Valerio Brescia

THE POPULAR FINANCIAL REPORTING: NEW ACCOUNTING TOOL FOR ITALIAN MUNICIPALITIES

FrancoAngeli

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All that does not regenerate, degenerates.
Edgar Morin

SUMMARY

1. The public sector and the needs p. 9
- 1.1. Introduction » 9
- 1.2. From the need to the rational organization of the public offices » 12
- 1.3. The rational administration process » 13
- 1.4. Integration of the rational administration model » 17
- 1.5. The approach of rational administration in the Italian context » 22
- 1.6. Management accounting change » 25
- 1.7. Changes in the public administration » 29
- 1.8. Governance and consolidated financial statement » 39
- 1.9. Transparency and accounting harmonization, popular financial reporting » 41
- 1.10. Stakeholders and popular financial reporting » 49
- 1.11. The accountability and decision making behind popular financial reporting » 57
- 1.12. Different declination of the popular financial reporting » 60
- 1.13. The movement of social indicators and the popular financial reporting » 61

2. Empirical survey and case study » 65
- 2.1. Methodology » 65
- 2.2. First phase, analysis and features » 67
- 2.3. Second phase » 70
- 2.4. Third phase » 73

3. Applied method of a case study pag, 75
3.1. First phase » 75
3.2. Second phase » 100
3.3. Third phase » 104

4. Results and implications of the research » 111
4.1. Results of the first phase » 111
4.2. Results of the second research phase » 118
4.3. Results of the third research phase » 122
4.4. Research limits » 123
4.5. Conclusion » 124

Bibliography » 131

1. THE PUBLIC SECTOR AND THE NEEDS

1.1. Introduction

The international debate is focused on identifying the best tools and indicators useful to increase accountability in hybrid organizations composed of private sectors, public sectors, third sectors (Billis, 2010). The hybrid organizations see a complicated intertwining of properties, agreements, and components aimed at realizing the services. Both public companies and private companies exist to satisfy anthropological needs (Weber, 1992; Puddu et al., 2017). The analysis, therefore, starts from the satisfaction of generalized needs considering the public service as an organized system of offices (Ferrero, 1987; Tangorra, 1980; Wilson, 1987; O'Flynn, 2007) in a continuous process of change that takes into account different phenomena (Thoenig, 1992). The thesis takes into consideration the municipal public group that has particular characteristics related to the satisfaction of needs and the type of sources and uses now based on a hybrid structure. Public companies have undergone numerous changes over the years. In forty years we have witnessed the transition from a regulatory and highly bureaucratic system to a New Public Management approach (Hood, 1991) based on private control tools and increasingly linked to the needs of the main stakeholders, citizens (Kettl, 2000) and the research of efficiency and effectiveness. The current organizational structure, however, does not take into account only the municipality and other public bodies as a single entity, but also subsidiaries, investee companies, and associates that together form the public group and take care of responding to needs. The bureaucracy, transparency, the market, and regulatory control are influenced in this new relationship between subjects (Ouchi, 1979; 1980). For the first time, the group is considered as the only consolidated entity with a radical change in public governance and adoptable instruments (Shaoul & Stafford, 2012; Biancone et al., 2014; 2016; Borgonovi et al., 2016). The New Public Governance considers the different drivers of control and intervention between municipalities and other entities, paying greater attention to the programming and control through reporting (Shaoul & Stapleton, 2012; Van Dooren et al., 2015), to the various group benchmarks (Bovens, 2007) and compliance of the system with a view to the transparency and the responsibility (Mulgan, 2004). Today's crises develop in unseen ways; they escalate rapidly and transform through the interdependencies of modern society, and their frequency is growing: the global financial crisis, the European volcanic ash cloud, the Japanese tsunami, and subsequent Fukushima nuclear plant meltdown, the Christchurch earthquake, and the Queensland floods. All highlights the extreme challenges that public-sector organizations across the world have had to face in recent years (Drennan, McConnell & Stark, 2014). All these changes involve both public management and the need to define new strategies aimed at involving stakeholders in a period of rationalization of spending (Borooah, 2014; Campra, 2014, 2014a). In particular, in Europe in recent years, also because of the period of austerity due to the economic crisis, there has been a search for the accounting harmonization of financial information between public bodies at all levels developed through EPSAS and fiscal surveillance systems (Heald & Hodges, 2015). The period of austerity associated with new issues that involve the public and the private sector require particular attention to the tools and variations of the approach that must be addressed and the continuous search for transparency and accountability (Relly & Sabharwal, 2009). The literature that deals with sustainable budgets shows that often in public administrations it is only a non-useful marketing tool to increase accountability, sustainability and decision-making possibilities of stakeholders and citizens in an objective manner (Ball and Grubnic, 2007; Banerjee, 2008; Aras and Crowther, 2009; Guthrie, Ball, and Farneti, 2010). In the discussion, the vision of public management and involvement and accountability are intertwined and accompanied. The analysis of public reports allows the analysis in identifying the characteristics and repercussions of the instrument aimed at increasing both the decision-making capacity with the analysis of the information fallout and the collection in the planning and control process (Brusa & Zamprogna, 1991; Beeyen et al., 2017; Marasca, 2018) for quantitative and qualitative objectives (Volpatto, 1992) aimed at achieving citizens' well-being. Precisely from the search for new indicators related to social sustainability (Sen, 1999, Noya, 2013, Stew, 2006, Richard, Shaker & Zubalsky, 2015; Keiner, 2006; Grosskuth, 2017) and innovative projects aimed at identifying comparable and contextual indicators as the European project “Better Life Index” and the Italian project (Report BES - Fair and Sustainable Wellness) the different nations are trying to find the right tools to research the wellbeing of the population considering the limited available resources. These are placed in the debate related to the 17 sustainable goals of the United Nations Global Action Plan to eradicate poverty. The issue of sustainability both in Europe and worldwide is increasingly focused on tax transparency and the correct use of resources to increase the growth of countries avoiding distortions and waste (OECD, 2016, 2017, World Bank, 2017). All these elements have led to the search for non-financial information to stakeholders (Directive 2014/95 / EU). The search for tools to ensure transparency and accountability, therefore, becomes the main issue to be tackled and developed in a new public management approach especially in those democratic countries where citizens need to be able to assess and choose based on the administration’s work (Jusuf, 2013). The Government Accounting Standards Board was the first to deal with the transparency of financial reporting to citizens in 1987. Popular financial reporting is an already widespread tool in 75% of US cities (Yusuf, Jordan, Neill & Hackbart, 2013) and represents the result of years of experimentation and application in the Anglo-Saxon states of origin. We find it even in Canada and Australia. Accounting management changing theory (Burns and Scapens, 1999; Chua, 1995; Vhimani, 1996) supports the need for a change from static reporting models to a dynamic report.

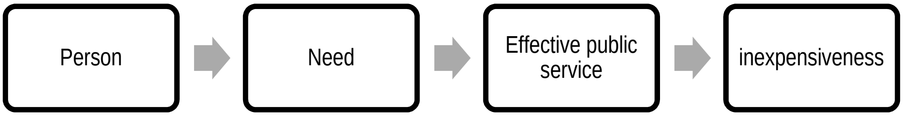
Research Question

The conducted study aims to highlight if the Popular Financial Reporting by changes in place and a new approach is able to provide sufficient elements to respond to the new needs of the local public group. The study also suffers on the necessary and valuable elements to ensure transparency and accountability in the European context in which it was adopted for the first time (Biancone et al., 2016). The analysis approach through the case study (Yin, 1994, page 13) provides sufficient elements to answer the research question and gives essential elements to be considered for future developments. The analysis of a possible dynamic tool able to vary according to the context is placed in the international discussion and is detached from the static management consideration (Denhart & Denhart, 2000) giving possible elements of future reformulation of the theoretical framework (Nhrens & Chapman, 2006) with the definition of dynamic reports (Miller and O’Leary, 1993).

1.2. From the need to the rational organization of the public offices

For years the public administration has been the subject of attention by academic scholars. The need for optimizing public spending now commits corporatists to study the peculiar productive combinations of public bodies in order to optimize management. To understand how important the issue is, we must consider that in the world there are 4,037 cities with more than 100,000 inhabitants and only in Italy, there are more than 6,000 municipalities. If municipalities cannot be compared with firms in the strict sense, since the pursuit of profit does not arise for these subjects, and in many cases, there is no reference point for the market, the development of efficiency processes is still necessary (Propersi, 2006). They are considered to be composed of public companies as they also implement production processes. Therefore, it is necessary to define planning and control systems aimed at rationalizing resources, taking into account the internal and external elements that must be put together to interface with the organization during the production process implemented by public companies. The process used by the public company, as well as the municipality, is defined as a dynamic process open to a series of elements that condition and modify the system during the production and management process. With this perspective, it responds to the needs of the citizens and users. This approach is possible starting from rational theory. The term rational administration is found for the first time in the discussion around the type of organization that a public administration had to possess. The public group presents a rational set of offices able to respond to the economic need through the realization of services. In particular, when these concepts are clarified, we talk about the organization of Ministries and Management Organizations able to organize the single productive unit from the beginning to the end. Some examples could be the railway's sector, the supply of electricity or the services of deposits and state loans (Tangorra, 1908). The definition of an organized group of offices is immediately evident, aimed at satisfying a need with its capacity of decision-making, which had already been highlighted at the beginning of the twentieth century. The same organization can be identified today in the municipalities, where each departmental office is responsible for organizing and managing a range of public services through the coordination of several offices. Naturally, in the achievement of the inexpensiveness, efficiency, and effectiveness, many services, instead of being managed by the municipality, are organized and provided by the public bodies and companies with autonomous public participation but always under regulation and public address. Services are provided by companies focused on the needs of people, in an anthropological vision and anthropocentric, dynamic (Marchi, 2014, Onida, 1982) and systemic (Besta, 1922, D'Ippolito, 1963) process. The analysis of these characteristics allows a topological definition of the companies. However, the public group requests an adaptation to respond to the new need of rational administration, in order to overcome the obstacles faced in Italy caused by the limitations of bureaucracy. The new form of public management has to be able to observe the fallout of services and the functioning of public administration. In this sense the concept of the science of the organization is defined; it does not have to change the bureaucracy, but it has to test parts of knowledge, finding causal relations between different variables and single part phenomena (Thoenig, 1992). In 1960 in the United States it is possible to identify the first formulation of rational administration, where the growth of the Great Government (i.e., the expansion of the federal administration in effective terms of power and budget) mobilized several scholars on this subject. Particular aspects of public companies are due to a dual observation approach which concerns, in general, the "conceptual model" of reference which sees the person and the anthropological need as starting points and thus linked to the management model (Figure 1).

Figure 1 – Conceptual reference model

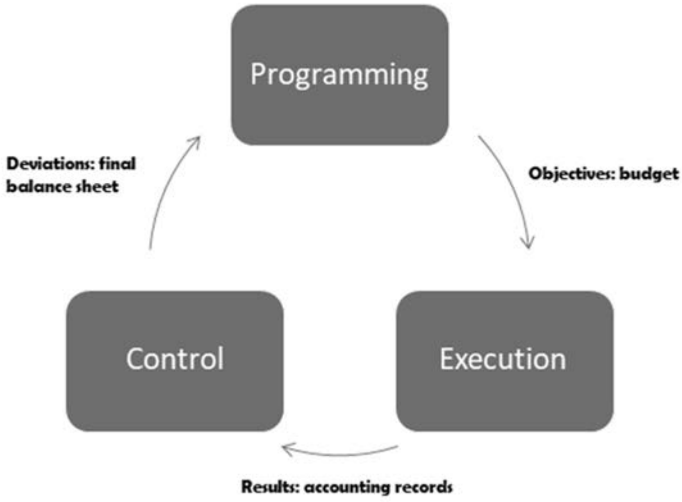


Source: reworking – Puddu, L. (2010). *Il processo di accumulazione del capitale, l'analisi funzionale del management, l'amministrazione razionale e la classificazione delle aziende: razionalità della rilevanza e valori etici*, Egea, Milano.

1.3. The rational administration process

The conceptual reference concerns the relations of principle, effectiveness, and efficiency, in which the public company must operate to meet the public needs. The effectiveness concerns the company's ability to satisfy the need for public service, while efficiency recalls, at the same conditions of effectiveness, the search for high levels of productivity, providing more services with the same level of resources or the same services with lower consumption of resources. The conceptual model of reference and the management model are based on a more general scheme logic of rational administration. Management, defined as organized management (Koontz, 1961; Ferrero, 1987) is based on a logical scheme of rational administration that originates from the same principle which reflects the traditional distinction of private companies between public companies, supply companies, and composite companies. We refer to the process of acquisition-employment of capital or "life of the wealth" or accumulation, which is measured in quantitative-monetary terms and finds its formal presentation in the budget and accounting tool (Zappa, 1926). The rational administration considers, in conventional terms, a time-space analysis of the provisional administrative facts aimed at providing quantitative-monetary information, collected in a logical and objective model that supports and guides the decision-making process. Every action, in a rational approach, is first created in thought, then put into practice and, finally, judged concerning what has been achieved for what was given as an objective (Rainey, Backoff, & Levine, 1976; Hofstede, 1981; Volpatto, 1988).

Figure 2 – Rational budget management process



Source: Reworking – Puddu, L. (2010). *Il processo di accumulazione del capitale, l'analisi funzionale del management, l'amministrazione razionale e la classificazione delle aziende: razionalità della rilevanza e valori etici*, Egea, Milano.

Therefore there are three phases of programming, execution, and control. The programming defines the objectives of the future management which, in short, and from a profile of monetary valorization, give rise to a budget (or budget) composed by assets, economic and financial aspects. The execution concerns the carrying out of the various administrative facts that are ordered and recorded in the general accounts as results achieved during the carried-out activity. The control is expressed with the preparation of the final balance sheet, at the end of the management, and with the analysis of the deviations concerning what previously stated in the budget. The primary objective of rational administration is the achievement and maintenance of three distinct but independent balances (financial balance, economic balance, and patrimonial balance), whose achievement is to be verified with the estimate balance sheet and the final balance statement. In a nutshell:

- The financial balance is represented by the ability to cope with the flow of exits (arising from the payment of production factors) through the revenue flow (originated from the collection of services). The synthesis of financial equilibrium is represented by the cash flow, which increases in treasury (positive) or decreases in treasury (negative), generated by the current management. To this flow it is necessary to add a patrimonial nature for investments and disinvestments, the ignition and repayment of debts;
- Economic equilibrium is represented by the ability to cope the durable flow of current costs (deriving from consumption of the production factors) through the flow of proceeds currents of competence (originating from the provision of services). The synthesis of economic equilibrium is the economic result, profit (positive) or loss (negative);
- The balance sheet is the relationship between the various sources of financing, examined from their "provenance" (equity and debts). An equilibrium situation requires that the substantial part of the sources should be represented by equity and only the residual part consisting of debts. The size of the summary of equity balance is equity.

The tools for maintaining the balance of management are the systems based on the rational administration and the budget. Specifically, they are highlighted in Table 1:

- Balance sheet for the assets;
- The income statement for the economic aspect;
- Financial statement for the financial aspect.

Table 1 – Budget instruments in a rational administration system

Aspects of management	Stages of management		
	Programming	Execution	Control
FINANCIAL	Financial estimate	Accounting records	Financial statement
Commitments and financial sources			
Financial variation			
BALANCE SHEET	Preventive balance sheet		Balance sheet
Active Passive			
Net			
INCOME STATEMENT	Expected income statement		Final statement of income
Income Costs			
Gains			
Quadrature / Relevance	Budget		Final balance sheet

Source: Reworking – Puddu, L., Buchi, G., Rainero, C., Zollesi, G., Ruffino, E. (2017). *Aspetti introduttivi alle aziende sanitarie.*

The two particular aspects of this model of rational administration are the quadrature of the model and the relevance of the quantitative information on which the decision-making process is based on public management. Regarding the quadrature of the model, each of the instruments of the balance sheet that compose the model itself highlights a quantitative-monetary quadrature:

- increase (decrease) in treasury for the financial statement;
- equity for the balance sheet;
- the economic result (profit/loss) for the income statement.

These quantities are the quantitative synthesis of the financial, patrimonial and economic aspects of this model, the quantities and the elements that determine them, in quantitative-monetary terms, our objective of greater importance. The decision-making processes of the management are founded the public company. Therefore, they do not detect the elements that, based on their yardstick (e.g., ideal, political, social), are identifiable as important ones (Lynn, Heinrich, & Hill, 2000; Puddu, 2010).

1.4. Integration of the rational administration model

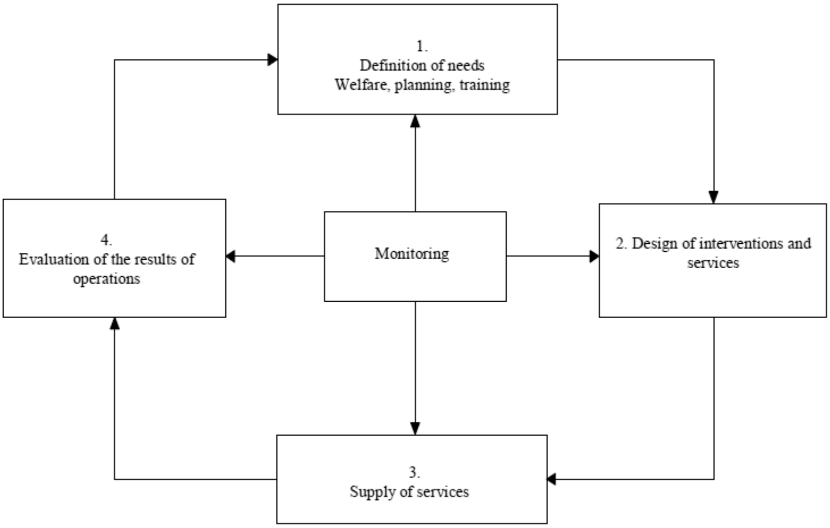
The integration of the model envisages the introduction of the social aspect (externalities and social impact) as an aspect of the management declined in the social programming in the planning phase, in the non-financial accounting or social accounting in the execution phase and the social reporting in the phase of control (Migliavacca, Rainero & Puddu; 2016). These elements enter the system and are designed to increase and verify the durability of the company. The focus is on externalities and on the social impact expected and generated by the company, whose achievement is the deviations between the estimate and the final balance which is monitored through the non-financial accounting. The social impact and the involvement of the stakeholders are closely linked to both the New Public Management and the New Public Governance.

The model of rational administration is integrated and lays the foundations for planning and control in the Municipalities. The administration ration is placed and integrates with what has already been defined by Deming (Wang, 1998) for the production processes and subsequently by the ISO standards concerning total quality control. The first definition of quality, included in ISO 8402, is summarized in the set of properties and characteristics of a product or service, as well as its ability to meet the expressed or implied needs. With the ISO 9000: 2000 the quality is made explicit as the degree to through a set of inherent characteristics (of a product, service, process, etc.) meet the requirements. In this context, the requirement is the satisfaction of the project due to goods and services. The subjects involved in the project are the users as consumers, the workers, the owners, and the shareholders, the suppliers, whose expectations are taken into account and met by compliance with the same requirements. The ISO 9000: 2000 defines the fundamentals and concepts of quality, while the ISO 9001 requirements treat quality management. The achievement of a quality level requests management systems able to demonstrate the ability to deliver products (and services) to afford the customer requirements and regulations. The ISO 9004, the guideline on the management systems for quality, includes processes for continual improvement, for customer satisfaction of the company/organization and the satisfaction of the other stakeholders. With the entry into force of the ISO 9001: 2008 the satisfaction regarding requirements at the workplace (structure), the indirect indicators such as the satisfaction of the economic interests and the mandatory production started to become significant. The system must then be subjected to audit to test the effectiveness of the system and to be kept under control during the year. These rules are contained in ISO 9011, which also defines the requirements of the different auditors. The voluntary system of quality is based on a process structure that provides the ability to manage any organization through the identification and control of its processes and interactions in a systematic and organic order. The ISO 2000: 2008 is divided into four primary sections, corresponding to the four main categories of requirements of quality management as part of the process approach, namely:

- Management Responsibility;
- Resource Management;
- Creation of product;
- Measurement, analysis, and improvement.

A specific paragraph precedes these sections on the "system of quality management" that defines the general requirements regarding the structure and system documentation. The identification of processes related to the Quality Management System of the organization is based on the cycle PLAN DO CHECK ACT (PDCA) as well as their planning, implementation, monitoring and continuous improvement figure 3.

Figure 3 – Deming Cycle



Source: own processing based on ISO 9000

The Deming cycle, indicated above, divides the phases in continuous processes:

- PLAN: establish the objectives and processes necessary to deliver results in accordance with customer requirements and with the policies of the organization;
- DO: SHOW - DO: implement the processes;
- CHECK: monitor and measure processes and product against policies, objectives, and requirements for the product and report the results;
- ACTION: ACT: take actions to improve the process of performance.

To increase the application of the process, the "Integrated Management System" could be a model of Management Systems for Quality, Safety, Ethics, and Environment and, then, studying their evolution towards a possible synergic interaction among the aspects of quality and social responsibility (safety, ethics, and environment). The system could be based on three level documental structure as the Faculty Quality Management System (Swiss, 1992). It foresees: 1) Strategic guide documentation: quality policy, normative references, manual for quality and accreditation; 2) Operative documentation: documented procedures, operative instructions; 3) Recording documentation: modules, recorders.

In local government and public administration, it is necessary to control the entire system, to make several tools available. A quality tool that analyses the system of auditing and the entire process of service delivery is needed. In this analysis, other instruments should be put into practice in order to collect data from an external evaluation (performed by citizens) or about potential complaints related to the system. Through the quality system, it is, therefore, possible to identify critical points that, when corrected, will be helpful to the growth and the improvement of the processes of their services. The quality system must be necessarily complemented in the first place with the public organization data results and then with the objectives of the program. The ISO 9001 standard and the scheme currently provides an approach also addressed to risk management (Sadgrove, 2016; Aba, Badar & Hayden, 2016) less focused on the structure but more on the analysis of the results starting from the assessment of risks and business opportunities, an activity that often the public administration does not take into account but that should be considered especially in those circumstances where the group also includes private companies. Assuming that public organizations are economic entities and companies are defined as organizations able to transform resources into services, it is necessary to assess their ability to increase the value of the output (efficacy) and decrease the value of the input units needed to reach the expected output (efficiency). In all organizations, the value of