

ITALIAN MUNICIPALITIES' NPFM REFORMS: AN INSTITUTIONAL THEORY PERSPECTIVE

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Resumen

Entender las razones del fracaso o el éxito de las reformas impulsada por el NPFM es un tema que ha atraído recientemente la atención de la literatura sobre la gestión del sector público. Sobre la base de un estudio de caso realizado en el gobierno local italiano, la investigación analiza el estado de real aplicación de las reformas mencionadas anteriormente, y contribuye al debate teórico sobre las razones que explican las diferencias entre los cambios formales y sustanciales en la administración utilizando un enfoque institucional. Para este fin se realizó una encuesta sobre una muestra estadísticamente representativa de los municipios italianos con más de 5.000 habitantes y una serie de entrevistas semi-estructuradas con observadores privilegiados. Basándose en los resultados del análisis, la introducción de reformas inspiradas en el NPFM en Italia se puede considerar como un caso en el que la innovación anunciada por la ley es más formal que de fondo. En cuanto a las razones de la brecha entre los cambios administrativos de forma y de fondo, los resultados del estudio sugieren la hipótesis de una correlación directa entre las prácticas contables y, respectivamente, las presiones isomorfas que han acompañado a la

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introducción de nuevas herramientas de contabilidad –nuevo institucionalismo sociológico (NIS)– la cultura organizacional de los municipios –viejo institucionalismo económico (VIE)– y el tamaño de los gobiernos locales.

Palabras clave: Gobiernos locales; Gestión de las finanzas públicas; Teoría institucional; Sistema de contabilidad.

Abstract

Understanding the reasons for the failure or the success of NPFM reforms is an issue that has recently attracted the attention of public sector management literature. Basing on the Italian Local Government –LG– case, the research analyses the NPFM reform actual implementation, and contributes to the theoretical debate about the reasons for the discrepancies between actual and formal accounting changes using an institutional approach. To this end a survey carried out on a statistically representative random sample of Italian municipalities with more than 5,000 inhabitants together with semi-structured interviews to privileged observers are used. According to the results of the analysis, the Italian NPFM reforms introduction can be regarded as a case wherein innovation heralded by the law is rather formal than substantial. As regards the reasons for the gap between formal and actual changes the study findings suggest the hypotheses of a direct correlation between accounting practices and respectively isomorphic pressures affecting the introduction of the new accounting tools –New institutional sociology (NIS)–, municipality’s organisational culture –Old institutional economics (OIE)– and municipalities’ size.

Keywords: Local government; New public financial management; Institutional theory; Accounting system.

1. Introduction

In recent years a significant issue in public sector management literature has been that of understanding why not seldom the New Public Financial Management –NPFM– reforms have led to unintended as well as unexpected consequences (Guthrie, 1998; Newberry, 2002; Christiaens and Rommel, 2008; Lapsley, 2009) and to management changes which are rather formal than substantial (Olson, Guthrie and Humphrey, 1998; Ter Bogt and Van Helden, 2000). Among the various approach used to explain the difference between actual and expected effects of accounting innovations different studies (Burns and Scapens, 2000; Scapens, 1994; Panozzo, 2000; Caccia and Steccolini, 2006; Ter Bogt and Van Helden, 2000; Ter Bogt, 2008; Siti-Nabiha, Scapens, 2005; Modell, 2009; Seal, 1999) have used the institutional theory. In particular under the New Institutional Sociology –NIS– perspective, discrepancies between actual and formal accounting changes can be explained as the result of a change in the accounting systems that has been enforced by law and implemented without understanding its actual aims and usefulness (Di Maggio and Powell, 1991; Meyer and Rowan, 1991). Conversely under the Old Institutional Economics –OIE– perspective the explanations for this gap may be found in the organisations’ customs and accepted values (Burns and Scapens, 2000).

Basing on the Italian Local Government –LG– case, the research analyses the NPFM reform actual implementation, and contributes to the theoretical debate about the reasons for the discrepancies between actual and formal accounting changes using an institutional approach. In Italy, starting from the mid-1990s LGs have been the driving force of a financial management comprehensive reform (D'Alessio, 1997; Pavan and Reginato, 2004; Rebor, 1999), which has involved their control and accounting model –budgeting, book-keeping, and financial reporting (Caperchione, 2000). The complete set of laws ruling the implementation of the new financial management model are gathered together in the Consolidation Act of Local Government –*Testo Unico degli Enti Locali*, hereinafter referred to as TUEL– issued with the Legislative Decree 267/2000. The TUEL provides for new accounting tools such as the Executive management plan² –EMP–, the use of the accrual accounting which enforced the preparation of the Statement of financial performance and of the Balance Sheet, and provided for the implementation of the management and strategic control.

Empirical studies conducted so far revealed discrepancies between actual and formal accounting changes but they didn't focus on the reasons for this gap. Furthermore these researches only analysed some aspects of the reform such as budgeting or book-keeping and focused on municipalities with more than 40,000 inhabitants (Anessi Pessina and Caccia, 2000; Anessi Pessina and Steccolini, 2001, 2005, 2007; Buccoliero et al., 2005; Nasi and Steccolini, 2008) or on small municipalities (De Matteis and Preite, 2005). Finally the studies that explored the Italian LG accounting systems and control models as a whole did not use a representative sample (Mazzara, 2003). This paper makes up for these lacks as it examines every aspects of the TUEL accounting provisions and to this end uses a survey carried out on a statistically representative random sample of Italian municipalities with more than 5,000 inhabitants together with semi-structured interviews. More specifically the study aims at: 1) analysing to what extent the TUEL has been actually implemented in the Italian municipalities; 2) exploring if the institutional theory can help understanding the reasons for the gap between actual and formal accounting changes.

The study is part of a wider research project conducted in cooperation with the Committee for Local Government's Accounting and Finance established within the Italian Ministry of Domestic Affairs –*Osservatorio sulla finanza e la contabilità degli enti locali*, from now on referred to as *Committee*. The paper is organised into five further sections. The next one reports the literature review on the institutional theory. Section three provides a short background on the Italian LG accounting system's regulations and following section four describes the research questions and the adopted methods. Finally the fifth one reports and discusses the research findings and the last one draws the concluding remarks.

2. Literature review and theoretical framework

² Piano Esecutivo di Gestione - PEG.

Within the public sector reform movement better known as New Public Management –NPM– (Hood 1991 and 1995; Barzeley, 2001; Pollit and Bouckaert, 2004), government accounting system changes are studied by NPFM (Lapsley, 1999; Guthrie, Olson and Humphrey, 1999). Although the pace, tools and effects of the NPFM reforms implementation have been different across the various countries wherein they were introduced (Caperchione, 2006; Caperchione and Mussari, 2000; Chan and Xiaoyue, 2002; Humphrey et al., 2005; Luder and Jones, 2003; Reginato, 2008), everywhere the reforms have implied the introduction of private sector derived accounting systems, which are considered more effective to accomplish NPM principles (Anthony, 2000).

In recent years NPFM literature has focused on the actual effects of the accounting system reforms trying to find out the reason for the gap between formal and actual changes (Olson, Guthrie and Humphrey, 1998; Ter Bogt and Van Helden, 2000). The investigation of the processes that affect accounting choices in public sector organisations is considered as a way to better understand the reason for this gap (Ter Bogt, 2008), hence rational and institutional theoretical approaches have been often used (Lapsley and Pallot, 2000).

The rational approach suggests that new organisational practices are introduced to enhance the efficiency and effectiveness of organisations (Budros, 1999), but overlooks the impact of social forces in this process (Palmer and Dunford, 2001).

The institutional approach, on the contrary, considers that expectations and values both inside and outside organisations as well as the rules in the society can play a part in the decision to introduce accounting changes. Thus the institutional theory shapes organisational forms and processes combining economic, social, political, historical and cultural dimensions (Abrahamson and Rosenkopf, 1993; Greenwood and Hinnings, 1996), and allows observing issues and developments that might not be noticed when rational perspective is chosen (Modell, 2004). In particular within the institutional approach, the NIS is used to explain the gap between actual and formal accounting changes from an external perspective, inquiring how organisations respond to pressures from their institutional environments and adopt structures and procedures, such as accounting systems, that are socially accepted, taken for granted and function as myths, in order to achieve external legitimacy (Di Maggio and Powell, 1991; Meyer and Rowan, 1991).

The process by which organisations tend to adopt the same practices and structures over time in response to institutional pressures is called institutional isomorphism. It can take on three forms (Di Maggio and Powell, 1991):

- *coercive isomorphism* which occurs when an organisation is subject to pressures from other organisations from which it depends (e.g. governments) – requirements imposed by law;
- *mimetic isomorphism* which refers to the adoption of practices used by organisations defined as successful. It is a response to organisational uncertainty in identifying the best course of action;

- *normative isomorphism* which occurs as the result of shared values and ideas about appropriate behaviours, often diffused through professional networks and formal education.

The three forms of isomorphism cannot always be empirically distinguished, because the different isomorphic pressure can operate simultaneously (Di Maggio and Powell, 1991).

Nevertheless the NIS fails to analyse the internal dynamics of organisational change as it overlooks why some organisations adopt radical changes whereas others do not, despite experiencing the same institutional pressures (Greenwood and Hinings, 1996).

In order to explore the internal perspective of organisational change the OIE can be used. The OIE approach focuses on individuals and groups within organisations –“micro”institutions–, their interests, identity and habits, and intended as well as unintended changes in their behaviour. According to the OIE, an *institution* is typically defined as a way of thinking or acting that is, to some extent, accepted and which is embedded in the habits and customs of a certain group of people (Scapens, 1994). The concept of institution as such is similar to that of organisational culture (Ter Bogt and Van Helden, 2000). An organisation has *rules*, that regulate the behaviour of its participants and are laid down in manuals. *Rules* are the formally recognised way in which things should be done and are necessary to co-ordinate and give consistency to the actions of individuals. *Routines* instead are the way in which things are actually done, that is to say the working methods actually used (Burns and Scapens, 2000).

Accounting systems and practices are respectively the organisational rules, set out in the procedure manuals, and the routines embedded in the institutions. The OIE theoretical approach suggests that the explanations for the gap between rules and routines may be found in the existing institutions –organisational culture– within organisations, and that this gap highlights the one between actual and formal changes in accounting systems.

In designing and implementing a new accounting system organisational actors are influenced by the past routines which are embedded in the “history” of an organisation –organisational imprinting³ (Carpenter and Feroz, 2001)– and that represent the current configuration of power relationships. If new rules are introduced which significantly differ from the organisation’s shared values –institutions or organisational culture– it is likely to find opposition and resistance against innovation, especially when this change is perceived as imposed (Burns/Scapens, 2000; Scapens, 2006; Ter Bogt/Van Helden, 2000).

Consistently with the above discussion the paper uses the NIS and the OIE as a starting point to explore and analyse the reasons for accounting changes and their actual effects in the public sector.

³ Organisational imprinting refers to the process by which organisations tend to maintain the practices adopted at the time that the organisation was founded. They maintain those practices not by rational reasons but because these practices are taken for granted as the way certain things are done (Carpenter and Feroz, 2001).

According to an institutional perspective the private sector derived accounting systems of the NPFM model function as the new myths, that is to say the most suitable models to accomplish NPM principles (Panozzo, 2000), to which public organisations ceremonially conform in exchange for external legitimacy (Meyer and Rowan, 1991). These new myths replace those related to the bureaucratic model but –despite the different isomorphic pressures that influenced their introduction– in order to become routines they have to be shared by the organisation’s members (Crossan, Lane and Roderick, 1999, 530) who should understand the new accounting tools actual usefulness instead of perceiving them as imposed.

3. Research Context: Italian local government accounting system’s regulations

Italy is a parliamentary democracy whose politico-administrative framework is composed of a central state, 20 regions, 110 provinces and 8,103 municipalities; the latter two representing forms of LGs. As regards the municipalities organisational structure each entity has a mayor, a city council, both of them directly appointed by the citizens, an executive board, and a professional bureaucracy.

The Italian institutional reference frame is the European continental model characterised by the civil law legal system and the Rechtsstaat administrative culture⁴ which means that the State has a central role in the society mainly aimed at the promulgation and the application of laws. Furthermore most of the higher civil servants have a juridical education and, as a result, are primarily concerned with formal compliance to rules and regulations (Pollit and Bouckaert, 2004). This state of things unavoidably affects the administrative reform processes and hence the management reform ones. As a matter of fact the national legislation determines the requirements for the public sector accounting system and there is no professional public-sector standard-setting body; accounting regulations have legal nature and a very detailed description of the accounting information content is provided as to ensure compliance with the principles established in the legal framework.

Although Italy is recognised as a unitary state, reform processes are ongoing to enhance power devolution (Raimondi, 2003, 54; Pavan, Reginato and Mudu, 2006). The result is a radical reshaping of the institutional setting. LGs are assigned enhanced powers and responsibilities (Anessi Pessina and Steccolini, 2005; Mussari, 2005; Ongaro, 2006) and have a more comprehensive duty to be accountable to their citizens for the results achieved and the resources used in their pursuit (Pezzani, 2005; Reginato, 2007).

This new accountability framework has called for a significant change in the Italian LG accounting system and the first related reform provisions can be traced back to 1995⁵. All the regulations issued since then were finally gathered in the TUEL in august 2000.

⁴ Administrative culture is defined as the expectations that the people working within the organisation have about what is normal and acceptable (Pollit and Bouckaert, 2004)

⁵ The main provisions amending the Italian LG financial management model are the legislative decrees no. 77/1995 and the legislative decree no. 286/1999.

Besides the TUEL is supported by the accounting standards issued by the Committee. These standards are not mandatory, but they provide explanations of the TUEL provisions in order to help LGs to comply with the law (Farneti, 2006; Osservatorio, 2004).

Until 1995 Italian LG accounting system had traditionally been on cash and obligation basis in order to control monetary flows and ensure budgetary compliance. Budgeting was viewed as the only relevant stage of the accounting cycle, while year-end financial reporting was virtually neglected. Compliance and financial audits were the only kind of control provided by law.

The main innovations included in the TUEL are the greater importance assigned to medium term planning, the obligation to prepare the Statement of financial performance and the Balance sheet and the implementation of the management and strategic control.

As regards the budgeting, first of all the new elected mayor is compelled to draw up a document –Policy lines⁶ (PL)– defining the LGs' programs and the related projects for their implementation. The PL is then used to draft another document –the General development plan⁷ (GDP)– where the programs set in the PL are evaluated considering the actual human and financial resources they require.

The medium term planning documents are the forecasting and programmatic plan⁸ –FPP– and the multi-year budget which are attached to the annual budget. The former is the main strategic planning document, and covers a time span varying from three to five years. It is divided into programs⁹ specifying, for each of them, the goals to be achieved, as well as the human and financial resources assigned. It also should allow to create the necessary link between the GDP and the Executive Management Plan (EMP).

The EMP represents one of the reform's major improvement as this document is aimed at defining clearer boundaries between responsibilities for policy making and management. This plan is drawn up by the municipality executive board before the beginning of the new fiscal year and it is compulsory for LGs with more than 15,000 inhabitants. It is divided into two sections: one setting management objectives and assigning them to the responsibility centres together with the related resources; the other, which is a breakdown of the annual budget figures and is consequently defined on an obligation basis, setting financial resources. The EMP is an executive accountability instrument, in fact, the objectives set in the document represent the agreement between the political body and the organisational counterpart.

As for the financial reporting, according to the TUEL, LGs are compelled to draw up the Statement of financial performance and the Balance sheet, but they are free to adopt the accounting system that is believed to be most suitable. In this respect they can choose

⁶ Linee programmatiche.

⁷ Piano generale di sviluppo.

⁸ Relazione Previsionale e Programmatica.

⁹ The term program indicates a set of activities related to actions necessary for the established purposes.

among three alternative models. Under the traditional system LGs derive the Statement of financial performance and the Balance sheet using data from the cash and obligation-based accounting, by means of a reconciliation statement. Under the integrated-system approach data from the cash and obligation-based accounting are used to feed the accrual accounting which coexist with the former. Under the parallel-system alternative, LGs introduce the accruals accounting but keep it completely independent from the cash and obligation-based accounting. In this last case they can use double entry book-keeping.

The compulsory reporting documents are: the budgetary statement, the Statement of financial performance, the balance sheet; a report drawn up by the municipality executive board concerning the service efforts and accomplishment, the auditing board report, the list of the uncollected assessments and unpaid expenditures. The budgetary statement demonstrates the comparison between the budget and the actual results for the year in order to prove their compliance with the budget appropriations. The Statement of financial performance is a summarising document containing information about resource consumption, taxes collected and grants received. Its bottom line explains the net assets modification at the year end. The balance sheet includes local government's assets and liabilities and its figures are derived from the inventories and the budgetary accounting. The TUEL also provides for several compulsory performance indicators, particularly on financial position, efficiency and effectiveness.

It is finally worth mentioning that the TUEL provides for the implementation of the management and strategic control functions. The former is intended as an evaluation of goals achievement and a control over the resource costs. The strategic control is instead aimed at assessing the consistency between the policy lines established by the competent bodies and both the operational goals actually set, as well as the results achieved.

4. Research questions and methods

The research analyses the case of the NPFM reform implementation in the Italian municipalities and tries to explore the reasons for the gap between actual and formal accounting changes through an institutional approach. More specifically, as stated above, the paper makes up for the lack of empirical assessment of TUEL implementation and investigates:

1. to what extent the TUEL provisions have been actually applied, not only in terms of formal compliance to the same rules, but also in terms of accuracy in the use of the new accounting tools;
2. whether the institutional theory can help understanding the reasons for the highlighted discrepancies.

The information necessary to answer the research questions were gathered by means of multiple data collection methods in two different stages.

In the first stage, between January and February 2006, in-depth semi-structured interviews were held with 16 privileged observers who are experts in LGs' accounting chosen because of their long experience in the field. Among the 16 interviewees, 11 are Town Clerks or City Managers, executives and Chief Financial Officers of different size municipalities, 2 are Ministry of Domestic Affairs' senior managers, 1 is a Ministry of Economy and Finance's senior manager and 2 are experts in LGs' accounting and finance. The aim of the interviews was to gain an insight into the LGs' accounting and control model as well as to obtain a wide range of opinions on the changes in this field. Thus questions were asked about the state of accomplishment of the TUEL; about the reason for the gap between actual and formal accounting changes; about the environmental factors that induced the management reforms and how they were carried out. At last interviewees were also asked to give their opinion on the TUEL accounting and control model.

Findings from the interviews were used to formulate the first hypotheses about the usefulness of the institutional approach in enquiring the reasons for the gap between actual and formal changes and helped building a close-ended questionnaire which was used in the second stage of the research when a survey was conducted.

The survey was carried out on a representative random sample of Italian municipalities with more than 5,000 residents. Smaller municipalities were excluded from the survey because many TUEL provisions are only compulsory for municipalities with more than 3,000 inhabitants, and because for municipalities with a population between 3,000 and 5,000 residents the requirement to comply with the same provisions only started in 2004. Furthermore during the interviews stage it emerged that in small municipalities the main obstacle in the implementation of the TUEL reforms is represented by the limited financial and human resources available.

Out of a population of 2,073 Italian municipalities with more than 5,000 residents, the sample included 508 municipalities divided by geographical location into five classes –north west, north east, centre, south, islands– and by number of residents (size of the entities) into three classes:

1. from 5 to 15 thousands, class 1;
2. from 15 to 50 thousands, class 2;
3. more than 50 thousands, class 3.

Only the municipalities size criterion is used in the present study to carry out the survey results analysis.

The survey was conducted between July and December 2007 by means of an online questionnaire that was available on the Ministry of Domestic Affairs web site. The City Managers or the Chief Financial Officers –LGs' key actors– of the sample municipalities were contacted by e-mail and asked to fill in the questionnaire via online. The

questionnaire was divided into five sections: Communication and organisational structure; Planning and Programming; Book-keeping and financial reporting; Internal controls; Opinions on the discrepancies between rules and practices.

5. Data analysis and discussion

5.1. Data analysis

In order to assess to what extent the TUEL reforms have been actually implemented in the Italian municipalities and verifying either the formal compliance to the TUEL provisions as well as the correct use of the new management tools adopted, two separate assessments are made. One is aimed at verifying the TUEL adoption degree while the other is meant to provide a better understanding about the actual use of the new instruments introduced by the reforms. Both the assessments are made using the data collected by means of the survey.

To evaluate the reforms adoption degree –RAD– of TUEL innovations the elements reported in Table 1 are considered, and the related score assigned depending on the answers received. The RAD is then obtained adding up each single answer score.

Table 1. Reforms adoption degree–RAD

Types of innovation introduced	Score	
	Yes	No
1. Use of the accrual accounting	1	0
2. Preparation of the assets inventories	1	0
3. Use of performance measures	1	0
4. Preparation of the PL	1	0
5. Preparation of the GDP	1	0
6. Implementation of the management control function	1	0
7. Implementation of the strategic control function	1	0

Finally three different levels of compliance are identified on the basis of the total score obtained:

1. "low" – score from 1 to 3
2. "medium" – score from 4 to 5
3. "high" – score higher than 5

The second part of the TUEL implementation assessment focuses on how the municipalities are using the new tools introduced –reforms adoption mode (RAM). The evaluation only considers those entities that in the previous assessment obtains "medium" and "high" RAD. A score is assigned depending on the answers to the questionnaire concerning the use of the new tools provided by the TUEL that ranges from a minimum equal to 0 to a maximum equal to 8; the complete scoring system is reported in the appendix. Once again three different classes are identified:

- "Real adopter": score higher than 5.

- "Mild adopter": score from 3 to 5.
- "Formal adopter": score lower than 3

While "Real adopters" not only stick to the TUEL's provisions, but also use the new tools accordingly to their managerial function, "Formal adopters" on the contrary formally comply with the provisions but demonstrate a limited understanding of the tools utility. "Mild adopters" are in between the two previous classes.

As to the first part of the assessment the data analysis shows that the mean level of the RAD is equal to 4.34; more specifically the results observed are: 22.02% low; 65.05% medium; 12.93% high. When considering the size of the entities, differences come out revealing that in the classes 2 and 3 the concentration of entities with a high level of compliance is higher than in the class 1. In fact the mean compliance level of municipalities in the classes 2 and 3 is respectively equal to 4.55 and 4.85, while in class 1 it is equal to 4.21. At large it can be noticed that in the classes 2 and 3 there are higher rates of municipalities that obtain a "high" RAD, and on the contrary lower rates of entities which obtain a "low" RAD. Finally it is useful to observe that even among those entities that obtain a "high" RAD the percentage of municipalities that has started the strategic control function and that uses the related instruments is still very low –Table 2.

Table 2. Single innovations' adoption rate

Types of innovation introduced	%
1. Use of the accrual accounting;	93.1%
2. Preparation of the assets inventories	61.0%
3. Use of performance measures	90.5%
4. Preparation of the PL	79.0%
5. Preparation of the GDP	15.8%
6. Implementation of the management control function	78.6%
7. Implementation of the strategic control function	15.8%

With regard to the second part of the assessment the results of the data analysis reveal that most of the entities considered –69.17% of the sample– can be classified as "Formal adopter" with a mean score equal to 2.23; only the 3.11% of the entities seems to be properly using the new tools and hence can be classified as "Real adopter". When considering the size of the entities, consistently with the previous analysis, the results show that municipalities belonging to the classes 2 and 3 obtain better results than those belonging to class 1. In fact the mean scores observed are: 2.08 in class 1, 2.87 in class 2 and 3.31 in class 3.

The above findings are consistent with other empirical studies conducted so far (Anessi Pessina and Caccia, 2000; Anessi Pessina and Steccolini, 2001, 2005, 2007; Buccoliero et al., 2005; Caperchione, 2003; De Matteis and Preite, 2005; Nasi and Steccolini, 2008; Mazzara, 2003) and confirm that the way followed by the Italian municipalities to

accomplish the NPFM reforms is leading to a change of their accounting practices which is formal rather than substantial.

5.2. Discussion

As for the first research question the data analysis highlights that so far the percentage of entities that have highly complied to the norms prescriptions is around the 13% of the sample. As a matter of fact the largest part of the municipalities obtained a "medium" score" mainly because they have not fulfilled the obligation to enact the strategic control function, furthermore there is a relevant share of entities that has not even started the management control function.

A possible explanation for this low rate of compliance to the TUEL –RAD– may be found in the innovations diffusion literature. Rogers (1995) argues that from 49 to 87 percent of the variance in the rate of adoption of an innovation can be explained by five attributes (see Table 3):

Table 3. Rogers' attributes of innovations

Attribute	Description
<i>Relative advantage</i>	It represents the degree to which an innovation is perceived as being better than the existing practices. It can be measured in terms of cost and benefits deriving from the adoption of the innovation and is positively related to the rate of adoption
<i>Compatibility</i>	It represents the compatibility with existing values, past experiences, and needs of potential adopters. It is positively related to the rate of adoption
<i>Complexity</i>	It is the complexity in innovation's understating and use. This attribute, on the contrary, is negatively related to the rate of adoption
<i>Trialability</i>	It is the degree to which an innovation can be experimented with and is positively related to the rate of adoption
<i>Observability</i>	It is the degree to which the results of an innovation are clearly apparent to others and is positively related to the rate of adoption

With regard to the relative advantage of the TUEL's innovations, only for the 58.8% of the survey respondents the benefits deriving from the adoption of the TUEL accounting and control model are higher than its costs; furthermore no incentive systems were provided by the law to promote the innovations adoption nor any sanction issued for not complying entities. As to the compatibility with existing values and practices it has already been argued that the innovations introduced conform to a managerial approach to public administration while the existing routines are grounded in an administrative culture where formal compliance to rules and regulations plays a central role. Complexity can be considered another obstacle to the TUEL implementation as the innovations it introduces require the personnel to acquire significantly new expertise as well as a technology improvement. In addition no trials were carried out before the provisions were enforced. Finally it has to be considered that the benefits deriving from the new tools adoption are not clearly visible to the final "customers" of the municipalities –the

citizens— who have little interest in tools such as the financial statement as an instrument to monitor elected officials (Zimmerman, 1977). It is thus likely that scarce or no pressures have been exerted by the politicians to promote the innovations adoption. As a matter of fact in the opinion of 71.9% of the survey respondents politicians do not consider the managerial innovations introduced by the reforms as a priority in the agenda.

The data analysis concerning the actual use of the new accounting tools reveals that the 69.17% of the LGs which have significantly adopted the TUEL reforms is classified as “Formal Adopter” because the formal compliance with the provisions is associated with a limited understanding of the tools utility.

As for the second research question it is now possible exploring whether the NIS and the OIE can help understanding the causes of the revealed discrepancies between formal and actual changes. To this end, in this part of the analysis, the information collected by means of either the survey and the interviews are used.

The NIS perspective observes organisational change as a reaction to the different isomorphic pressures to which organisations are subject. In Italy according to the interviewees LGs have introduced the new accounting system without understanding its actual usefulness and have implemented it in a formalistic way simply to comply with the national legislation requirement and achieve external legitimacy –*coercive isomorphism*. In this respect some passages from the interviews are quoted below:

- LGs are convinced that the accounting system is just a legal fulfilment rather than a support to decision-making that increases transparency in the use of public resources.
- Politicians and executives lack awareness of the new accounting tools usefulness.
- There are legislative tools but their use is not correctly interpreted.

Thus the interviewees’ opinion concerning the actual use of the new accounting tools is consistent with the results of the data analysis as to the TUEL formal compliance.

As regards the environmental pressures that induced NPFM reforms in Italy, interviewees agreed that besides the economic factors –such as the public finance crisis and a chain of financial scandals that ended up in the “clean hands” inquest, the Maastricht Treaty which boosted the restoration of public finances, the progressive reduction of public intervention in the economy and the resulting increase in the citizenry demand for higher quality services (Mussari, 2005; Pavan and Reginato, 2005)– political and social forces played a part in the introduction of changes. During the 1990’s Italy was characterized, at the local level, by an inclined to change political and managerial elite that was also more oriented to citizen needs satisfaction than in the past. Furthermore they argued that as the NPM ideas spread worldwide (Anselmi, 2003; Borgonovi, 2005), unavoidably the belief that Italy had to follow the international reform movement and reproduce practices adopted by successful public sector organisations found large consensus –*mimetic and normative isomorphism*.

- According to NPM ideas, which were spreading in Italy during those years, public organisations were considered as "business enterprises" whose management implied the adoption of private sector derived instruments. The introduction of the accrual accounting in the Italian LGs can be seen as a tendency to follow these new trends.
- Accrual accounting is considered as a managerial fashion.

In contrast to the NIS the OIE approach explores the internal dynamic of organisational change and suggests that the explanations for the gap between *rules* and *routines* –formal and actual changes– may be found in the existing institutions –organisational culture– within organisations (Burns and Scapens, 2000).

As regards the process through which the accounting reform was carried out in the Italian LGs, the interviews highlights that what has missed in the first place is the enactment of some process to help individuals in the LGs sharing the new practices introduced by the reforms. Most interviewees, in fact, claimed that the TUEL model was enforced from the top without being preceded or accompanied by a testing period and that LGs were left alone in the implementation of the reform.

Furthermore the TUEL reforms are consistent with managerial values, such as results orientation, efficiency and effectiveness. These values are distant from the established ones, which are coherent with the *Rechtsstaat* culture that, on the opposite, emphasises formal compliance to rules and regulations. Hence, another reason for the gap between actual and formal changes can be ascribed to the inadequate managerial culture of the LG's executives who mainly have a juridical background which keeps influencing TUEL implementation. According to most interviewees:

- Old practices are hard to modify. There is a lack of managerial attitude; there is a lack of financial resource management responsibility.
- Accounting regulations are too evolved compared to their actual abilities of implementation because of cultural deficiencies.
- Executives have no managerial knowledge to implement the accounting model.
- Most of the Chief Financial Officers are much more familiar with traditional cash and obligation-based accounting than with the accrual one.

In this regard the results of the analysis on the incorrect use of new accounting tools –such as the accrual and cost accounting, the EMP and the management control which are considered the main instruments of the cultural change the TUEL wants to realise (Farneti, 2006)– supports what has just been argued.

The data collected by means of the survey also reveal that the 77.6% of the municipalities prepares the Statement of financial performance and the Balance sheet using data from the cash and obligation basis accounting, by means of a reconciliation statement. As regards the cost accounting the 73% of the respondents has not yet started to use it and only the 11.7% is going to do it in the future. Additionally when the cost accounting is adopted it mostly uses data drawn from the cash and obligation-based accounting.

Furthermore, in the interviewees opinion the new accounting model implementation is seen as a threat to the stability of the old habits and to power relations:

- Public officials tends to maintain the existing status quo and they are afraid of being judged on the basis of results that they are not certain of attaining thus losing their power.
- LGs seem unwilling to introduce accruals accounting.

An opinion about the reasons for the gap between actual and formal changes was also asked to the survey respondents who were given five choices which came out as a result of the interviews. The data analysis reveals that discrepancies can be ascribed to: the TUEL disregard for the size of the entities –78.5% of the respondents–; human and financial resources shortages –77%–; managers and appointed officials cultural deficiencies –50.8%. Only the 16.5% considers the misleading interpretation of the norms among the causes of the gap, while for the 32.9% the gap is due to the implementation of the TUEL accounting model being too expensive.

Municipalities with more than 50,000 residents argued that the main cause of the gap can be ascribed to cultural deficiencies. In this respect the results of the analysis confirmed the significance of the cultural issue in the Italian LGs as highlighted by the interviews.

The analysis also highlights that structural elements, such as the municipalities size, are more relevant than the cultural ones for medium and small entities.

LGs size reflects their organisational visibility; more visible organisations –larger municipalities– are subject to greater level of scrutiny by their stakeholders and to higher social pressures (Brammer and Millington, 2006). Visibility may therefore lead organisations to converge on the adoption of administrative techniques which are considered desirable an innovative (Damanpour, 1996).

As a matter of fact, organisational size might affect the introduction and implementation of innovations (Adams, 2002; Damanpour, 1996; Haldma and Lääts, 2002; Kimberly and Evanisko, 1981). Correspondingly in the present study larger municipalities –those with more than 50,000 residents– obtained better results than smaller ones as regards both the reforms adoption degree and the use of the new tools provided.

6. Conclusions

Starting from the mid-1990s, Italian LGs have been involved in a comprehensive renovation process of their accounting and control model triggering NPFM reforms across the country. Fifteen years after the present study has analysed to what extent these reforms have been actually implemented not only in terms of formal compliance to law requirements but also in terms of accuracy in the use of the new accounting tools –first research aim. Other studies on this topic had already highlighted discrepancies between actual and formal accounting changes though without focusing on the reasons

for that situation. The study has hence tried to fill the gap left by the previous studies –second research aim– using the institutional theory approach to support the analysis. In particular the NIS and the OIE perspectives were used. According to the NIS –external perspective– the reason for discrepancies may be related to the fact that organizations respond to isomorphic pressures and adopt new accounting systems in order to achieve external legitimacy. Conversely the OIE approach –internal perspective– suggests that the explanations for the gap between *rules* and *routines* may be found in the existing *institutions* –organisational culture– within organisations.

To answer the research questions a survey carried out on a representative random sample of Italian municipalities with more than 5,000 inhabitants together with semi-structured interviews to privileged observers were used.

As regards the first research question the results of the survey highlight that, first of all, nearly the 40% of the municipalities has not complied to the TUEL provisions thus far. In particular the aspects of the reform that resulted having the lowest rate of adoption are those related to the medium term planning and the strategic control function. It was argued that such a low rate of adoption, after more than a decade since the reforms were issued, may be the result of a scant consideration for the perceived attributes of the reforms indicated in the innovations diffusion literature. With regard to the use of the new accounting and control tools, the study findings show that the largest part of the entities only formally complies with the rules but demonstrates a limited understanding of the tools utility.

As to the reasons for the discrepancies between formal and actual changes the study suggests that the Italian case can be considered as an example wherein institutional theory can help understanding the actual implementation of the NPFM reforms –second research question.

Specifically according to the NIS the Italian municipalities' case can be explained in terms of reaction to external pressures to conform to a new accounting and control model. As a matter of fact the tools imposed by the TUEL provisions were not devised to act in response to actual information needs perceived by the LGs. On the contrary the changes to the information system are perceived as an obligation and their concrete usefulness is not recognised, so that it is possible to hypothesise that the Italian municipalities reacted to the pressures exerted on them adopting the new tools, but in such a fashion that is not consistent with their managerial function. Hence according to the NIS the following hypothesis can be formulated:

1. if the introduction of the new accounting tools is triggered by isomorphic pressures to comply with law requirement –*coercive isomorphism*– or to mimic changes adopted by successful public sector organisations and to follow managerial fashions –*mimetic and normative isomorphism*– instead of being driven by the actual entities' information needs, as a consequence the use of the same tools will be merely formal.

According to the OIE, on the other hand, it could be argued that the inconsistencies between the *Rechtsstaat* administrative culture prevailing in the Italian public

administrations and the values that inspired the reforms have led to an adoption of the new accounting and control tools that impaired their managerial function thus bringing about a mere formal compliance to the laws. Hence according to the OIE theoretical approach the following hypothesis emerges:

2. If new accounting rules are introduced which significantly differ from the organisation's shared values –institutions or organisational culture– it is likely to find a gap between rules and routines which is slowly bridged.

Finally both the interviews and the survey data also highlight that municipalities size might affect NPFM reform adoption and mode of implementation. The survey in particular showed that larger municipalities obtained better results than smaller ones, as regards both the implementation degree of the reform and the use of the new tools it has provided. In this respect some scholars argue that as the size of the organisations increases the amount and complexity of the information that has to be managed gets larger, so that more sophisticated accounting and control systems are required (Adams, 2002; Damanpour, 1996; Kimberly and Evanisko, 1981). Furthermore size may be considered as a proxy of other dimensions –such as technical expertise, total resources, organisational structure, and so on– that lead to innovations and evidence shows that it is positively related to organisational innovativeness (Rogers, 1995).

Although it focuses on a single level of government and on a single country the present research can represent an effort to formulate hypotheses about a direct correlation between accounting practices and respectively isomorphic pressures affecting the introduction of the new accounting tools –NIS–, municipality organisational culture –OIE.

Further qualitative research might also help in the future understanding whether it is the external pressures or the organisations' culture that better explains the Italian municipalities case, as well as to what extent internal and external factors have interacted.

Furthermore the study has only considered the municipalities' behaviour in terms of passive adaptation to the changes imposed by the laws. However it is possible that behind the formal compliance to the laws a concealment tactic (Oliver, 1991) is being enacted, that is to say disguising nonconformity behind formal acquiescence. This would mean that the municipalities are not just passively accepting and adapting to the reforms but actively reacting to them. Thus future studies might also try to assess whether active resistance to the norms has been played.

7. References

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Appendix

Reforms Adoption Made (RAM)

Question 1: How is the accrual accounting carried out?	Score
Double entry system (parallel system)	1.00
It is derived from the cash and obligation accounting by means of reconciliation prospect	0.00
It coexists with the cash and obligation accounting (integrated software)	1.00
It has not been realized yet	0.00
Question 2: Has the entity implemented a cost accounting system?	Score
Yes and it uses data drawn from the cash and obligation accounting	0.50
Yes and it uses data drawn from the accrual accounting	1.00
No	0.00
No, but it will be in the future	0.00
Question 3: Are the inventories updated every year?	Score
Yes	1.00
No	0.00
Question 4: Does the entity use performance indicators other than those required by the D.P.R. n. 194/1996	Score
No	0.00
Yes	1.00
Question 5: The PL and/or the GDP	Score
Broadly define the political program of the entity's governing body	0.00
Set programs and objectives, without defining the objectives measures	0.50
Set programs and objectives defining their measures and targets to achieve	1.00
Question 6: The (FPP)	Score
Roughly defines the entity's programs and objectives	0.00
Defines the entity's programs and objectives indicating the objectives measures	0.50
Defines the entity's programs and objectives indicating the objectives measures and targets to be achieved	1.00
Question 7: Does the EMP indicate the assignment of objectives to the managers	Score
Yes, but it only indicates objectives which represent a mere list of institutional activities	0.50
Yes, it sets the objectives and the related measures and performance targets to achieve	1.00
No, it doesn't	0.00
Question 8: Which of the following tools are mainly used for management control purposes?	Score
EMP	
Yes	A
No	-
Statement of financial performance	
Yes	A
No	-
Performance measures	
Yes	A
No	-
Cost accounting data	
Yes	A
No	-
IF $\sum A > 2 = \text{True}$	1
IF $\sum A > 2 = \text{False}$	0