The Accounting for ‘Rational Management’ and Financial Management in New Zealand Education Sector

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Abstract

This paper examines the intent and consequences of ‘new’ accounting (the ‘New Public Financial Management’) (NPFM) procedures invoked to facilitate a macro-micro interface within the context of the significant administrative reform of the New Zealand (NZ) state education system. The 1989 educational reform of the NZ education system can be seen as part of a wider set of public sector reforms, which are characterised by the umbrella heading of ‘New Public Management’. It was claimed that NPFM provided a link between the sets of values highlighted through the NPM reform process and the internal workings of various public sector organisations.

The study provides case studies of the organisational budgeting practices of four schools, some ten years after the reform. The observed practices are analysed and interpreted within a theoretical framework comprising two competing theories of change – NPM which provides the ‘normative’ intent for public sector organisational change, and institutional theory that offers an explanation of the ‘operational’ consequences of public sector organisational (i.e. schools) response to change. The findings suggest that accounting and management technologies have served a useful, political purpose, although not in the way espoused by NPM proponents.
The Accounting for ‘Rational Management’ and Financial Management in New Zealand Education Sector

1. Introduction

A focus on education and the management of the educational process forms an important element of the public sector management reforms that have been implemented throughout many countries. Of particular interest is the role of accounting in the reform process (Broadbent & Guthrie, 1992; Hood, 1995). This paper provides one response to this challenge through an examination of management accounting procedures that were invoked during a period of change in the NZ schools sector, and our story begins in the late 1980s.

The re-election of the fourth Labour government (1984 – 1991) in 1987 heralded the commencement of a period of considerable change to the administrative structures and processes of NZ state provided education since its inception in the 1870s (Codd, 1990; Macpherson, 1989). In brief, the reform abolished the intermediary stages of education administration, radically reduced and restructured the central agency and identified individual schools as “… the basic building block of education administration” (Department of Education, 1988, p.1). Elected boards of trustees were responsible for the governance of individual schools and principals were charged with day-to-day management. Many of the direct controls that existed under the pre-reform structure were replaced by other steering mechanisms such as: school charter; national curriculum; national educational guidelines; educational reviews and financial audits.
Arguably, the then government had sought to introduce economic and managerial ‘rationalism’ into the education system and, specifically, the school site. The official rhetoric of the reforms emphasised issues of ‘efficiency’, ‘devolution’, ‘choice’, ‘competition’ and ‘accountability’ and impacted on other areas of the NZ public sector, which the government sought to steer, including education. Schooling was re-oriented in line with these terms and schools modelled on structures more commonly found in the private business sector. The vertically integrated operational model of the education system that existed prior to the 1989 reform was remodelled with a decoupling of politics and management, and has been redefined in terms of purchasers and providers of education. The reform intent had more to do with making education providers more responsive and to be held accountable for the efficient and effective use of resources (Education Review Office, 1994; Picot Report, 1988), and had less to do with issues of ‘education’ (Bowe, Ball & Gold, 1992; Dale, 1994; Dale & Ozga, 1993). This led to significant change in the administrative structures and processes within the NZ education system.

Fundamental to the change in the management and control of the public services, including education, was a ‘new’ emphasis on the use of business accounting technologies. As suggested by Olson, Guthrie and Humphrey (1998, p.18), “an increasingly notable element of the New Public Management movement is the seemingly endless list of accounting-based techniques that are being drawn on in the pursuit of reform.” As an instrument of change, the significance of accounting information and practices was particularly evident in the context of the NZ public sector reform, as the Governor of the Reserve Bank, Donald Brash, observed:

We have greatly improved the efficiency of resource use in the public sector … partly through the simple expedient (emphasis added) of introducing

As part of the reform of the NZ education system, the Education Act 1989, and more recently a 1991 amendment to the Public Finance Act 1989, brought in a wave of financial management and reporting initiatives, including a new assets management and financial planning regime and a requirement to annually prepare audited accruals-based financial performance statements and provide non-financial performance information.

This paper examines the way in which a selection of NZ secondary schools responded to the official rhetoric for school-based systems of ‘New Public Financial Management’ (NPFM) or what is referred to in this paper as ‘School-based Financial Management’ (SBFM). Through a discussion of the continued attempts at operationalising budgeting and budgetary control, some ten years into the post-reform period, it highlights a disparity between the normative intent of the NPM reforms and the operational reality and consequences of the official demands at the school site level. Two competing theories of change processes – NPM and aspects of institutional theory – provide a theoretical framework within which the empirical findings are discussed.

The paper is structured around the following five sections. Section 2 sets out the theoretical framework underpinning this study. The theoretical framework draws on the aspects of NPM and institutional theory that are used to inform the empirical detail of this study. This is followed by Section 3, which outlines the research method used in this study. The empirical detail, or the operational response of schools to the
official demands for SBFM, is presented in Section 4 and discussed in Section 5. Section 6 provides some concluding comments.

2. Theoretical Framework

In this paper we distinguish between the ‘normative mode’ and the ‘operational mode’ of the deployment of NPFM technologies and practices to the school site. The notion of a ‘normative mode’ and an ‘operational mode’ of accounting draws upon the work of Becher and Kogan (1992) who developed a model that provided a coherent and conceptually sound analysis of British higher education. The normative mode relates to the monitoring and maintenance of values within the system as a whole (p.10). Meanwhile, the operational mode “refers to the business of carrying out practical tasks at different levels within the system” (p.10). The contrast between them is related to what people actually do – or what they are institutionally required to do – and what they count as important. The authors acknowledged that there are close interrelationships between the two modes, but noted “a familiar and recognizable difference between the rationale of a group or organization and what it does in practice: between its [espoused] values and its tasks” (p.20). The distinction between a normative mode and operational mode provides a useful point of reference for this current study. The ideas associated with the NPM and the NPFM are used in this paper to provide a theoretical understanding, and therefore the normative mode, of the public sector change and the ‘new’ accounting.

2.1 The ‘New Public Management’ and the ‘New Public Financial Management’

New Public management characterises an international phenomenon concerned with the transformation of the machinery of government. In his seminal work, Hood (1991)
identified what he termed seven ‘doctrinal components’ of NPM. These included: financial devolution to service providers; explicit standards and measures of performance; differentiation between inputs, outputs and outcomes; increased accountability of service providers; private sector styles of management practice; increased competition and contracting between service providers; and greater emphasis on efficiency, economy and effectiveness of resource usage.

The NZ ‘model’ of public sector reform drew not only on the ideas of the NPM, but also from economic theories such as public choice, agency theory, and transaction-cost economics (see, Boston, Martin, Pallot & Walsh, 1996; Scott & Gorringe, 1989). From the fusion of management practices with the economics paradigm, a series of common principles have been applied across the entire NZ public sector including central government departments and the education sector. These common principles (Pallot, 1998, p.159; original emphasis) are:

a. Enhanced transparency
b. Distancing of politicians
c. Enhanced performance specification and monitoring.
d. Devolution of activities away from the core central government

The above review of the characteristics of NPM and its NZ derivative provides the political-economic context from which the ‘new’ public sector accounting has emerged. Tooley (2002) argues that accounting technologies and techniques (or NPFM) were key elements in the NPM reform as they facilitated a macro-micro interface by providing a link between the external values associated with NPM reform and the internal workings of organisations within the public sector, including schools. That is, accounting performance measurement and control tools provided the state with the technology to transmit the market and managerial values of the reforms into
public sector institutions (Jacobs, 1995). In particular, the *Public Finance Act 1989* introduced changes to accountabilities and requirements for managing financial matters. School Boards of Trustees were required to develop accounting structures and information systems, which enables internal and external reporting. No such structure or system was emphasised in the pre-1989 reform period.

The importance of a formal rational management system has been at the fore of the NZ education reform, with the emphasis on the necessity for, amongst other things, a school charter, national education guidelines, performance review and performance reporting. Overall, the official claims the education reform engaged in was focused on ‘efficiency’ and ‘accountability’. With a devolved budget to the school site and enhanced performance accountability, the role of accounting within school systems moved from a subordinate service role to a dominating, agenda-setting role (Parker & Guthrie, 1993) and created new accounting visibilities.

As observed by Hopwood (1984, p.185), “the consequences of accounting do not necessarily have a close and automatic relationship with the aims in the name of which it is introduced.” The finding of this current study, and as discussed in Section 5, was of a divergence between the NPM normative mode and the operational mode in the use of accounting technologies and processes at the school site. The ‘tension’ between the normative mode intent of NPM and the operational mode consequences of NPM resulted from, as expressed by Meyer (1998, p.13), an operational reality that the NPM reforms had less to do with substantive efficiency and effectiveness, and was more about rationalising modernity. That is, in the normative mode, the import of private sector accounting and business technologies was as an instrument of change.
trying to realise economic efficiency and accountability gains, however, in the operational mode, the same technologies were put in place by public sector (school) managers as devices to legitimate their activities, and not as mechanisms for action or transformation (Lapsley & Pallot, 2000, p.215). Institutional theory, which focuses on the conformity patterns of organisational behaviour, provides a useful theoretical language that is used to inform the findings of this current study in section 6. In the UK, studies of education (for example; Edwards, Ezzamel, Robson & Taylor, 1995; Edwards, Ezzamel, McLean & Robson, 2000) have explored the operational consequences of NPM reforms by deploying an institutional perspective to reveal the use of accounting practices (e.g., budgeting) as legitimating devices.

2.2 Institutional Theory

The element of institutional theory (see, for example: DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Scott, 1995) that has been most highlighted is the tendency of organisations to continually strive to strengthen their ‘legitimacy’ within their appropriate environments (Mizruchi & Fein, 1999). Legitimacy was achieved if organisations operated within the bounds and norms of their respective institutional environments. Notably, organisations were prone to construct rhetorical ‘stories’ about their actions that corresponded to socially prescribed expectations about what the organisation should do. Such rhetorical stories did not necessarily have any connection to what the organisation actually did, but rather were used as forms of symbolic reassurance to appease external expectations and often because they are rewarded for so doing through increased legitimacy, resources and survival capabilities (Meyer & Rowan, 1977).
Accounting can become implicated in the attainment of organisational legitimacy. As defined by Scott and Meyer (1983, p.149), the institutional environment within which the organisation operates is “characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy….” Investments in rational organisational structures, and technical management and accounting procedures can be used to demonstrate the organisation’s acceptance of the legitimacy of economic and technical bases for action. Within this institutional environment, accounting can provide a basis for enhancing organisational legitimacy. As described by Meyer and Scott (1983, p.235):

… accounting structures are myths … (which) describe the organisation as bounded and unified, as rational in technology, as well-controlled and as attaining clear purposes. The myths are important: they help to hold the organisation together with their justifications … they legitimate the organisation with the controlling external environment.

Accordingly, accounting and the practices of ‘best management’ then become symbols of the organisation’s commitment to external values such as the NPM demands of improved ‘efficiency’, ‘effectiveness’ and ‘accountability’, both as an aim and as a particular strategy of rational governance and management.

The response of schools to the adoption of NPFM technologies, as espoused in the NPM normative mode, can be depicted as two interrelated ways: first as acceptance of the requirements as rationalised and impersonal prescriptions accounting represents impersonal rules applied by the organisation in the rational pursuit of its aims and objectives, or second decoupling the core organisational activities from its legitimating activities accounting provides a façade, which enables the organisation to maintain standardised, legitimating, formal structures while their activities vary in response to practical considerations.
3. **Research Design**

The focus of this research is on case study settings. The research subscribes to the theme of case study research as “a phenomenon of some sort occurring in a bounded context” (Miles & Huberman, 1994, p.25).

In this research, SBM and, in particular, SBFM, is seen as the ‘phenomenon’ to be investigated and individual schools seen as the ‘bounded context’, the intention of which is to bring some depth and understanding to the phenomenon studied in context, rather than simply explain causes dispassionately (Merriam, 1988; Scapens, 1990).

The research method was analytical in nature and drew on the experiences of key actors at participating secondary schools. The empirical gathering process involved open-ended interviews and discussions with a number of different individuals within each school; these were usually the principal, business manager, head of department, BoT finance sub-committee chairperson, and BoT staff (teacher) representative. The empirics were gathered over a 12-month period between November 1999 and November 2000. A range of data collection methods was employed, and included school annual reports, budgetary documents, BoT financial policies and guidelines. However, semi-structured interviews were the prime source of information. The interviews were taped, transcribed with secretarial assistance, and returned to the participants for their comments and amendments. This constructed ‘understanding’ of
how SBFM had been operationalised at each school site was presented to the key actors and an invitation extended for them to confirm and refine the ‘understandings’.

Within a multiple case-study design it is not appropriate to talk about a sample (Yin, 1994, p.45), therefore, no attempt was made to obtain a ‘random’ sample of sites. However, while the uniqueness of individual school sites is recognised, case-study research does not preclude any attempt to try to survey a range of sites that might share certain characteristics or differ with regard to others. Two key selection criteria were used: size; and socio-economic area. The schools were of a similar size and, therefore, were expected to have received similar amounts of core government funding (primarily in the form of funding related to pupil enrolments), to have offered a similar range of curricula, and to have similar physical resource needs.

A distinction between the schools was made on the basis of socio-economic area. Of the fours schools, two were located in more ‘well-off’ areas and two were located in less ‘well-off’ areas. The socio-economic location of the schools was important because it illustrated the principle of equality of opportunity. Schools within the more ‘well-off’ socio-economic areas were more likely to derive additional financial resources through local fund raising activities and would, therefore, be able to provide more facilities and opportunities to students. Schools within less ‘well-off’ areas would not have the same financial opportunities and would be unable to provide the same facilities and opportunities. Thus, the socio-economic location of the schools would have a bearing on the total amount of financial resources under the control of BoTs. A summary of the selection details is shown in Table 1.
4. School-based Financial Management

In this section we present the findings of our investigation into the SBFM practices in these four schools. The findings are set out in three subsections: – (1) management and organisational change; (2) school-based budgeting and budgetary control; and (3) the accounting – and which in turn provide a summary of the operational mode of SBFM in these four schools.

Table 1: School Selection Criteria

<table>
<thead>
<tr>
<th>School</th>
<th>Student Roll (approx.) (1997)</th>
<th>Decile</th>
<th>Total Revenue</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kakapo</td>
<td>1200</td>
<td>2</td>
<td>$5.5m</td>
<td>$4.4m</td>
</tr>
<tr>
<td>Takahe</td>
<td>1400</td>
<td>8</td>
<td>$7.2m</td>
<td>$6.2m</td>
</tr>
<tr>
<td>Kea</td>
<td>1000</td>
<td>4</td>
<td>$4.8m</td>
<td>$2.5m</td>
</tr>
<tr>
<td>Tui</td>
<td>1200</td>
<td>10</td>
<td>$5.5m</td>
<td>$2.6m</td>
</tr>
</tbody>
</table>

4.1 Management and Organisational Change

The broad picture emerging from the descriptions and interpretations was one of new forms of internal management control structures and processes, and managerial structures and processes that were operating more and more vertically. The formal recognition of schools as the basic unit of education administration, the creation of school Boards of Trustees (BoTs), principal responsibility for day-to-day school management and the creation of internal responsibility centres have seen the emergence of this vertical structure. This can be contrasted with the pre-1989 structure of the education system and, in particular, school administration where a
flatter administration structure existed and the school was recognised as a cost centre functioning under the direct administration of the Department of Education.

The control structures and processes in which the ‘new’ accounting was implicated disturbed traditional values and functions at schools. A significant consequence of operating vertically was that while some professionals saw their power being shackled, the people who took on management positions could actually gain in power and importance. In general, the power of people involved in administration seemed to increase because of greater emphasis on overall resource concerns compared with individual educational needs. School-based Financial Management has changed the patterns of power and influence through the devolution of budgets and a focus on economic rationality. Increasingly, Principals and senior management were seen as the management and other staff as the workers (Bowe et al., 1992).

For principals, the structural reform had a significant impact on their functional roles. A new breed of principal was apparent, with weakened links to the professional educational project, but with increased managerial skills. The traditional accountability of professionals was along professional lines, and for teaching professionals; being called to answer for spending was something different.

A notable structural change was the establishment of responsibility centres. In the process, a middle-management tier was established. The responsibility centres were predominately aligned to academic disciplines, with Heads of Department/Faculty the designated managers responsible for their respective responsibility centre and who reported directly to the principal. This signalled an attempt by school management to
close the gap between the formal structures and actual work activities, partly in order to enhance senior management’s ability to control spending at the macro-level.

The formal devolution of managerial tasks, primarily relating to spending and departmental administration, were causing the people designated as responsibility centre managers at least to reflect on macro-problems (e.g., limited funding), even though their main mode of operating was a micro-one. Each responsibility centre manager was given a fixed budget within which they were supposed to contain spending for their part of the organisation. The internally devolved budget was an important development arising from the reform period, and was intended to ensure ‘that money got spent where it [was] needed by people who knew what they needed and therefore could spend it wisely’.

4.2 School-based Budgeting and Budgetary Control

Whereas in the pre-reform period the four schools used to depend for their cash needs on the Department of Education, that changed as a result of the 1989 reform. The bulk funding of each school’s operating grant and the teachers’ salaries grant, meant that each BoT became responsible for their own cash grants and for managing cash. The BoTs were empowered, within the constraints of national education guidelines, national curricula and their school charter, to establish their own financial priorities that allowed them to be more responsive to ‘local community priorities’, and ‘provided more opportunity to choose where and how we spend some that money’ without the need to ‘make a claim for every cent.’

The reform created the discourse for better cash management and for schools to operate within grants. This, in turn, gave rise to a need to manage spending. Boards of
Trustees were expected to have their income and expenditures properly planned and controlled. This privileged the role of the budget, but only insofar as the delivery of educational services was largely contingent on the availability of financial resources.

In the normative mode, BoTs were required to ensure that the budgets were directly linked to the requirements stated in their school’s charter. Therefore, in preparing the school budget, each BoT must identify its objectives for both current and future years (generally within a 3–5 year period) and the total funds required for achieving each objective. There was little evidence in the operational mode, however, of strategic planning and associated financial budgeting. Schools appeared to be more concerned with their current year financial requirements and less concerned about future financial needs.

Notably, the Principals controlled the budgetary process and the myth of BoTs as decision makers was maintained by the routine nature of their approval process. The domination of the budgetary process by the Principals may be attributed to several factors including:

- The devolved budget was so tight that there was little scope for strategic change;
- The Principals were well-placed through their knowledge of their schools’ educational needs to exercise power over information and resources;
- The Principals absorbed the managerial changes to protect the values of their schools, which traditionally have not been closely aligned to financial issues; and
• Budgeting was part of the required rational management system and was viewed as an instrument of external legitimacy rather than a decision-making tool.

Much of the budget preparation carried out within schools involved allocating an amount that was reflective of historical trends. As a budget holder, the intent was ‘to ensure you are not getting any less than previous years’. This means of budgeting seemed to reinforce the status quo, and encourage repetition, despite the fundamental shifts in perspectives and approaches to operations being demanded by other aspects of the changes throughout the education system.

Despite the official claims that more efficient and effective decision-making would occur under devolved responsibility for financial management, the incremental bias in budgeting reduces the likelihood that SBM will lead to planned use of resources to achieve local needs. For example, for the four school investigated, salary costs represented some 63% to 82% of annual budget. Together with the unavoidable necessity to pay bills such as heating, lighting, rates, and audit fees, the impact of this budgetary decision was that the actual level of the budget available to resource school priorities was minimal and there was, therefore, an element of routine about allocating the budget as opposed to the decision-making intended by the reforms. Arguably, the four schools would suggest that there was no opportunity to budget for non-compulsory education services (i.e. over and above their responsibilities in terms of the national curriculum and national educational guidelines) given that all four schools initially set a deficit budget for the year under review.
Inadequate funding seemed to be the general complaint among the participants. The policy associated with increased community control was tied up with the expectation of a community contribution to the cost of the education process. Thus, schools were expected to raise additional income in their respective communities.

The budgetary constraints on the ability to achieve local needs also impacted on the systems of internally devolved financial management. Although the responsibility centre managers had authority to spend the budget allocated, the emphasis was on not overspending. Tight fiscal constraints meant there was little opportunity for budget holders to spend in areas and on items outside of the core education curriculum. As a result, most responsibility centre managers found themselves being asked to control nearly all expenditures on items that for them were uncontrollable. It was as if the responsibility centre managers were being used to symbolise formal central management control. Nevertheless, most of the responsibility centre managers interviewed saw themselves as being accountable in some way for spending.

The budget holders found that by keeping within budget they were less prone to retrospective, outside interference in the way they operated their responsibility centres. This was a necessary condition to ensure support and legitimacy as a budget holder, because questions of a managerial nature tended to be asked from above on an exception basis (i.e. when something was wrong according to the data). These questions tended to be about overspending, rather than about quality and effective delivery of the curriculum.
Nevertheless, in all cases, the centre budgets and the answers to budget variances were aggregated and formed the basis of the monthly reports that went to the BoT. The responsibility centre managers at two of the schools (Kea and Takahe) were formally invited to meet with their respective BoT on a periodic basis to discuss any issues or concerns. It was suggested that these meetings were also intended for the managers to report on their own performance *vis-a-vis* providing a statement of service performance.

The internal devolution of budgets in this way had wider implications for processes and interactions up and down the school organisation. In particular, general ledgers were brought to the fore of the financial management system. In the new model of devolved financial management, the basic form of the general ledgers was coverage of the entire school institution, divided into responsibility centres and subdivided into classes of expenditure. The accuracy and timeliness of the general ledgers were widely criticised by the responsibility centre managers. Most of the blame was put on accounting systems being centralised and geared up to reporting in retrospect to BoTs on the overall picture of total spending compared with the budget for the year-to-date. Often the budget reports were not available to the responsibility centre managers until the latter part of the month following the period being reported on. As a direct result of the dissatisfaction and exasperation associated with central data systems, the trend among responsibility centre managers was towards establishing their own local systems. These were used to keep track of orders and spending in more detail. Paradoxically, the adversity engendered through people being held answerable by central accounting system data provided them with incentives to see that these were
properly maintained. There were previously no incentives, because errors in the spending allocation to departments had not mattered.

4.3 The Accounting

A review of the schools’ budget documents and annual financial statements highlighted school financial management practices, and in particular, the way in which accounting has been used as a financial management tool.

Two of the four schools (Kea and Tui) reported a history of recurring operating deficits. A third school, Kakapo, reported a declining annual surplus. Deriving a financial deficit did not, of itself, greatly concern the management of each school. One Kea participant suggested: “it didn’t concern us greatly in the sense that we had a cash operating surplus and we had purchased substantial amounts of new equipment. We didn’t feel we were significantly running the school down.” The Principal reinforced this view stating that: “our cash flows for the year and our operations had been very good, and we’d been fairly conservative.” In any event, a further Kea participant suggested that, historically, running an operating deficit was not uncommon amongst schools with a political intent to “let the government know they are not getting enough money.”

In defending their recurring deficits, the Principal of Tui stated that: “it’s our deliberate decision to deliver the curriculum adequately. The consequence of that is a deficit.” This was consistent with the approach adopted by Tui in the setting of its annual budget. Unlike the other three schools where the budgets were largely set in accordance with anticipated revenues, the budget of Tui was needs based and any
resulting budgeted deficit was largely constrained by what was regarded as an acceptable deficit. It was suggested that, historically, running an operating deficit was not uncommon amongst schools and was “a reflection of (government) under funding.” The school made ready use of its annual report to highlight the extent to which its operating grant was consistently insufficient to cover operating expenditures.

There were instances of significant variance between projected (budgeted) and actual financial performance (see, Table 2). For one school (Takahe), a projected 1999 operating loss of $128,000 turned into a surplus of $148,000 – a $276,000 turnaround primarily due to additional revenue derived (for 1997 there was a reported favourable variance of $447,000, and for 1998 a favourable variance of $511,000). Favourable variances were also gained from operating cash flows. For Takahe, the variances were approximately $500,000 for each of the three years.

It is generally recognised that data provided within a cashflow statement provide a better indicator of a reporting entity’s performance and condition than the more traditional profit or surplus data (see, for example: Lawson, 1985; Lee, 1981; Tweedie & Whittington, 1990). Although two schools operated a financial deficit, in cashflow terms all respondent schools reported a net cash inflow from their operating activities (see, Table 2 below). In fact, it seemed that all schools were more comfortable with budgets on a cash-to-be-spent basis rather than accruals. This was especially evident in two schools. Kakapo budgeted for a modest 1999 surplus of $16,000, but did not include depreciation expense in its reported budget. Actual depreciation expense for the period amounted to $198,000. Although Tui budgeted
for a deficit of $106,000, the magnitude of the budgeted deficit was approximate to the amount of budgeted depreciation expense. This would tend to suggest that the items giving rise to the reported deficits were non-cash items (for example, depreciation), accrued expenses or one-off type transactions (for example, loss on sale).

Table 2: Summarised Financial Performances (1997–2000)

<table>
<thead>
<tr>
<th>School</th>
<th>Reported Surplus / (Deficit)</th>
<th>Reported Net Cash Inflows / (Outflows) from Operating Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budgeted</td>
<td>Actual</td>
</tr>
<tr>
<td>Kakapo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>22114</td>
<td>275270</td>
</tr>
<tr>
<td>1998</td>
<td>2798</td>
<td>178483</td>
</tr>
<tr>
<td>1999</td>
<td>16542</td>
<td>42427</td>
</tr>
<tr>
<td>Kea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>n/a</td>
<td>993</td>
</tr>
<tr>
<td>1998</td>
<td>(120798)</td>
<td>(119014)</td>
</tr>
<tr>
<td>1999</td>
<td>(100370)</td>
<td>(52850)</td>
</tr>
<tr>
<td>Tui</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>(73901)</td>
<td>(4187)</td>
</tr>
<tr>
<td>1998</td>
<td>(136419)</td>
<td>(27672)</td>
</tr>
<tr>
<td>1999</td>
<td>(106047)</td>
<td>(83996)</td>
</tr>
<tr>
<td>Takahe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>(195995)</td>
<td>251503</td>
</tr>
<tr>
<td>1998</td>
<td>12338</td>
<td>523824</td>
</tr>
<tr>
<td>1999</td>
<td>(128431)</td>
<td>148532</td>
</tr>
</tbody>
</table>

Also, among the schools, the budgets shown in their annual reports were often some way removed from the actual figures, both on the income and expenses side. Further, there was also variance between revenue and expenses budgeted for at the beginning of the financial year, and the budget amounts as disclosed in the annual reports. Both of these findings are illustrated in Table 3. The schools’ reports offered no explanation for these occurrences, or commented on their future implications. The budget variances for all four schools are provided in Appendix 1.
Table 3: Takahe Budget Variances (1998)

<table>
<thead>
<tr>
<th>Revenue / Expenditure</th>
<th>Budget ①</th>
<th>Budget ②</th>
<th>Actual ③</th>
<th>Variance (③ – ①)</th>
<th>% of Variance to Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
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<td>Government Grants</td>
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<td>5,814,056</td>
<td>2,454,836</td>
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<tr>
<td>Learning Resources</td>
<td>2,913,069</td>
<td>5,018,409</td>
<td>6,083,343</td>
<td>(3,170,274)</td>
<td>52.1</td>
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<td>323,964</td>
<td>404,752</td>
<td>(79,152)</td>
<td>19.5</td>
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<td>446,850</td>
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<td><strong>Surplus/ (Deficit)</strong></td>
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<td>12,338</td>
<td>523,824</td>
<td>2,496,259</td>
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</tbody>
</table>

① Budget at commencement of year (projected budget)
② Budget reported in annual report
③ Actual reported financial performance
* Net

A comparative analysis between the projected budget, reported budget and actual reported financial performance highlights significant differences in the period under review. The Takahe budgeting of teaching resources (a budget sub-category of learning resources) highlights a variance. Within the projected budget, teaching resources amounted to approximately $315,000. This can be compared with the reported budget of $403,000 and actual expenditure of $878,000. Thus, based on the projected budget, there was a budget overrun of approximately $563,000 (or actual expenditure was 279% of projected budget expenditure). As teaching resources represents those budgets delegated to heads of departments, there are accountability consequences to be considered. Even if the reported budget has been flexed, to take into consideration changes in student enrolments, there nevertheless remains an expenditure overrun of approximately 217% ($878,000/$403,000). The consequences
of such an expenditure overrun may have been downplayed, given the conservative
approach to budgeting, particularly when it would have become clearer during the
year that total revenue was going to exceed budgeted revenue.

Nevertheless, such fluidity between the projected budget and reported budget
undermines the ability to hold budget holders to account. That is, against which set of
budgeted figures are budget holders held to account? Presumably, budget holders are
held to account against the projected budget with some favourable consideration given
to budget overruns occurring during the year, particularly when sources of revenue,
such as government grants, become more readily determinable as the year progresses.

The extent, to which variances were observed between budgeted and actual
performance, and the magnitude of those variances, was a notable finding. It was to be
expected that after some 10 years into the education administration reform the
accounting and management systems would have had sufficient time to embed
themselves, and to demonstrate a more rational management approach to financial
management.

5. Discussion
In the normative mode, the implementation of SBFM was intended to provide local
control over budget decision making to improve the efficiency and effectiveness of
education provision. Operating vertically, accounting had the potential to curb both
inefficient practices and make money go further, and to curb the discretion of
professionals and reduce the proficiency and effectiveness of school organisations.
Professionals were being shackled by the way accounting was operating, “not by
attempts to claim jurisdiction over the content of expert judgement, but by encircling expert judgement within the discourse of budgetary calculation” (Miller & Rose, 1991, p.133). Therefore, in the normative mode, education quality and resource expenditure were directly linked.

People at the school-organisation level and within schools (e.g., responsibility centre managers), were obliged to change their operational modes and make some efforts, real or symbolic, to monitor and reduce expenditure, and to introduce other management control mechanisms linked, inter alia, to accounting.

Although the veneer of business sector structures and processes met the expectations of rational management, giving schools the outward appearance of having adopted a more formal management control and accountability than previously existed, what has emerged is evidence that “the consequences of accounting do not necessarily have a close and automatic relationship with the aims in the name of which it is introduced” (Hopwood, 1984, p.185). It was apparent, largely due to financial resource constraints, that the management control systems did not, to any significant degree, influence internal decision-making. The major portion of school expenditure was subject to incremental budgeting and, further, BoTs tended to adopt a passive rather than a proactive decision-making role.

In the normative mode, if an organisation was implement comprehensive budgeting, it needed to debate its objectives and priorities much more explicitly than in an incremental budgetary process (see, for example: Broadbent, Laughlin & Willig-Atherton, 1994; Edwards, Ezzamel, Robson & Taylor, 1996). There was in this
situation little evidence of strategic planning and required budget expenditures. Although the school charter was developed in consultation with the local community and other stakeholder groups, it was apparent that in the budgeting process little cognisance was taken of the charter, within the sample of schools. Basic principles, rather than formalised and prioritised objectives, appeared to drive the financial planning process. For many schools, financial planning tended to focus on the more immediate concern of financial survival (i.e. maintaining a balanced budget or minimising deficits) rather than output budgeting for future needs. This was indicative of the budgeting process being undertaken within the “private sphere” (Broadbent et al., 1994, p.261), whereby budgeting was akin to housekeeping duties that are completed, yet are rarely commented on unless something goes wrong. The incremental approach allowed Principals to focus on the smoothing and maintenance of existing education activities, rather than seeking constantly to question and define what was being done. Further, by maintaining the status quo, there was reduced opportunity, by external agencies, the BoTs and professionals within schools, to change the underlying values of schools.

It was apparent that accounting had came to play a role associated with the softer rationalities of economic efficiency and accountability, different rationalities from the Government’s perspective of economic efficiency. From the theoretical insights of institutional theory, and specifically, organisational response to legitimacy and change, such differences between practice and a rational-technical model of accounting are not unexpected. If, in the operational mode, the utilisation of accounting-based technologies and practices was to satisfy external demands, then the adoption of rational-technical accounting technologies and practices in the internal
decision-making process need not occur, unless these are specifically required and enforced. Thus there was evidence of accounting becoming increasingly symbolic, and having ceremonial and legitimising roles (Burchell et al., 1980, p.18). This seemed to suggest that the new official structures reflected the myths of their socio-political environments instead of the demands made for systems of rational management in practice. The internal systems of SBFM existed mainly for external legitimacy, and largely to satisfy BoTs and Principals’ needs to discharge their statutory duties.

Much of the workload devolved from the educational bureaucracy has been absorbed by BoTs, Principals and senior management (see also, Laughlin, Broadbent & Willig-Atherton, 1994). School-based management has not directly impacted on the teaching process. That is, there was a loose-coupling (Glassman, 1973) between the management and teaching staff so that teaching professionals remained largely unaffected by the disturbance. Although the reform introduced a new way of managing, it did not touch the core of the education system. The day-to-day teaching function was largely insulated from changes to the management function. Although the SBFM reform was not resisted in its entirety, the absorption process has seen a mode of response that has incorporated internal, “private” (Broadbent et al., 1994) resistance strategies that provided some level of compliance and led to changes, in the school organisation, that can be described as first order (Laughlin, 1991).

Theoretically, by incorporating externally legitimated formal structures, such as SBFM (and despite the inherent limitations of such practices — as outlined in this paper), the schools may be protected from having their conduct questioned. However,
and as suggested by Meyer and Rowan (1977, p.352), such a commitment may also be a sign of “sagacious conformity”, whereby the schools ceremonially reflect the institutional environment in their structure, functions and procedures. This may also be evident, as in the case of the four schools, where the largely symbolic overtures made by school management to the rhetoric of improved financial efficiency and accountability, and for systems of rational management, were acceptable to the government. From an institutional theory perspective, the distinction between appearance and reality is a theoretically important dichotomy (Scott, 1983) because the appearance, rather than the fact of conformity, is often presumed to be sufficient for the attainment of legitimacy. Thus, while the annual report and the setting of a budget were indicators of conformity to the demands of the normative mode, these mechanisms, it is argued, were largely concealment tactics and could be regarded as providing a façade that disguised non-conformity with the normative mode demand for systems of rational management.

Although accounting has played a part in the move to school-based management, there is some doubt about whether it was very significant, other than “for purposes of external legitimation” (Markus & Pfeffer, 1983, p.209). Nevertheless, some accounting was implicated in the structures and processes that challenged the status quo from the late 1980s but, perhaps, only because it reported the flow of financial resources that affects all aspects of school operations.

6. Concluding Comments

This paper has reported on a study of the intent (normative mode) and consequences (operational mode) of ‘new’ accounting procedures in NZ schools. The intent of the
accounting procedures was to facilitate a macro-micro interface between the set of values highlighted through a wider set of public sector form process and the internal workings of school organisations. The theoretical framework of this study drew on NPM and NPFM in defining the normative mode of the new accounting.

The findings of the case study revealed instances where the normative modes of rational management have not been forthcoming and operational modes of practices identified as largely symbolic. In particular, and despite the normative intent that school objectives would be linked to the school charter and that the financial resources required to achieve each objective would be identified, the budget-setting process was loosely coupled to the school charter. Indeed, budgetary decisions were primarily concerned with providing for the current year financial needs, with little regard for the need to make provision for future funding requirements. Further, and despite the establishment of responsibility centre budget holders, budgets were predominately set from above without meaningful participation or consultation. There were in several instances, discernible differences between budgets as set at the start of the year and the reported budgets. As there was no observed occurrence of budgets being flexed, the rationality of the budgetary process (including allocation and control) was brought into question. The study also highlighted external annual reporting practices where aspects of school performance were not reported on.

It was apparent that the aspects that brought about accounting’s involvement at the school site were more to do with what was happening generally in the NZ public sector (e.g., accrual accounting, financial reporting, and devolved management) and less to do with improving the standard of education per se. While many people at the
school level were not unreceptive to these ideas, their predominant concerns were with the micro-level of the individual school and its activities. That is, a key concern of school management was the provision of education to its students and teaching staff who got on with teaching.

It was evident that the potentiality of the SBFM reform to bring about substantial change in the way in which NZ schools managed their devolved budgets was not realised. It was to be expected, therefore, that the operational practices of SBFM provided a level of compliance with normative mode expectations, albeit largely symbolic, and which were acceptable to the central agencies, to maintain the legitimacy of schools that rely on taxpayer funding. This raises a question about the effectiveness of the NPM-style reform and whether the consequential outcomes of the reform process have yielded the espoused efficiency gains or not.

References


## Appendix 1:

### Kakapo Budget Variances (1998)

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Budget (1)</th>
<th>Budget (2)</th>
<th>Actual (3)</th>
<th>Variance (3–1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Government Grants</td>
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<td>4,591,341</td>
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<td></td>
</tr>
<tr>
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<td>2,798</td>
<td>178,483</td>
<td>208,151</td>
</tr>
</tbody>
</table>

* Net

** The ledger account for learning resources showed a projected budgeted amount of $2,955,126; however, the projected budget summary showed $3,336,246 – the difference was unable to be reconciled.

### Kea Budget Variances (1998)

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Budget (1)</th>
<th>Budget (2)</th>
<th>Actual (3)</th>
<th>Variance (3–1)</th>
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<tr>
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</tr>
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<td>Learning Resources</td>
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<td>(1,225)</td>
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<td>(120,798)</td>
<td>(119,014)</td>
<td>351,784</td>
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* Net

** The ledger account for learning resources showed a projected budgeted amount of $2,955,126; however, the projected budget summary showed $3,336,246 – the difference was unable to be reconciled.
### Takahe Budget Variances (1998)

<table>
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<th>Expenditure</th>
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<td><strong>Revenues</strong></td>
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<td>5,814,056</td>
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<td>Investment</td>
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<td>Local Funds</td>
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<td>2,913,069</td>
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<td>Administration</td>
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<td>523,824</td>
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</tr>
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* Net

### Tui Budget Variances (1998)

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<th>Variance (3–1)</th>
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</tr>
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<td>(136,419)</td>
<td>(27,672)</td>
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