and even resource providers in cases of resource dependency situations,



play a role in the process of accounting change. In order to better understand the interrelations between these actors, their needs and incentives, the public choice theory (PCT) provides useful insights.

8.2.1 The Public Choice Theory

The idea behind PCT is that self-interest dominates human behaviour. This theoretical stance provides a reference that could help us explain how “voters, politicians, bureaucrats and lobbyists would behave in different institutional settings with different incentive rules” (Bale and Dale, 1998; p. 118). The positive public choice literature deals with decision-making in the government and society level regarding the role of government, and it is “concerned with how information can affect the production and distribution of government output” (Chan and Rubin, 1987; p. 3). Positive PCT points out that government output is determined by the demands of the public and the incentives of the preparers (Chan and Rubin, 1987). Accounting disclosures are also affected by the various actors’ incentives (Giroux, 1989). However, although Zimmerman (1977) argues that preparers of information have motives that could lead them into providing misleading information or not disclosing information, at the same time, the public (voters) are perceived as being rationally ignorant and receivers of fiscal illusion (Chan and Rubin, 1987). In such an environment, the basic concepts of a democracy could be easily undermined (Bale and Dale, 1998)¹².

Under PCT politicians and bureaucrats pursue a form of self-interest, which presupposes a “discretionary margin in decision-making” which causes an “asymmetrical distribution of information” (Lüder, 1992; p.100). According to Alesina and Tabellini (2007) politicians’ incentives derive mostly from their goal to get re-elected, while bureaucrats’ incentives derive mostly from career concerns. Thus, during a reform process politicians and bureaucrats are more probable to invest in visible or short-term public-related targets rather than invisible or long-term ones, even in cases where the latter could give them a higher payoff (Garri, 2010). The need to provide short-term results is independent of the actual value of the results per se, as

¹² Plato proposed some 2.500 years ago, that “The price good men pay for indifference to public affairs is to be ruled by evil men”.



long as these results would help politicians and bureaucrats to retain or strengthen their position. The combination of short-termism with information asymmetry could lead to negative results in the long- term. This is especially true when it comes to reforms of specialized projects, such as the governmental financial reporting system, which the vast majority of citizens is not able to monitor.

During the last decades, external management consultants appear as also having a key role in the reform of the public sector (Saint-Martin, 1998; Christensen, 2005). In general, their role has been to help states turn their public sector “from perceived bureaucracy to perceived enterprise” (Corcoran and McLean, 1998; p. 37). Although external management consultants have been characterized as epistemic communities and processors of knowledge and expertise whose influence is visible, explicit and open, rather than shadowy (Christensen, 2005), Lapsley and Oldfield (2001) argue that the benefits of using external consultants are not quite clear. Moreover, in cases of cultivated bureaucracy, conflicts between bureaucrats and assigned consultants are expected to happen.

Moreover, resource providers, such as international lenders and credit markets, could also affect government’s policy choices (Meyer and Scott, 1982). According to Carpenter and Feroz (2001) resource providers in periods of fiscal stress could even dictate the application of specific institutional rules, such as accounting standards. Special reference should be given to the characteristics of the Troika, and its difference from typical external resource providers. The case of the Troika is unique from many aspects, as it sets strict reform goals, it has access to internal information and its existence is temporal.

8.2.2 The “Garbage Can” Model

Despite the self-interest and the incentives that could determine the successful implementation of a reform, the nature of decision making in the public sector plays a very crucial role as well. In such an environment decision making is often characterized by limited economic rationality, anarchy instead of order and



experimentation and confusion instead of planned actions (Cooper *et al.*, 1981). In circumstances like that, the public organizations are most probable to act as “organized anarchies” characterized by the absence of either shared goals (‘problematic preferences’), shared and understood processes (‘unclear technology’) or a constant decision-making group (‘fluid participation’). These cases where the cycle of choices made by the organization is not functional in a rational manner, give rise to the adoption of a “garbage can” decision-making mode (March and Olsen, 1976). Through the lens of the “garbage can” model, the choice opportunity within such organizations can be viewed “as a garbage can into which various kinds of problems and solutions are dumped by participants as they generate” (Cohen *et al.*, 1972; p. 2). Through the “garbage can” view, the decision appears as an outcome or interpretation of several relatively independent streams within the organization: problems, solutions, participants and choice opportunities all mingled together (Cohen *et al.*, 1972). More specifically, ‘problems’ refer to the concerns of people inside or outside of the organization (or the decision-making group), which require attention. ‘Solutions’ stand for the products that are produced by participants in the decision-making process, while, ‘participants’ are determined by their level of availability due to their other obligations, so they basically “come and go”. Finally, ‘choice opportunities’ refer to occasions where the organization is expected to produce a behaviour that can be called a decision (Cohen *et al.*, 1972; p. 3).

Eventually, the decision made will combine the appropriate proportions of problems, solutions and decision makers (participants): “Who shows up influences what arguments are made about how a decision would represent a solution to a problem under discussion” (Barzelay and Gallego, 2010; p. 215). The resolution of the problem could be also made by overlooking it or by deliberately trying to escape from it (Hofstede, 1981). Nevertheless, as Cohen *et al.* (1972) conclude the “garbage can” process may offer a resolution to the problem, but in most of the cases this resolution is not a successful one. The fact that pre-existing and ‘given’ solutions attach to ill-defined or ambiguous problems, inevitably decreases the possibility of achieving a complete and successful solution (March and Olsen, 1986; Wiesel *et al.*, 2011).

On the other hand, as Hofstede (1981; p. 209) argues, although the “garbage-can” model might not sound as an attractive decision-making context, it is the “most



realistic model of how organizations in fact do or do not learn”. In the long term the organization might benefit by incremental improvements to the ‘garbage can’ outcome – choice; this could be more of the organization’s benefit, than to engage in a costly decision-making process from the beginning, with no guarantee of its success (Hofstede, 1981). As Lukka (2007) puts it although the function of an organization operating under a ‘garbage can’ mode might appear as problematic, at least it allows the organization to function.

8.3 Methodological approach

The scope of the third part of the dissertation is to enrich the literature on how choices are made during the development of accounting standards in the central government level in a case of a country operating under the special circumstances of a financial strain. To achieve that a theoretical framework that draws on the public choice theory and the “garbage can” model is built. The public choice theory helps to understand, through analyzing the role and incentives of the involved actors, the development and the decision-making processes, while the “garbage can” model provides explanations regarding the final selection. In order to answer the research questions of this section, the theoretical framework is further enriched with the outcome of interviews and informal discussions with involved-to-the-reform actors. Complementarily to the above, is used the input of various archival data (e.g. state budget reports, IMF and OECD reports).

All interviewees were members of the commission and had a role in the development of the new governmental standards. The commission comprised of General Accounting Office (GAO) executives, representatives of the technical consultant (a joint venture comprising of two private firms), the contractor (again a joint venture of two private firms) and, at a later stage, Hellenic Accounting and Auditing Standards Oversight Board (ELTE) executives. The interviewees were: four executives of the GAO, including both the former and present head of the dedicated department developed explicitly to materialize the reform, two external consultants and two members of ELTE. The interviews were semi-structured and each one of them lasted



between 40-50 minutes. Informal discussions were conducted with other ELTE executives and consultants.

8.4 Results

The scope of the reform was to create a new accounting system to facilitate timely and accurate financial reporting (OECD, 2011). The new system would provide more useful and qualitative information and in parallel it would increase transparency (Ministry of Finance, 2009b). The urge to change the accounting standards followed the pressures to modernize the existing cash-based accounting system expressed by supranational organizations such as the IMF and the OECD (IMF, 2006; OECD, 2008a). These recommendations suggested improvements with emphasis to accruals and in line with international accounting standards (OECD, 2008) well before Greece entered the financial support mechanism of the Troika in early 2010. In the same realm, the Memorandum of Understanding (MoU; May 2010) signed between the Troika and Greece prioritized the conduction of reforms in the areas of public financial management and budgeting in an attempt to strengthen accountability and transparency issues (OECD, 2011). From another point of view, the modernization of the accounting systems had also to satisfy requests coming from citizens as quoted by the Ministry of Finance (2009b). It is therefore evident that the reform came out as a result of various institutional pressures.

From the discussions and interviews it is evident that the set of the new accounting standards was developed in two phases. At first, a public call took place resulting to the assignment of the task to conduct a preliminary research to a technical consultant. Following that, a second public call took place and the project was assigned to a contractor. During the second phase the contractor cooperated with the GAO in order to produce the first draft of the new accounting standards. The technical consultant provided comments, objections and recommendations to the draft. ELTE played a small part in the process, involved only during the second phase in order to provide a second professional look to the developed accounting standards and to legislate by a Presidential Decree. According to ELTE executives' words:



“ELTE’s role was to provide technical support for the development of a double-entry recording system, targeting to International Financial Reporting Standards (IFRS)”.

8.4.1 Involved actors

In total, four groups appear to be involved in the reforming procedure: voters (although in an indirect manner), politicians, external resource providers and the developers/preparers of the accounting standards. The latter group includes the GAO executives (bureaucrats), the ELTE executives, and the external consultants (both the contractor and the technical consultant). According to Giroux (1989) voters are considered as an influencing group as they elect politicians. Politicians in turn try to satisfy voters’ needs in order to get reelected. Bureaucrats on the other hand although appointed by politicians, aim at safeguarding their own interests instead of those of politicians and voters (Niskanen, 1971). Eventually consultants appear as processors of knowledge and expertise and have their own role to play (Lapsley and Oldfield, 2001). Bureaucrats and consultants taken together (i.e. the commission that developed the standards) differ from politicians as they are experts in their area and they have therefore an information advantage over politicians. Nevertheless politicians are able to monitor preparers’ performance. On the other hand, citizens cannot directly influence preparers, but they elect politicians who monitor them. Finally, external resource providers, put pressure in order for the reform to be successful in a convenient, to their goals, manner.

On the basis of the above the following relationships could be identified. Preparers have proprietary access to information and they want to satisfy their own incentives. Politicians and voters are in need of information but they may not have adequate incentives to ask for it (Giroux, 1989; p. 203). Finally, every decision has to coincide with external resource providers’ demands.



8.4.2 Citizens, politicians and the role of political culture

The aforementioned relations form a puzzle in which political and administrative culture play a significant role to its successful solution. Political culture in general refers to “patterns of political behavior” (Lüder, 1992; p. 114) or to “the subjective orientations toward and assumptions about the political world that characterize the members of a particular society and that guide and inform their political behavior” (Duffield, 1999; p. 774).

Political culture in Greece is characterized by clientelism, weak civil society and party-dominated administration (Apospori *et al.*, 2010). Citizens appear as being dissatisfied and disappointed with politicians that they mistrust and as having limited participation in the public space (Apospori *et al.*, 2010). This should be viewed through a wider concept, where European Continental countries appear as being mainly influenced by bureaucracy and hierarchical public administration, with no orientation towards meeting citizens needs (Torres, 2004). This conclusion coincides with comments raised by OECD referring also to public administration culture in Greece and the fact that oversight executed in the public sector by the parliament is rather ineffective (OECD, 2008a; 2011).

Interviewees emphasized the fact that the members of the parliament who, due to their role, should have been interested in the reform had not shown any interest. The GAO interviewees believe that it is probable that the majority of the politicians had not realized the changes in governmental reporting standards. They come to this conclusion by witnessing the absence of any reaction when the characteristics of the reform were discussed in the parliament. Interviewees attribute this indifference to the fact that the members of the parliament do not possess the necessary theoretical background to evaluate the reform outcome. The opinion of consultants coincides with the views expressed by GAO executives. They believe that political leaders have neither embraced nor understood the change. This could also explain the short-termism of the reform in practice. From the interviews it is revealed that despite the rhetoric about moving to full accruals, the next steps of the reform appear to be quite vague. There is no long-term planning and the reform seems to progress on project by



project mode. According to the present head of the dedicated to the accounting change department in the GAO:

“No one is monitoring how the reform is evolving. There is not even a supporting team to deal with the problems that occur during the implementation process but the personnel of our department in the GAO”.

In total, citizens appear as having limited participation in public matters and politicians as mostly being interested in short-term results. In such an environment, where the “preparers” are the only ones who actually have an expertise on the reform details, it is on the hands of politicians at least to monitor the procedure and evaluate the results. However, as revealed from the interviews, politicians belonging both to the ruling and the principal opposition parties appear quite indifferent to the process and the reform results.

8.4.3 External resource providers

The involvement of external resource providers is also very interesting. After Greece signed the bail out programme with the Troika, the resource providers (E.C., and IMF), that had previously recommended changes to the government accounting system started placing their emphasis almost exclusively to the budgeting reform rather than to the financial reporting one. This conclusion can be drawn by reviewing relevant documents (IMF, 2013; EC, 2011). There are no recommendations or indications of monitoring of the procedure or evaluation of the accounting reform outcome in these documents. GAO executives share the same view. They mentioned that when they discussed with the Troika representatives certain difficulties with the development of the new accounting standards, their reactions indicated that this reform did not rank high in their priorities agenda. Relevant re-prioritizations however by external resource providers have also been witnessed in the case of program budgeting which was totally abandoned while being in its final stage of implementation. It could be therefore assumed that external resource providers had turned their attention to other administrative reforms, while the accounting reporting reform was left to the sole responsibility of the local reform agents.



8.4.4 Bureaucrats versus Consultants: Hurdles in the developing process

All interviewees recognized difficulties and conflicts during the development of the new accounting standards. These difficulties mostly refer to reactions evident inside the GAO. They mainly focus on the way GAO employees used to work and the resistance they exhibited towards change. According to the former head of the dedicated GAO department:

“The department in charge paid for this denial with the prolongation of project completion”.

Nevertheless, these shortcomings were overcome as the project progressed to completion.

Other clashes were witnessed due to the differences in the conception of the new accounting paradigm by the members of the developing team. According to the GAO executives' view, the representatives of the technical consultant had a rather theoretical stance on the matter and they could not realize practical implementation difficulties. As a result, they persisted on their views despite the objections raised by GAO executives. Moreover, the representatives of the technical consultant strongly supported the introduction of IFRS. This explains, according to GAO executives, why the new governmental standards borrow practices that fall within the accrual basis practice and IFRS treatments although the project dealt with the preparation of a set of modified cash basis standards.

Many problems also emerged in project management. The representatives of the technical consultant had significant objections regarding the process. They argued that the meetings were highly dysfunctional as they ended up having around forty attendees. Except for the large number of people attending there were cases where the meetings were attended by representatives of the wrong GAO departments. The latter phenomenon resulted to the perpetuation of several unresolved issues and delays in decision making. The selection of a GAO low level executive to serve as the liaison



between the commission and the Minister of Finance caused problems as well. Apart from downplaying commissions' importance it did not put much pressure on GAO executives to effectively cooperate with the other members. As a result they would delay to provide the contractor with the requested input without facing any material consequences.

According to a technical consultant's view while the Greek Ministers of Finance kept on announcing to the E.C. that Greece was about to adopt international accounting standards to the central government level all the attempts made by the contractor – abiding by GAO's intentions– where neither oriented to IFRS nor to IPSAS. On the contrary they were based on the Greek accounting principles already developed for public sector entities. These latter standards in turn were heavily reliant on the accrual based Greek accounting standards used for the private sector companies and had nothing to do with international accounting standards.

Regardless of the suboptimal process in accounting standards development and the conflicts between bureaucrats and consultants, a first draft of the set of the accounting standards for the central government was developed by the contractor in cooperation with the GAO. The technical consultant made various comments on this draft. Revised versions of the initial draft were re-submitted four more times to the members of the commission while the technical consultant had comments in each one of them. The last draft was submitted to the commission when the technical consultant's contract had already ended. The final deliverable of the accounting standards took the form of P.D. 15/11. It was a hybrid built from bits and pieces of different accounting standards where accounting principles under the cash basis, the accrual basis and even IFRS and IPSAS were all put together to a unique construct. More specifically, the reports decided to be published coincide with the ones recommended in IPSAS 1. However, only the newly acquired fixed assets after the 1/1/2011 could be registered as assets, while no depreciation could be ever accounted against their acquisition values. As for expenses and revenues, while their registration to accounting books would lie very close to the principles of the accrual accounting provisions, the acquisition of inventories would be expensed when incurred. The basic characteristics of the new accounting system are concisely presented in Table 9.



8.4.5 Decision-making

Since decision making in the public sector is not often characterized by economic rationality, insights from the “garbage can” model were used to explain the process and the selection of the set of accounting standards. The “garbage can” model is intended to cases where organizations operate as “organized anarchies” which are characterized by the absence of either: shared goals (“problematic preferences”), a constant decision-making group (“fluid participation”) or shared and understood processes (“unclear technology”) (Cohen *et al.*, 1972). The review of the decision-making process in the development of the governmental accounting standards in Greece brings in mind several incidents that resemble to the characteristics of an organized anarchy environment.

As for the *problematic preferences* the political leaders (i.e. Ministry of Finance) appear as having a different perspective and different philosophy (IFRS-oriented) from the bureaucrats, indicating absence of shared goals. Consultants claim that the bureaucrats prevailed and were in position to enforce their views. As for the *fluid participation* there are several indications as well. The technical consultant’s contract expired before the final draft was submitted by the contractor; therefore they did not have the authority to make any more suggestions, like the ones already indicated in the previous four drafts of the accounting standards. Moreover, the interviewees referred to occasions with wrong people attending meetings. Absence of a constant decision-making group is therefore strongly implied. Finally, there are indications of *unclear technology*. The executives of GAO decided to adapt an already “tested” solution (i.e. the accounting standards for public sector entities) to the central government level. The technical consultant on the other hand, promoted IFRS paradigms. Therefore the absence of shared and understood processes provides evidence of unclear technology.

According to the “garbage can” model, in order for the choice to be made, an appropriate combination of problems, solutions and decision makers make the action possible. The selected solution combined the application of a set of accounting standards already tested in another setting which was however grafted with several IFRS principles, while the decision making commission was rather fluid, albeit



having bureaucrats in its core. However, as Cohen *et al.* (1972) point out in most of the cases the resolution offered by the “garbage can” process is not a successful one.

9. Concluding remarks

In this section the conclusions that derive from the results of the three-part analysis are presented, followed by a general discussion of the findings. The presentation of conclusions in this form has been selected as a proper way to discuss the interrelated issues of the budgeting and accounting standards reforms.

9.1 The attempt to introduce program-budgeting

The first part of the analysis, examined the budgeting reform. The need to adopt program budgeting in Greece was initiated by institutional pressures. However, despite the enthusiastic embracement of the idea at the political level, the implementation process faced significant shortcomings. The ill diffusion of the new strategy as well as the resistance to change towards the new system ended up in program budgeting drifting away from the initially expected objective. Notwithstanding the poor operationalization of the new system, during the years of the project’s development, the Greek state came across an unprecedented financial crisis. The severity of the crisis called for external organizations involvement. Their intervention has been materialised in a dual manner; by providing financial resources while in parallel influencing policy-making. Under this new political domain the governmental decisions were driven from the need to adapt to a different strategy in order to handle the new priorities. As it appears, the program budgeting plan became a side issue while the adoption of the new recommendations and requirements “imposed” by the external parties directly related to public administration were prioritized.

Although Pollitt and Bouckaert (2004) comment that a public sector reform project might fail or be adjusted or collide with other priorities at each step of the process, the abandonment of the program budgeting implementation plan in Greece comes as a



surprise at least for two reasons. Firstly, the results of the pilot project were highly appraised up to a few months before its cease. Secondly, as both written documents and interviewees consent under the specific fiscal conditions program budgeting, if in place, could provide a better overall picture of the state budget, and could therefore offer serious resolutions in terms of fund re-allocation deriving from the reporting of performance information. Such information would have been very useful in a period of economic crisis. After all, in similar cases in the past, countries facing financial crises (e.g. Denmark and Sweden) introduced performance budgeting as a means of defence (OECD, 2008b). Eventually, it turns out that a prior-to-the-crisis application would have been helpful. However, this logical thread leads to a vicious circle: It could not be applied due to the crisis, but if it was already in place, it would have provided a significant help.

On the other hand, would this reform be a successful one, even if the project had not been abandoned? By studying the Greek attempt to introduce performance budgeting the lack of managing the change through the proper creation and diffusion of the new philosophy to all the involved parts was revealed. It appears that the ‘institutionalization-of-the-new-idea’ factor was not adequately achieved. In parallel, it is evident that the established status of the Greek public sector cultivates resistance to change. Such conditions could provoke a future implementation of the project, since it constitutes a factor of significant impact on the success of administration changes (Kong, 2005; Fernandez and Rainey, 2006). Another important dimension revealed refers to the aptitude of the Greek ministries to accept accountability and responsibility for their budgets, and the role of political interests in blocking the proper diffusion of a change. Evidently, the new program had to be managed under a total different philosophy, compared to the traditional way things are done in the Greek public sector. This clash between the two different philosophies could have blocked the adoption. Probably, other reforms should have preceded the establishment of performance budgeting. “Basics first” as Schick (1998) would suggest. Furthermore the choice of performance indicators was in certain cases criticised as being ‘out of the scope’ or ‘difficult to measure’, highlighting the complexity in establishing appropriate measures in order to avoid adverse results (Guthrie and English, 1997; van Thiel and Leeuw, 2002). Nevertheless, the lessons from the first



attempt could provide helpful guidelines in a potential future decision to apply program budgeting.

The role of citizens in governmental decision making has also been proved a puzzling parameter. Citizens were identified by the Ministry of Finance as a distinct category of stakeholders asking for more transparency and accountability, being therefore in favour of program budgeting adoption. There are no easily visible reasons why citizens would change their views regarding the usefulness of the new budgeting system. As politicians commented citizens were not even informed about the reform itself or the progress of the project. Program budgeting would definitely serve as a means of decreasing the level of information asymmetry existing between government and citizens. No reaction was witnessed after the abandonment of the project. Apparently citizens' requirements were just a part of the rhetoric of politics and not an actually identified request. There are examples in literature where citizens are identified as a source of pressure to the governments to increase transparency and accountability (Schick, 1998; Christensen and Lægreid, 2002). It is probable that such rhetoric was used in the Greek case in order to show compliance with best practice.

At face value, the decision is difficult to be justified on rational grounds both from the Greek State side as well as the external organizations side. The financial assistance of the Troika to Greece was accompanied by a plethora of recommended enforceable reforms regarding Greek Public Administration. Such a stance does not coincide with falling back in systems that increase transparency and accountability and above all recommended only a few years ago. Comparing the Greek case with similar cases in other European countries experiencing the effects of the recent debt crisis on their public financials valuable insights could be provided on whether budgeting systems become more transparent and useful for decision making during a period when austerity measures are passed. Moreover, the level of readiness for change of the central government in case of proceeding to a second attempt to apply program budgeting requires further study. Finally, the frequently quoted public's opinion interest in central government financial aspects and performance information in a country like Greece, that lacks the level of maturity of both public sector financial systems and information disclosure of other countries, is an interesting prospect of future study.



The moral conclusion from the (non) application of program budgeting in Greece could be that a system tailored to assist politicians to better assess the usefulness, the effectiveness and the efficiency of their policies was abandoned by them at the time that it was mostly needed. Horizontal budget cutting to salaries and other social operating expenses was used as the primary tool to decrease public budget deficits without giving any explanations on what would be the impact on state operations and services provided to citizens. From another point of view, however, the abandonment of the system might have happened for exactly the same reason; to conserve information asymmetry and lack of transparency about public spending so that citizens would not be able to realize the direct effects of the horizontal budget cuts on service provision. The Economic Adjustment Programmes for Greece include severely decreased budget amounts in all budget categories for the 2010-2016 period compared to the pre-memorandum era. As the significantly decreased inputs are not mapped against programs not only the quantity and quality of service provision in health, education, social security and citizen safety are difficult to plan in advance but also the feasibility of the forecasted cost savings due to several administrative changes is disputable.

9.2 From cash accounting to a modified cash basis of accounting

The second part of the analysis dealt with the move of the central government from cash to a modified cash basis. NPFM tools adopted by central governments for accountability and transparency purposes have been brought to the forefront due to the global financial crisis. In this realm, in the second part the outcome of the adoption of the modified cash basis of accounting for financial reporting, as an interim step after cash and before accrual accounting implementation, in Greece was evaluated. The evaluation is conducted within the wider debate on the actual benefits and costs associated with the move to full accruals. A methodology for the evaluation of the quality and perceived usefulness of financial reporting at the central government level under both cash and modified cash bases has been developed and applied. The starting point for the development of the methodology has been the fact



that although ambitious reforms take place in the public sector accounting systems, the outcomes might not eventually be the desired ones for the users of the accounting information. The consideration that the objective of financial reporting in the public sector is to provide information that is useful to users for decision-making and accountability purposes has been used as a benchmark for assessment. For these purposes a web-based instrument has been developed to gather responses on a questionnaire aiming at assessing the quality and usefulness of the accounting information provided by two different accounting bases while the examined qualitative characteristics used are those recognized by the public sector accounting standard setting bodies.

The findings reveal several differences on the assessment scores of the two accounting bases. The quality of cash basis accounting information received lower scores compared to the quality of modified cash accounting information. Nevertheless, the superiority of modified cash accounting information corresponds to just above average quality levels. Therefore, while an increase in the quality of financial reporting can be diagnosed, it is not a fundamental one. The accounting change did not lead to financial statements achieving the high level of quality of accounting information as expected by governmental officials. Moreover, the quality of the new set of financial statements seems to be affected by the perceived levels of the relevance and understandability of their content while faithful representation does not exert an influencing effect.

As for the perceived usefulness of the two accounting bases, only a small increase in the decision-usefulness of accounting information has been observed, both in terms of perceived importance and usability. The results indicate that still after the transition, the provided information is only averagely necessary and not sufficient enough, requiring various adjustments before becoming usable.

The four examined user groups (i.e. citizens, public sector executives, investors and creditors, oversight bodies' executives) appear to agree on their evaluations on the cash based reports, by rating both qualitative characteristics and usefulness well below average. However, various differences on the way they evaluate the modified cash basis financial statements are evident pointing out certain differences among



users who actually use this information as part of their routine and those who do not. It is important to note that in all cases citizens place the lower scores. In total, the rates given for the “understandability” of the new financial statements were noticeably higher, compared to other qualitative characteristics. On the contrary, the lowest rates were given to the “feedback” and “predictive” values, which both constitute elements of “relevance”. It could be therefore presumed that the new statements, developed under the modified cash basis, fail to give a depiction of the financial condition of the country.

Since the majority of the respondents did not claim an expertise on public sector accounting, the evaluation of the modified cash basis financial statements as providing accounting information of higher quality and usefulness, could be partially explained by the fact that the way these statements are prepared and presented has many similarities to the format of the private sector statements. Therefore, familiarity with the private sector financial statements structure could have also contributed to the characterization of the modified cash statements as being more qualitative and useful. This is supported also by the fact that “understandability” receives higher rates.

What should be further noted is the difference on the perceptions of those who claimed an expertise on public sector accounting, the majority of which are public sector executives, and those who have limited knowledge of public sector accounting. Public sector executives and executives from oversight bodies appear to be more satisfied with the change. However, this cannot be claimed, for the other user groups. This finding may be interpreted as a need to provide accounting information in a different manner to other user groups who are not keen on or familiar with public sector accounting or accounting in general, as it happens with the majority of citizens.

Although citizens are usually characterized as not-interested, ignorant or even “receivers of fiscal illusion” (Zimmermann, 1977), they constitute the basis of every polity and therefore should be encouraged to become interested in public issues. This is also in line with the accountability and transparency motto that is customarily found in public sector accounting reform rhetoric. This could be achieved by providing easily understandable information. As a lesson from the past comes the common,



mainly during Pericles Golden Age, practice of constantly getting ancient Athenians informed on public money spending through public inscriptions carved in stone, visible to all (Blok, 2010). To an extent, citizens were thus “made” informed by receiving easily accessible and comprehensive information. After all, citizens constitute the most important group of users “in terms of numbers, voting power, and financial support provided by taxes” (Daniels and Daniels, 1991; p. 19). If citizens could understand the accounting information disclosed in financial statements this would have multiple benefits. Transparency and accountability would probably increase the willingness of citizens to contribute through their taxes to the consolidation of Greek economy. The level of taxes in Greece while the country is under the memorandum regime has soared. Citizens would probably appreciate having a more clear view of the financial condition of the country and its progress therein. This is an important implication for both policy makers and politicians. In the examined case the instrument was addressed to citizens with at least average accounting knowledge. It would be rather improper to ask people who have never seen a balance sheet, to rate the uncommon statements produced by the Greek government.

Nevertheless, the roots of the limited orientation to citizens’ needs of the Greek governmental financial reporting could be traced in the deep bureaucratic and hierarchical public administration structures grounded in administrative law, which constitutes a common characteristic of European Continental countries. Against this background, citizens are traditionally viewed as “subjects”, in contrast to the attitude in Anglo-Saxon and Nordic countries which prioritize citizens’ needs (Torres, 2004).

At the same time, the finding that investors evaluate with average scores the outcome of the accounting reform, in term of decision usefulness and information quality, has several implications. For a country that tries to overcome a severe financial crisis, by attracting international investors through mainly a major privatization programme that is part of the memoranda signed with the Troika and restore the credibility of its financial profile, the fact that the new accounting system produces reports of moderate quality, is not a desirable outcome.



Several studies have concluded on an inadequacy of accrual accounting in meeting users needs (e.g. Paulsson, 2006; Kober *et al.*, 2010). However, the poor evaluation may be the result of poor implementation. Deeper analysis is necessary for tracking down why the reforms did not succeed in achieving their purpose. The same holds true for the Greek case. In this study the first signs of the assessment of the modified cash basis are evident. A subsequent analysis could reveal whether the level of satisfaction changes throughout time and in what direction. Alternative ways of presenting this information to a wider audience of citizens should be also sought, so as to enhance their active participation and to keep them informed. A research focused on this dimension could shed light on whether the format of the presentation of the information per se and not its accounting substance affects the perception on the quality and decision usefulness of the information. These issues are discussed in more depth in the “Implications” and “Further research” sections.

9.3 Decision-making during the accounting standards reform

In the last part of the study, the process under which the new modified cash-based financial reporting system was developed in the Greek central government is examined. As it appears from the conducted interviews and informal discussions, as well as from the relevant archival data, the outcome of the process was highly influenced by the role that each of the involved-to-the-reform actors played: voters, politicians, bureaucrats and external consultants, as well as resource providers. The analysis conducted provides corroborative evidence that citizens were both uninformed and uninterested in the reform while the members of the parliament were indifferent to the procedure, even though political will and commitment are prerequisites for such reforms to be successful (Barzelay and Gallego, 2010). Furthermore, it appears that even resource providers turned their attention away to other ongoing administrative reforms. Therefore, the outcome is largely credited to the developers of the new accounting standards; the bureaucrats and the external consultants. As politicians and resource providers were absent from leading roles in the reform process, it could be implied that the outcome of the reform was not intended to satisfy a predefined clearly stated strategic goal.



Although, the scope of the reform was the provision of useful and high quality information, as well as the increase of transparency, these goals seem to be only partly achieved. All interviewees agreed that although the new accounting framework introduced improvements in governmental reporting, there are still many pending issues left unresolved and work to be done in order to achieve the policy goals set in the beginning. In the same realm, the analysis that preceded, indicates that the new system improved accounting information quality and decision usefulness only at a moderate level compared to the former applied cash basis system for governmental accounting reporting. This implies that there is still information asymmetry among preparers and users.

As decision making in the public sector is mainly characterized by economic irrationality, several incidents during the development and implementation of the new accounting standards bring in mind the choices made through a “garbage can” in organizations operating as organized anarchies. In this “garbage can” various solutions are dumped waiting for a problem to emerge and to be matched with. Thus, in the case of governmental accounting standard setting in Greece bureaucrats chose to use a previously applied solution and just adapt it to the central government level.

Bureaucracy appears to prevail in its confrontation with political leaders. This is highlighted by the different orientation between the Ministry of Finance and the bureaucrats, and the actual outcome of the reform. However, the relationship between bureaucrats and external consultants requires deeper examination. Two different “schools of thought” are evident in the development of P.D. 15/2011: external consultants bring forth modernistic ideas, while bureaucrats try to defend their routine. They both seem to hold their ground, and eventually, no one appears to be completely satisfied with the result.

Specific importance should be also given to the behavior of external resource providers. Although this change would be an important reform targeting to the provision of a more accurate picture of the country’s financial condition, yet the significance placed to its monitoring and implementation was relatively low. The question that arises refers to the extent that external resource providers actually use such information or not. Evidence is supportive to the fact that they do not, which, in



turn, leads to more questions about the uses of accounting information vis-à-vis budgeting information. External resource providers are very keen on monitoring budget execution information which they further discuss extensively in the periodic reports. On the contrary, there are no references to modified cash accounting information. Therefore, it is not the use of financial information that is under question. It is the nature and the content of information that matters. The fact that IMF or EC review reports do not discuss accounting information deriving from the new system leads to the conclusion that external resource providers may not find the modified cash accounting information noteworthy, at least for the time being.

When combined with the short-termism of the specific reform –i.e. no one seems to know how the reform will evolve– even more questions arise: has this been a reform to actually satisfy emerging needs, or was it a move aiming at just complying with the demand to proceed in a reform? The study did not succeed in providing empirical evidence in relation to the former reasoning. As the decision to change the governmental accounting system had been made in a period when the economic environment in Greece was totally different to that characterized by the Memoranda signed with the Troika, the materialization of the project probably followed the forces of inertia. As the reform was a project in-progress in the Ministry of Finance agenda it had to be concluded.

Short-term planning in reforms constitutes a characteristic of Greece's political culture, which is further perpetuated through citizens' indifference in public issues. Nevertheless, political culture is not a concept that remains stable, but rather evolves over time (Apospori, *et al.*, 2010). Thus “creating” users that are informed and interested could also assist towards preventing such cases of short-termism that threaten long-term projects. One way to achieve this is by providing easily accessible and comprehensive financial information to the public. Furthermore, the reduction or even elimination of the impact of self interest and personal incentives of involved-actors should be sought. Better monitoring of personal incentives is enhanced when information asymmetry is reduced. The information asymmetry witnessed between different users of the governmental accounting information could be reduced when emphasis is placed to the achievement of high quality in financial reporting (Chan and



Rubin, 1987). Supportive evidence on that exists in the private sector literature (Brown and Hillegeist, 2007).

Several European countries are in the process of modernizing their governmental accounting systems. Many of them have already proceeded in adopting IPSAS (Brusca et al., 2013) while the implementation of European Public Sector Accounting Standards (EPSAS) seems to be the way forward in governmental accounting in EU in the foreseeable future (E.C., 2013). A possible research agenda would study the process followed, more rational or more “garbage can” like, in the countries that adopted IPSAS or other national developed governmental standards and the political, social and financial factors that contributed to the selection on the decided standards.



10. Conclusion

The scope of the dissertation is to analyze the process and the outcome of two structural reforms of the Greek central government, that fall within the context of public financial management.

Although, these reforms were recognized as being a necessity to the central government due to the inefficiency attributed to the previously applied accounting systems, the inevitability of their implementation became more evident only since 2010; the year that Greece found itself dependent of resources provided by the IMF the E.C. and the ECB (I.e. the Troika). As it has been witnessed in several other cases, the pressures coming from such lending organizations and the accompanying close monitoring to reassure that the reforms are evolving towards the desirable outcomes are expected to be quite intense and stressful, until they become routine to the state or entity under reform.

As explained before, both cases constitute vital reforms for the Greek public sector: the development and application of program budgeting complementarily to the traditional could provide a great strategic advantage in terms of improved resource allocation and expenses management, extremely useful especially in periods of economic crises and fiscal recessions. The transition to an accounting basis closer to accrual accounting, serves the need to provide more useful and transparent financial accounting information to all interested users. As Greece was (and probably still is) treated with suspicion as regards to its ‘accounting numbers’, the increased level of quality and decision-usefulness in published financial statements could help towards reversing this negative climate; at the same time could serve for both transparency and accountability purposes.

When evaluating the process of these two reforms, their common characteristics lie on the neo-institutional pressures imposing them to happen, and the resource dependency which restricted to an extent any alternatives but their development, as well as the



reaction of bureaucracy on their development and implementation process. Pressures are recognized to derive from supranational organizations as well as the public.

Nevertheless, despite the undisputable advantages from the implementation of these reforms, eventually, the level of success in achieving the initially-set targets is below the optimum level. On the one hand, there is the abandoning of the budgeting reform process after five years of intensive preparations, with the interim results of the pilot programmes being highly appraised. More importantly, there is no officially published document explaining the reasons that led to this decision and to inform all those who might be interested, regarding future steps. Regarding these topic the dissertation highlighted three facts: first, that eventually resource providers (the Troika) were those who decided the cease of the project, and second that public's demand for this reform was part of government's rhetoric and not of reality. The abandoning of the project took place as it was considered to be a 'luxury' for the Greek central government at that point. Other reforms needed to be implemented first. How things advanced shows that neither the Troika had a clear view of the situation and the needs in Greek public administration, as well as a clear plan. At a parallel level the fact that citizens were just used as rhetoric of another stream of pressures towards this change, points out the fact that Greek citizens are not aware and interested in such reforms. Third, the Greek central government was not prepared for this reform. The way the reform was operationalized and distributed among personnel, the choice of performance indices, as well as the bureaucrats' and even the politicians' culture of resistance to change (as they preferred to maintain their current status) end up at the same conclusion: even if the program budget was not abandoned it is very likely that it might have not been a successful reform.

On the other hand the suboptimal success of the financial reporting standards reform, reveals several other, either complementary to the budgeting one or unique, weaknesses. Although, significant improvements were introduced to financial reporting through the new governmental accounting standards, there are many issues left pending, and the final outcome did not achieve to satisfy the initially-set goals. Once more, through the decision-making process, it appears that the Troika did not show the anticipated level of interest through monitoring or evaluating the reform. Citizens appear once again uninformed and uninterested, while politicians,



bureaucrats and management consultants have different approaches to the reform, instead of one, common and shared vision.

The other common characteristic of the two reforms is the mystery that covers what the next steps will be. In both cases there is no long-term planning, only some vague statements about “plans to implement an accrual accounting reform inspired by IPSAS standards” made by GAO executives (PWC, 2014; p. 91). Greek citizens appear to be uninterested and uninformed regarding these reforms, as a result of the Greek political culture that does not encourage the more active engagement of the public to public matters. Other groups of users with limited familiarity to accounting and financial reporting show also indifference. Such examples include politicians, who appear as not being interested to both reforms’ processes.

Furthermore, the stance of external resource providers is quite strange. Although they strongly recommended the implementation of these reforms several years previous to the MoU signing, and also as part of the MoU, in both cases they turned their attention to other changes, implying that Greece had other priorities to fulfil first. This stance though raises a lot of questions. Greece was much in need of them and could benefit from them. At first through program budgeting the country could achieve the much-needed rational resource allocation and appropriate expenditures management. Secondly, by publishing qualitative and decision-useful financial statements, the country could more easily attract international investors’ interests, as well as reverse the climate of suspicion against “Greek numbers”. They acted like they had a low perception of the vital role of such modern accounting tools. The rationalization offered through the use of such accounting tools, could assist the country in overcoming obstacles set by deeply cultivated bureaucracies. Nevertheless, the cost of developing these systems in a period of austerity measures might provide an explanation.

Finally, it is the significance of strong bureaucracy that would never allow for an easily and smoothly implemented reform process. Especially, when such a move could change the way public sector executives are used to work. However, this is also a matter of creating the proper culture for change by inculcating the necessity of improving “how things work here” through the adoption of modern tools, and from



keeping track of international best practices, benchmarking and international trends in general. The pivotal issue is not to imitate, but to be able to judge what suits the specific country's needs and is within its "league"; in other words a country should at first complete the 'basics' before trying to engage to more demanding reforms.



11. Implications for policy makers

The outcome of the analysis points towards four major directions that require further thorough consideration on behalf of policy makers. The first refers to the ability of the Greek central government (and public sector in general) to successfully complete such accounting reforms. The second refers to the readiness level of the central government to proceed in engaging with upcoming reforms in the near future. This requires careful examining of both the costs and benefits of such reforms and their suitability to the general strategic plan of the Greek public sector. The third deals with the significance of linking budget to performance measurement. Finally, the fourth refers to the need of certain public sector financial reporting user groups to more actively engage into public finance issues such as the budget and the financial condition and performance of the state, and how could the central government itself take the lead and encourage such actions. These groups comprise of citizens, politicians, public sector executives (other than those actually dealing with the budgeting process and the financial reporting preparation), and in general all those user groups who do not have an expertise on accounting and financial reporting.

11.1 Ability to successfully conclude reforms

The way the two under-examination reforms evolved brings up several material issues, one of which refers to the ability of the central government to successfully conclude such significant projects; especially when these projects change the conditions under which the entity is used to operate. The successful implementation of an organizational change is subject to various factors. The institutionalization of the new system is often appraised as being the most important of these factors, while moreover, the creation of a clear and inspiring vision and the commitment of the leadership to it play a determining role (Kong, 2005; Fernandez and Rainey, 2006). Otherwise, an ill diffusion of the new philosophy could give rise to resistance to change or unwillingness to cooperate among the involved personnel leading eventually to a failure or a low level of success to the implementation of the change. Therefore, it is not an easy task. As Beckard and Harris (1987) put it, to reshape the



capabilities of the personnel inside an organization, it requires that the knowledge, skills, and abilities of this organization are in the state to carry out the necessary requirements for successful change implementation (Beckard and Harris, 1987).

The international literature (Ferlie *et al.*'s, 2003; McNulty's, 2003; Cinite *et al.*, 2009) points out specific characteristics of the public sector which act as impediments towards any effort to change: its bureaucratic nature, the frequent change of high-level managers, the aging of the workforce, etc.; all of which constitute typical characteristics of the Greek public sector (OECD, 2011). That explains why, while important reforms have been introduced, many cases of failure are recorded; and not only in Greece, but also to various other settings (Ferlie *et al.*'s, 2003).

Therefore it is very important to create the appropriate climate inside the entity. According to Holt, Armenakis, Harris and Field (2007) for the successful implementation of a change, an organization before reaching the stage of institutionalization, requires firstly to assess the organization's level of readiness for change. Assessing the level of readiness to change could offer a solution in order to detect the climate inside an organization that is in the process of proceeding to an important change. Readiness is witnessed when the "environment, structure, and organizational members' attitudes are such that employees are receptive to a forthcoming change" (Holt, Armenakis, Harris and Field, 2007; p. 290).

The importance of measuring the readiness for change is highlighted by the numerous attempts to create an instrument that would measure this level successfully (for a complete review of all the developed instruments consult Holt, Armenakis, Field and Harris (2007)). Nevertheless, all of the available instruments reviewed in their study appear to lack of reliability and validity, leaving thus space for further improvements. These instruments were mostly applied in cases of private sector organizations, but, as stated by Cinite *et al.* (2009), the research on organizational change aspects did not differentiate among the two sectors, despite the fundamental differences of their characteristics. However, the reform attempts that are taking place in the public sector the last thirty years have inspired researches such as those of Cinite *et al.*'s (2009) and Holt, Armenakis, Harris and Field (2007) which provide also insights from public sector organizations. Within this framework it is highly recommended to the Greek



central government, to assess the readiness climate and try to create a culture of change by communicating appropriately the necessities of the change and the philosophy behind the reform, thus engaging all involved actors to one common vision.

11.2 Is Greece ready for IPSAS/ EPSAS?

Apart though from the readiness level, and a cultivated culture of change, there are other more practical issues that should also be assessed prior to such change decisions. These refer to a practical and detailed cost and benefit analysis, as well as to an assessment of the reforms suitability to the general strategic plan of the Greek central government. As already discussed, General Accounting Office executives cite that there is a plan on moving to full accrual and even towards the adaptation of IPSAS for governmental reporting purposes. This should be viewed within a wider framework, with the European Commission recently opening the discussion of a move towards international accounting standards and performing an assessment of the suitability of IPSAS for a possible adoption by the European Union member states.

In February 2012 Eurostat published the consultation paper “Assessment of the suitability of the International Public Sector Accounting Standards for the Member States”. According to that a transition to IPSAS would result to greater comparability, transparency and reliability of accounting between E.U. member states, as well as to improved functioning of E.U.’s budgetary surveillance framework and its governance. This would be achieved through the presentation of data in a “clear, concise, consistent and comparable” format. At the same time, though, such a move was characterized as a “challenging and potentially high-cost project that would need several years”.

In March 2013 the E.C. discussed this possibility. However, during the debate, IPSAS were found unsuitable, due to certain weaknesses (i.e. complexity and incompleteness), and thus as insufficient for an implementation by E.U. states (E.C., 2013). Nevertheless, the outcome of this discussion gave rise to the idea of developing a distinct European framework (EPSAS) with reference to IPSAS.



However, in a Union of states with such diversity – in terms of public sector accounting– as the E.U., where the majority of member-states are not applying a common accounting base for governmental financial reporting, a move towards adopting EPSAS could be a major reform hiding several risks and impediments; undoubtedly such a move will be one of the most challenging reforms to come. The readiness of each member state would depend on the country's current accounting system and its compatibility with accrual EPSAS, as well as on the organizational climate and culture at the central government level. Depending on the states' current accounting standards, the change could involve the reforming of parts or of the entire public accounting system, across many governmental entities. In particular, this could involve major changes for underlying IT systems and staff training (E.C., 2013). As regards to the Greek case, the accounting standards applied by the Greek central government present very low convergence to the IPSAS framework, and consequently to the EPSAS framework. Although the new accounting standards appear to be influenced in some cases by IPSAS, the overall differences between the two accounting models are fundamental. Therefore a mandatory application of EPSAS would probably cause several problems in order for the Greek government to abide by the new system. At the same time, a move towards the consolidation of the accounting standards used by all levels of government in Greece, should take place, in order to develop a better and holistic financial view of the entire general government.

A possible transition to EPSAS brings along several significant benefits for Greece. It is expected that these accounting standards' framework will promote the concepts of accountability and transparency in financial reporting, which are deemed as being necessary and useful for Greece, especially at the present time; this move could act as a signal to international investors emphasizing to the reverse of Greece's long lost credibility. Nevertheless, such a move is also expected to be accompanied by several significant costs. To name only few of them these costs include training and education expenses for public sector employees, expenses for the necessary updates and modifications of the IT systems, the costs for hiring consultants and highly skilled personnel. All these costs presuppose a very careful analysis, which should be conducted under the prism of the fact that Greece is operating under special financial conditions, which have resulted to a very tight budget that does not leave much space for ambitious and expensive projects. A first analysis recently conducted by PWC



regarding the impact of EPSAS implementation (PWC, 2014), categorizes Greece as the E.U. country suffering one of the highest cost impacts from such a move. More specifically, Greece is found to have the lowest accounting maturity level in every governmental level, as well as a very low IT maturity level, which consequently affects the estimated cost of EPSAS implementation.

The low quality of the Greek public sector accounting systems pinpoints how necessary is their reform. A potential move towards adopting EPSAS would definitely pose a major reform, leading to various beneficial outcomes in the long term perspective. It is deemed necessary, though, that detailed cost and benefit analysis as well as an assessment of the level of readiness of the Greek central government, should precede to such changes. This should be performed in two levels: firstly the readiness level of the Greek central government in moving from modified cash basis of accounting to full accrual, and second towards a possible decision of the E.C. that all member states should mandatory adopt the EPSAS. Nevertheless, from another point of view, if the above is not the case in the direct future, accounting reforms in Greece could be more efficient if they are just simple, plain and easily understandable. In this realm, in the case of moving to accrual this could happen by following the “basics first” rule, avoiding thus complicated accounting rules that do not add value to information qualities of the statements.

11.3 Reform of the budgeting system

The Greek central government budgeting system has suffered several shortcomings due to the ineffectiveness detected during both the traditional budget development and budget execution monitoring. The need to enhance the monitoring of the budget processes and their efficiency, through strong control mechanism is demanding. From the analysis that took place so far it is highly recommended that next steps should once more involve the development of performance-based budgets. The benefits are expected to be various as such a move could ideally lead to a better fund allocation and monitoring of the processes. The need to change the present system that does not relate input and outcome is indisputable as the state budget should have to achieve clear targets deriving from the public policies.



The application of program budgeting is expected to significantly assist public managers and politicians towards this direction; that is in better assessing the usefulness, the effectiveness and the efficiency of several central government functions. The present dissertation provided insights into the first attempt to introduce program budgeting in Greece and highlighted the difficulties faced during the process. The knowledge gained from the unsuccessful attempt to introduce program budgeting in Greece has important implications for understanding the factors that contribute to the failure of accounting change at central government level. In any case, this understanding of factors does not end only in the case of the budgeting reform; it is also necessary for all other reforming attempts (e.g. the accounting standards' one) that could find impediments in the face of bureaucracy.

11.4 Alternative forms of reporting

Another important issue that came up from this research is the distance that citizens and other non-accounting experts' groups have from public issues, and the importance of building a stronger binding between them and public finance matters. This relationship could be sought by the central government itself in an attempt to capture those groups' interest and involvement. For these purposes, alternative forms of reporting information to users have been developed and applied abroad, and could be used also in Greece: these refer to “popular reporting” and “integrated reporting”. Such forms should be taken into consideration by policy makers.

Popular reporting refers to the preparation of concise, easily read, comprehensive and user-friendly financial reports mainly targeting citizens. Apart from citizens that constitute their cornerstone user group, alternative audience of these reports could be that of politicians, public sector employees, the media, community groups, and in general all those user groups that do not claim an expertise in accounting and financial reporting. The basic philosophy of popular reporting is the provision of a simplified view of financial statements, avoiding both detailed analysis and the use of complicated technical terms. The complexity of these reports is therefore driven by the ‘maturity’ level of the users (i.e. citizens) and not of the preparers (Sharp *et al.*,



1998). The provided information, however, derives from the formal financial statements. Therefore popular reporting is neutral to the accounting systems implemented. It would be equally applicable when an entity uses IPSAS, EPSAS or any other set of nationally developed accounting standards provided that the summary information in the popular reports corresponds to that in the official, audited financial statements. Additionally, popular reports should be timely published, have a clearly defined scope and highlight the existence of the formal set of financial statements for those who would like to have more detailed information (GASB, 1987).

Through this alternative way of presenting governmental accounting information, users that are not keen on or familiar with public sector accounting or accounting in general, as it is the case with the majority of citizens, are encouraged to engage in public matters. The “making” of interested citizens is expected to lead to multiple benefits in the future. To give a simple but practical example, informed citizens could be more willing to fulfill their tax payment obligations. In a broader sense, satisfied constituents would support policies and legitimize politicians decision-making (Irvin and Stansbury, 2004; Yusuf *et al.*, 2013).

In practice, however, a paradox has been witnessed in relation to popular reports. While many governmental entities respond to this trend and develop them, it has been observed that at the same time they do not proceed in an active dissemination process of the reports (Yusuf *et al.*, 2013). On the contrary they rather adopt a passive stance, which indicates a slack connection between the rhetoric of having popular reports as a means for accountability and transparency purposes and their distribution to citizens in order accountability and transparency to be actually materialized.

Another interesting alternative form of reporting that could be especially useful to investors is that of integrated reporting. Lately, there has been a lot of debate regarding the suitability of this reporting type to the public sector, but scholars agree that such a move would help in provided “holistic, useful and meaningful reporting” (Adams and Simnett, 2011; p.293; Bartocci and Picciaia, 2013). To another extent, though, if the information provided in an integrated report is to be presented in a “popular reporting” manner, then a governmental entity could achieve a twofold goal: on the one hand citizens and other non-accounting experts users would be encouraged



to engage with public matters with simply presented information, while on the other hand, the reporting entity would fulfill its reporting obligations, by providing a “holistic” picture of its status to these users.



12. Limitations and further research

This doctoral thesis is not limitations free. At the same time many paths for future research have been revealed. To begin with, all the attempts that were made in order to conduct interviews with responsible persons from the E.C., the IMF and the OECD, in order to have an additional insight to the logic behind the suggestions and recommendations of these organizations were unsuccessful. Despite the importance of interviewing executives from the organizations to which Greece became dependent for funding, none of these attempts was fruitful. Although a number of responsible executives (as indicated in reports conducted by these organizations) were contacted via e-mail, unfortunately no positive response was received. Five executives of the IMF and the OECD recommended that the questions should be addressed to other colleagues of theirs, while the rest did not reply at all. In the same realm, a number of key persons belonging to other groups (Greek politicians and bureaucrats) refused to take part in a formal interview that would touch on topics of public sector reform, behaviour on change issues, etc. At the same time others preferred to avoid formal interviews, and rather anonymously discuss their experiences.

As regards to the questionnaire based survey, although the sample of respondents is quite limited (95 participants), it includes adequate representatives of all basic groups of public sector financial reporting users. Therefore, the outcome provides a holistic assessment of the two accounting bases that is based on the users' perceptions. Moreover, the response rate is quite satisfactory. On the other hand, other relevant studies in the private sector present almost the same numbers of participants (e.g. Kober *et al.*, 2010).

Regarding the potential for future research, this could be categorised in the following general topics: the conduction of a detailed analysis of the differences between the new Greek governmental accounting standards and the EPSAS framework, an analysis focusing on the specific problematic issues of the new Greek accounting standards, as for example the case of Greek state property registration and measurement, the development of a methodology for the assessment of the readiness for change level, and finally, the further examination of issues that fall within the



development of alternative types of reporting that would target to the provision of easily understandable accounting information to citizens.

12.1 Analysis of differences from the EPSAS framework

As a move towards a mandatory adoption of EPSAS could be a potential future decision made by the E.C., systematic monitoring and updating on how these standards evolve should take place. More importantly an analysis on the differences between the EPSAS framework and the Greek accounting standards in every government level should be performed. Although, there are many possible benefits for Greece in the long-term perspective (e.g. increased transparency, credibility, validity, accountability), there are also various impediments that could raise significant expenses (conceptual and technical accounting issues, modification of national accounting frameworks, modification and modernization of IT systems, etc.).

Although EPSAS are in an early stage of development, the fact that they are based to a great extent on IPSAS, provides a benefit to those countries that want to evaluate earlier the differences expected to rise from a subsequent transition. In the Greek case, despite the fact that the conceptual frameworks of IPSAS and EPSAS present various similarities, they both have a great distance from the Greek governmental accounting standards. Although the modified cash basis developed in Greece turned out to be influenced in several cases by international accounting standards (IFRS and IPSAS, through mainly their similarities with IFRS), a brief overview of the two accounting frameworks would highlight the substance of their differences. Therefore, in the present time, an analysis of the differences between Greek governmental accounting standards and IPSAS (gap analysis) would be very useful as in this way a first recording of the distance between the two systems would be performed. At the same time such a move would initiate some first actions towards familiarization with the new accounting concepts promoted by IPSAS and EPSAS.



12.2 Significant issues before a move to accrual (state property measurement)

Despite the fact that the whole process of a transition towards accrual is still on an early stage, it is evident that several issues of significant importance are to a great extent neglected. Such an example is the treatment of fixed assets. Especially in a period where the issue of state-owned assets' privatizations is extremely "hot" for the Greek government. Accounting information could become a powerful tool in the hands of Greek government in order to proceed with exploitation decisions for the state property that would be beneficial for the public economy and therefore for the citizens. Relying solely on ad-hoc valuation of property only in cases that an asset is to be sold does not help towards registering the value of state-owned property that would help Greece to enforce its bargaining position during public debt negotiations. Moreover, this valuation is not technically, at least in principle, difficult to be performed as the state property under question does not include heritage assets or collections which in the international literature (e.g. Carnegie and West, 2005) constitute controversial issues.

The accounting treatment for state property as described in Greek governmental standards is neither useful nor informative for privatisation decisions from several fronts. More specifically, for assets that are to be sold while being in government's assets portfolio before the beginning of 2011, the Greek governmental standards provide only for information that is confined to a fair value estimation produced by certified valuers at the time of the information request. Additionally, as far as assets that are to come in Greek government's possession after 2011 are concerned, just having the assets' historical acquisition cost registered to the governmental accounting books without proceeding in any adjustments that correspond at least to depreciation does not provide any reliable indication of their value.

The Greek cadastre is considered to be incomplete and inaccurate and the grand majority of the state-owned assets are unknown, violated and claimed, leaving only a small percent of reliably registered assets. Probably Greece is not the only country experiencing this reality. Therefore, guidelines on the accounting treatment of such



cases provided by accounting standards and IPSAS in particular would be very helpful in order for the state to keep track of a considerable part of the state property.

A very interesting dimension that should be explored in a future study refers to the way other countries have registered their state property and overcome legal problems like the ones Greece experiences. Such a research could provide useful input in deciding the most proper way to face such issues. Moreover, an examination of the Greek central government's level of readiness in adopting accrual accounting or even IPSAS and the implications of any such choice on privatization issues would reveal further interesting aspects.

12.3 Readiness for change

As the first attempts to proceed in the under examination reforms were either abandoned or not successfully concluded, a next step of the dissertation outcome will be the assessment of the readiness level of the Greek central government in proceeding to such tasks. As new attempts are expected to happen, perhaps also in the near future, it is deemed highly necessary to conduct an assessment analysis. In many cases the success is hidden in the existence of inspiring strategy and vision, internal support through participation, support and commitment of high-level executives, existence of resources and the institutionalization of the change through the creation and diffusion of a culture of change (Fernandez and Rainey, 2006; Yang, 2009).

The readiness-for-change level constitutes a precursor of resistance or support behaviors. It is therefore very important for the management to know the level to which the entity is ready to accept the forthcoming change, especially when it comes to issues of modernizing accounting systems that introduce new concepts for the Greek standards. Given that these changes introduce performance measurement in the Greek public sector, transparency, reliability and accountability, their importance for the existing culture, the possible resistance, and the necessity of the readiness-level assessment, are unquestionable.



Nevertheless, the various models developed towards this direction are judged as lacking in issues of validity and reliability (Holt *et al.*, 2007). Therefore there is space for revision and improvement of these models, and even for the development of a model especially suitable for the public sector. A future study would proceed in reviewing the relevant models internationally developed (Cunningham *et al.*, 2002; Jones *et al.*, 2005; Holt *et al.*, 2007), in order to create a model that will focus in the Greek public sector environment. This model will record the readiness level of governmental entities in introducing administrative changes, and could be useful in the modernizing attempts of the Greek public sector. The first steps would require following Hinkin's (1998) combination of quantitative and qualitative analysis, the choice of the parameters that measure readiness-for-change through the study of relevant international literature and the conduction of interviews with high-level executives of the Greek general government. Following that, a questionnaire disseminated to public sector executives would test the selected parameters, and record the readiness level.

12.4 A proposal of an alternative form of reporting: Introducing Integrated Popular Reporting

Another possible direction for future research refers to the issues of developing alternative forms of financial statements that would attract and encourage citizens to more actively participate to public finance issues. As mentioned previously ('Implications' section) a possible combination of the feature of integrated and popular reporting types, could provide directions towards that way. The presentation of these two forms of reporting reveals the usefulness of providing additional –to the traditional financial– information to users of public sector accounting reports. At the same time it is evident that if this information is not presented in a concise, comprehensive and attractive manner, the reports will fail to capture the average citizen's interest. The new reporting-era in order to be successful and effective should be innovative as well. In other words there is no reason to compromise with the provision of easily understandable but just financial information, or with the provision of numerous-paged rich in non-financial information but complex reports. The answer could be hiding somewhere in the middle of this “pole of complexity”



The proposed scheme of Integrated Popular Reporting could be therefore a synthesis under which popular reports would be enhanced to include basic and necessary information of the other major pillars of a public sector entity's well being, prosperity and value creation. In this way the reports would provide a holistic, useful and meaningful information set in an easily comprehensive and attractive manner. The proposed framework would achieve two goals simultaneously: on one hand, citizens would be encouraged to engage with public matters with simply presented information while on the other hand, the reporting entity would fulfill its reporting obligations, by providing a “holistic” picture of its status to citizens.

Future research potential would target to the development of a framework for a new form of reports aiming at addressing citizens' information needs by synthesizing the main characteristics of the emerging reporting schemes of integrated reporting and popular reporting. This would require the involvement of experts' opinion (policy makers, public sector entities, citizens' representation groups, etc.) on these topics through the conduction of interviews and discussions or through the development of a questionnaire in order to come up with a template and outline that will be inclusive and informative while striking a balance between completeness and selectiveness.



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Appendix 1*

- Accompanying letter
- Questionnaire for the assessment of the financial statements of 2010**
- Questionnaire for the assessment of the financial statements of 2011**

* Appendix 1 is in Greek

** As it has been explained in the “Methodological approach” section, the questionnaire was web-based. Thus, the questions presented in the following pages do not follow exactly the flow evident in the web-based version of the questionnaire. For the formal format please visit: http://195.251.253.37/Governmental_Accounting_Evaluation/



Αξιολόγηση της παρεχόμενης λογιστικής πληροφόρησης από τις οικονομικές καταστάσεις της κεντρικής κυβέρνησης στην Ελλάδα

Αξιότιμε/η κύριε/κυρία,

Σε μια προσπάθεια εκσυγχρονισμού των λογιστικών διαδικασιών στα δημόσια οικονομικά της χώρας μας, η κεντρική κυβέρνηση αποφάσισε το 2011 την μετάβαση στην Τροποποιημένη Ταμειακή Βάση της Λογιστικής (Π.Δ. 15/2011) αντί της Ταμειακής Βάσης που εφαρμοζόταν μέχρι τότε για την κατάρτιση των οικονομικών καταστάσεων. Οι πρώτες οικονομικές καταστάσεις σύμφωνα με την νέα βάση, δημοσιεύτηκαν για το έτος 2011.

Στα πλαίσια αυτά στο Οικονομικό Πανεπιστήμιο Αθηνών πραγματοποιείται μια έρευνα για την **αξιολόγηση από την πλευρά των χρηστών** των δύο διαφορετικών βάσεων σε όρους ποιότητας και χρησιμότητας της παρεχόμενης, από τις οικονομικές καταστάσεις, χρηματοοικονομικής πληροφόρησης.

Επικοινωνούμε μαζί σας διότι ανήκετε σε μια από βασικές κατηγορίες ενδιαφερομένων για τις οικονομικές πληροφορίες που δημοσιεύει η κεντρική κυβέρνηση και κατέχετε επαρκείς γνώσεις ώστε να θεωρείστε ειδικός για να προβείτε στην ως άνω αξιολόγηση.

Για τους σκοπούς της έρευνας έχει αναπτυχθεί ένα εύχρηστο και ευέλικτο ερωτηματολόγιο σε ηλεκτρονική μορφή το οποίο βρίσκεται στη διεύθυνση:

http://195.251.253.37/Governmental_Accounting_Evaluation/

Θα θέλαμε να σας παρακαλέσουμε να διαθέσετε λίγο από τον πολύτιμο χρόνο σας για να το συμπληρώσετε μέχρι 10.07. Η συμβολή σας θα είναι πολύ σημαντική. Οποιαδήποτε σχόλια ή παρατηρήσεις σας είναι ευπρόσδεκτα.

Με εκτίμηση,

Σάνδρα Κοέν
Επίκουρη Καθηγήτρια

Σωτήρης Καρατζήμας
Υποψήφιος Διδάκτορας



Ερωτηματολόγιο Αξιολόγησης Οικονομικών Καταστάσεων Κεντρικής Κυβέρνησης για το έτος 2010

ΜΕΡΟΣ 1: Παρακαλώ για τα παρακάτω λογιστικά μεγέθη, βαθμολογείστε (1: Χαμηλό - 7: Υψηλό) το επίπεδο στο οποίο πληρούν κάθε ένα από τα ποιοτικά χαρακτηριστικά της χρηματοοικονομικής πληροφόρησης:

Ενεργητικό	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

Υποχρεώσεις	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

Εισπρακτέα και Πληρωτέα ποσά	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

Έξοδα	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							



Έσοδα	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

ΜΕΡΟΣ 2: Παρακαλώ αξιολογείστε (1: Χαμηλό - 7: Υψηλό) το επίπεδο στο οποίο κρίνετε ότι ο Ισολογισμός και τα Στοιχεία Εσόδων-Εξόδων ικανοποιούν τα ακόλουθα ποιοτικά χαρακτηριστικά:

Ισολογισμός	1	2	3	4	5	6	7
Συνολικό επίπεδο Ποιότητας χρηματοοικονομικής πληροφόρησης							
Συνολικό επίπεδο Αξιοπιστίας							
Συνολικό επίπεδο Συνάφειας							
Συνολικό επίπεδο Κατανοησιμότητας							

Κατάσταση Αποτελεσμάτων Χρήσης	1	2	3	4	5	6	7
Συνολικό επίπεδο Ποιότητας χρηματοοικονομικής πληροφόρησης							
Συνολικό επίπεδο Αξιοπιστίας							
Συνολικό επίπεδο Συνάφειας							
Συνολικό επίπεδο Κατανοησιμότητας							

ΜΕΡΟΣ 3: Σας ζητείτε να αξιολογήσετε την γενικότερη οικονομική κατάσταση της κεντρικής κυβέρνησης με βάση τις χρηματοοικονομικές καταστάσεις του έτους.

Παρακαλώ εκφράστε το βαθμό της συμφωνίας- διαφωνίας σας με τις ακόλουθες προτάσεις στην κλίμακα όπου το 1 δηλώνει διαφωνώ απόλυτα και το 7 δηλώνει συμφωνώ απόλυτα:	1	2	3	4	5	6	7
Θα είναι πολύ δύσκολο να αξιολογήσω την οικονομική κατάσταση χωρίς τουλάχιστον τις πληροφορίες που παρέχονται.							
Πολύπλοκοι υπολογισμοί ή προσαρμογές είναι απαραίτητες προκειμένου να χρησιμοποιηθούν οι παρεχόμενες πληροφορίες για την αξιολόγηση της οικονομικής κατάστασης.							
Οι παρεχόμενες πληροφορίες επαρκούν για την αξιολόγηση της οικονομικής κατάστασης							

Παρακαλώ αξιολογείτε τις παρεχόμενες πληροφορίες στην κλίμακα όπου το 1 δηλώνει ελάχιστη πληροφορία και το 7 δηλώνει όλη η πληροφορία.	1	2	3	4	5	6	7
Τι μέρος της παρεχόμενης πληροφορίας βρίσκεται σε μορφή χρήσιμη για την αξιολόγηση της χρηματοοικονομικής κατάστασης;							
Τι μέρος της παρεχόμενης πληροφορίας είναι κατανοητό χωρίς την πραγματοποίηση παραπάνω υπολογισμών ή προσαρμογών;							
Τι μέρος της παρεχόμενης πληροφορίας είναι απαραίτητο για την αξιολόγηση της χρηματοοικονομικής κατάστασης;							



Ερωτηματολόγιο Αξιολόγησης Οικονομικών Καταστάσεων Κεντρικής Κυβέρνησης για το έτος 2011

ΜΕΡΟΣ 1: Παρακαλώ για τα παρακάτω λογιστικά μεγέθη, βαθμολογείστε (1: Χαμηλό - 7: Υψηλό) το επίπεδο στο οποίο πληρούν κάθε ένα από τα ποιοτικά χαρακτηριστικά της χρηματοοικονομικής πληροφόρησης:

Ενεργητικό	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

Υποχρεώσεις	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

Εισπρακτέα και Πληρωτέα ποσά	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

Έξοδα	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							



Έσοδα	1	2	3	4	5	6	7
Προγνωστική αξία (Predictive value)							
Ανατροφοδοτική αξία (Feedback value)							
Επαληθευσιμότητα							
Πιστή απεικόνιση (Faithful representation)							
Πληρότητα							
Ουδετερότητα							
Κατανοησιμότητα							

ΜΕΡΟΣ 2: Παρακαλώ αξιολογείστε (1: Χαμηλό - 7: Υψηλό) το επίπεδο στο οποίο κρίνετε ότι ο Ισολογισμός και τα Στοιχεία Εσόδων-Εξόδων ικανοποιούν τα ακόλουθα ποιοτικά χαρακτηριστικά:

Ισολογισμός	1	2	3	4	5	6	7
Συνολικό επίπεδο Ποιότητας χρηματοοικονομικής πληροφόρησης							
Συνολικό επίπεδο Αξιοπιστίας							
Συνολικό επίπεδο Συνάφειας							
Συνολικό επίπεδο Κατανοησιμότητας							

Κατάσταση Αποτελεσμάτων Χρήσης	1	2	3	4	5	6	7
Συνολικό επίπεδο Ποιότητας χρηματοοικονομικής πληροφόρησης							
Συνολικό επίπεδο Αξιοπιστίας							
Συνολικό επίπεδο Συνάφειας							
Συνολικό επίπεδο Κατανοησιμότητας							

ΜΕΡΟΣ 3: Σας ζητείτε να αξιολογήσετε την γενικότερη οικονομική κατάσταση της κεντρικής κυβέρνησης με βάση τις χρηματοοικονομικές καταστάσεις του έτους.

Παρακαλώ εκφράστε το βαθμό της συμφωνίας- διαφωνίας σας με τις ακόλουθες προτάσεις στην κλίμακα όπου το 1 δηλώνει διαφωνώ απόλυτα και το 7 δηλώνει συμφωνώ απόλυτα:	1	2	3	4	5	6	7
Θα είναι πολύ δύσκολο να αξιολογήσω την οικονομική κατάσταση χωρίς τουλάχιστον τις πληροφορίες που παρέχονται.							
Πολύπλοκοι υπολογισμοί ή προσαρμογές είναι απαραίτητες προκειμένου να χρησιμοποιηθούν οι παρεχόμενες πληροφορίες για την αξιολόγηση της οικονομικής κατάστασης.							
Οι παρεχόμενες πληροφορίες επαρκούν για την αξιολόγηση της οικονομικής κατάστασης							



Παρακαλώ αξιολογείτε τις παρεχόμενες πληροφορίες στην κλίμακα όπου το 1 δηλώνει ελάχιστη πληροφορία και το 7 δηλώνει όλη η πληροφορία.	1	2	3	4	5	6	7
Τι μέρος της παρεχόμενης πληροφορίας βρίσκεται σε μορφή χρήσιμη για την αξιολόγηση της χρηματοοικονομικής κατάστασης;							
Τι μέρος της παρεχόμενης πληροφορίας είναι κατανοητό χωρίς την πραγματοποίηση παραπάνω υπολογισμών ή προσαρμογών;							
Τι μέρος της παρεχόμενης πληροφορίας είναι απαραίτητο για την αξιολόγηση της χρηματοοικονομικής κατάστασης;							



Appendix 2

Table 21: Elements of financial reporting quality (mean values)

Total assets	Predictive value		Feedback value		Verifiability		Faithful representation		Completeness		Neutrality		Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	2.98	4.35	3.18	4.39	3.18	4.35	3.16	4.27	2.94	4.51	3.47	4.51	3.31	4.96
Public sector (n=18)	2.98	4.39	3.17	4.72	3.78	5.00	3.94	5.06	3.56	5.22	4.11	5.22	3.33	5.56
Investors (n=14)	3.29	4.43	3.14	4.57	3.50	5.07	3.64	5.00	3.29	5.07	3.23	4.57	3.50	5.29
Oversight (n=12)	2.92	4.33	3.17	5.08	3.33	5.58	3.75	5.67	3.58	5.67	3.25	4.67	3.75	5.42
Total debt	Predictive value		Feedback value		Verifiability		Faithful representation		Completeness		Neutrality		Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	2.94	4.43	3.18	4.55	3.12	4.53	3.12	4.45	2.98	4.65	3.33	4.71	3.36	5.02
Public sector (n=18)	2.78	4.39	3.06	4.67	3.44	5.06	3.83	5.22	3.22	5.28	4.00	5.17	3.22	5.56
Investors (n=14)	3.21	4.64	3.21	4.71	3.79	5.14	3.43	5.00	3.50	4.86	3.29	4.64	3.43	5.29
Oversight (n=12)	2.67	4.25	3.17	5.08	3.25	5.67	3.67	5.67	3.50	5.67	3.25	4.75	3.58	5.58
Receivables and payables	Predictive value		Feedback value		Verifiability		Faithful representation		Completeness		Neutrality		Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	2.90	4.37	3.00	4.41	3.16	4.39	3.06	4.31	2.92	4.45	3.22	4.53	3.16	4.80
Public sector (n=18)	2.83	4.33	2.94	4.61	3.50	4.83	3.78	5.06	3.44	5.06	3.56	5.00	3.72	5.39
Investors (n=14)	3.21	4.29	3.29	4.64	3.64	5.07	3.50	4.86	3.57	4.86	3.29	4.57	3.50	5.21
Oversight (n=12)	2.67	4.33	3.33	5.17	3.42	5.58	3.75	5.50	3.67	5.33	3.17	4.67	3.75	5.42
Expenditures	Predictive value		Feedback value		Verifiability		Faithful representation		Completeness		Neutrality		Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	2.96	4.43	3.08	4.37	3.16	4.41	3.12	4.49	2.96	4.45	3.35	4.55	3.43	4.84
Public sector (n=18)	3.11	4.61	3.06	4.61	3.50	5.11	3.94	5.00	3.56	4.94	3.94	5.17	3.72	5.61
Investors (n=14)	3.14	4.71	3.14	4.71	3.50	5.29	3.21	5.29	3.14	5.07	3.21	4.71	3.79	5.36
Oversight (n=12)	2.58	4.25	3.17	5.08	3.50	5.67	3.83	5.50	3.42	5.58	3.33	4.67	3.67	5.42
Revenues	Predictive value		Feedback value		Verifiability		Faithful representation		Completeness		Neutrality		Understandability	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	2.94	4.37	3.08	4.47	3.22	4.49	3.10	4.59	2.92	4.65	3.33	4.59	3.49	5.00
Public sector (n=18)	2.94	4.67	3.00	4.72	3.56	5.06	4.00	5.17	3.61	5.11	4.06	5.06	3.78	5.61
Investors (n=14)	3.14	4.57	3.29	4.71	3.57	5.29	3.21	5.14	3.21	5.07	3.29	4.71	3.71	5.29
Oversight (n=12)	2.58	4.00	3.17	5.17	3.58	5.50	3.67	5.33	3.75	5.83	3.50	4.83	3.67	5.75

1-7 scale, where 1 minimum and 7 maximum



Table 22: Mean values of perceived importance and usability among user groups

Perceived importance	It would be extremely difficult to assess the financial condition without at least the information presented		The information presented is sufficient to assess the financial condition		What portion of the information presented is essential for or instrumental in assessing the financial condition?*		<i>Index of perceived importance</i>	
	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	4.22	4.94	2.82	4.25	3.86	4.78	3.63	4.66
Public sector (n=18)	5.06	5.72	3.22	4.50	3.94	5.33	4.07	5.19
Investors (n=14)	5.57	4.07	2.07	4.50	4.36	4.86	4.00	4.48
Oversight (n=12)	6.17	5.17	3.00	5.42	3.92	5.17	4.36	5.25
Perceived usability	Extremely complex recalculations or adjustments are necessary in order to use the information presented to assess the financial condition (<i>reverse coded</i>)		What portion of the information presented is in the correct form for the assessment of the financial condition?*		What portion of the information presented is interpretable without any recalculation or adjustment for the assessment of the financial condition?*		<i>Index of perceived usability</i>	
	2010	2011	2010	2011	2010	2011	2010	2011
Citizens (n=51)	3.53	4.20	3.27	4.75	3.06	4.45	3.29	4.46
Public sector (n=18)	3.06	4.17	2.94	4.94	2.94	5.00	2.98	4.70
Investors (n=14)	2.43	4.57	2.57	4.93	2.79	4.86	2.60	4.79
Oversight (n=12)	2.25	3.67	3.17	5.33	2.92	4.92	2.78	4.64

The scale is 1: Totally disagree – 4: Neutral – 7: Totally agree, except for * where 1: None – 4: About half – 7: All



Table 23: Differences on perceived importance and usability between experts and non-experts (Mann Whitney U-test)

Perceived importance (2010)	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
It would be extremely difficult to assess the financial condition without at least the information presented	5.52	4.13	0.001
Perceived usability (2010)	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
Extremely complex recalculations or adjustments are necessary in order to use the information presented to assess the financial condition	4.28	5.78	0.000
Perceived importance (2011)	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
The information presented is sufficient to assess the financial condition	5.13	4.06	0.005
Perceived usability (2011)	<i>Experts</i>	<i>Non-experts</i>	<i>Diff. (z-value)</i>
What portion of the information presented is in the correct form for the assessment of the financial condition?*	5.30	4.63	0.010
What portion of the information presented is interpretable without any recalculation or adjustment for the assessment of the financial condition?*	4.96	4.44	0.027

*The scale is 1: Totally disagree – 4: Neutral – 7: Totally agree, except for * where 1: None – 4: About half – 7: All, Statistically significant differences among groups indicated with bold type letters*

