

PUBLIC MANAGEMENT REFORM IN THE U.S. AND ITALY: ACCOUNTING, MEASUREMENT AND FINANCIAL REPORTING

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Introduction

This article focuses primarily on efforts to improve management control systems and processes, including budgeting, accounting and reporting, within the context of a responsibility framework in the United States and Italy. In public management theory, management control is assumed to be a process for motivating and inspiring people to perform more effectively in the context of working in complex organizations (Jones and Thompson, 1999: 130). From this perspective, management control attempts to motivate public managers to serve the policies and purposes of the organizations to which they belong, and to meet the demands and preferences of the citizens and customers they serve. Additionally, management control is a means for correcting performance problems and including inefficient use of resources. Among the initiatives taken to implement management control systems and to control costs is the design of new or reconfigured budgeting, accounting and reporting systems. One approach to redesign is responsibility budgeting and accounting, now widely practiced internationally.

The discipline of management control is based on the presumption that managerial and all behavior of individuals working in organizations is largely self-interested, also a tenet in economics. Goals of management control include increased efficiency and effectiveness, and minimization of agency costs. Three interconnected techniques typically are employed in implementing improved management control systems: (a) performance measurement using internal accounting systems, (b) incentives and disincentives intended to reward or deter particular types of behavior and performance, and (c) methodologies that delineate decision making authority and responsibility within the organization. Bureaucratic organizations define decision authority and responsibility by separating decision control from decision management through the creation of hierarchical structure.

Responsibility Budgeting and Accounting

A primary instrument of management control is responsibility budgeting and accounting, implemented through performance related techniques incorporated into budget formulation and execution. Typically, under responsibility budget formulation, organizational policies are formulated into performance and financial targets that correspond to the domains of administrative units and managers (Anthony and Young, 1996: 19). In responsibility budget execution, operations are monitored and managers are evaluated, rewarded and sanctioned relative to achievement of performance targets. Responsibility budgeting thus involves organizational engineering in addition to cost accounting (Jones and Thompson, 1999).

Under responsibility budgeting, work is monitored and controlled in administrative units according to mission, function and performance targets. Administrative units and their relationships to each other constitute the administrative structure of the organization. Responsibility budgeting requires decision authority and performance responsibility resulting from decisions to be allocated to individuals who manage units within the organization. This allocation constitutes the organization's responsibility structure, i.e., where responsibility for mission accomplishment is centered. Responsibility budgeting also requires an accounting system to record, measure and evaluate performance information including inputs, costs, transfers, activities, and outputs. This system constitutes the spine of the organization's control structure. Under a fully developed responsibility budgeting and accounting system, administrative units and responsibility centers are coterminous and fully aligned with the organization's accounting and control structure, since the information it provides can be used to coordinate unit activities as well as to influence the decisions of responsibility center managers.

Several basic rules govern organizational design in the responsibility structure formulation. First, organizational strategy should determine structure. Strategy means the pattern of purposes and policies that defines the organization and its missions and that positions it relative to its environment. Single mission organizations thus are intended to be organized along functional lines; multi-mission organizations should be organized along mission lines; multi-mission, multifunction organizations may be organized along mission lines or in matrix structure. Where a matrix organization is large enough to justify an extensive division of labor, responsibility centers should be designated as either mission or support centers, with the latter linked to the former by a system of internal markets and transfer prices.

A second rule is that the organization should be as decentralized as possible. Management theory supports the thesis that the effectiveness of large, complex organizations improves when authority and responsibility are delegated out through the organization (Jones and Thompson, 1999).

Thirdly, authority should not be delegated arbitrarily. Decentralization requires prior clarification of the purpose or function of each administrative unit and responsibility center, procedures for setting objectives and for monitoring and rewarding performance, and an accounting structure that links each responsibility and service center to the goals of the organization as a whole.

As explained elsewhere (Thompson and Jones, 1986),¹ the most significant difference between traditional government budgets and responsibility budgets is that government budgets tend to be highly detailed spending or resource acquisition plans that generally are required to be executed as they are approved. In contrast, operating budgets in the private sector are usually spare of detail, often consisting of no more than a summary of financial targets. One of the originators of responsibility budgeting, General Motors' Alfred P. Sloan, believed that it was inappropriate and unnecessary for top managers at the corporate level to know much about the details of responsibility center operations (Womack, Jones and Roos, 1990: 40-1). If the reporting showed that performance was poor, that meant it was time to induce change in responsibility center management. Responsibility center managers showing consistently good results were promoted and rewarded in other ways.

This notion that responsibility centers should be managed objectively by the numbers from a small corporate headquarters reflects the effort to delegate authority and responsibility outward into the organization. As explained in the OECD report, *Budgeting for Results: Perspectives on Public Expenditure Management* (1995), delegation of authority means giving agency managers the maximum feasible authority needed to make their units productive or, in the alternative, subjecting them to a minimum of constraints. Hence, delegation of authority requires operating budgets to be stripped to the minimum needed to motivate and inspire subordinates. Under responsibility budgeting, the ideal operating budget for each administrative unit/responsibility center contains only one or several performance targets related to corresponding costs to achieve the performance indicated. (e.g., a production quota, a unit cost standard, or a profit or return on investment target). It is very important that targets be stated in monetary terms, both to compare the performance of unlike responsibility centers and to keep higher levels of administration away from operating details, thereby discouraging them from "micromanaging" the decisions of responsibility center managers.

Types Of Responsibility Centers

Responsibility centers are classified according to two dimensions:

- The integration dimension – i.e., the relationship between responsibility center objectives and the overall purposes and policies of the organization;
- The decentralization dimension – i.e., the amount of authority delegated to responsibility managers, measured in terms of their discretion to acquire and use assets.

On the first dimension, a responsibility center can be either a mission center or a support center, as noted. The output of a mission center contributes directly to organizational objectives or purpose. The output of a support center is an input to another responsibility center in the organization, either another support center or a mission center. On the decentralization dimension, accountants distinguish among four types of responsibility centers based on the authority delegated to responsibility managers to acquire and use assets (Anthony and Young, 1995).² Discretionary expense centers, the governmental norm, are found at one extreme and profit and investment centers at the other. A support center may be either an expense center or a profit center. If the latter, its profit is the differences between its costs and its 'revenue' from 'selling' its services to other responsibility centers. Both profit and investment centers are usually free to make decisions about issues that are significant to the long run performance of the organization.

Discretionary expense centers incur costs. The difference between them and other kinds of responsibility centers is that their managers have no independent authority to acquire assets. Each acquisition must be authorized by the manager's superiors. In the U.S. federal government system, under detailed line item budgets, acquisitions must be authorized by Congress and signed into law by the President. However, all discretionary expense center managers are accountable for compliance with an asset acquisition plan (an expense budget), whether or not written into law. Once acquisitions have been authorized, discretionary expense center managers are usually given considerable

latitude in their deployment and use. In some cases, expense center managers are evaluated in terms of the number and type of activities performed by their center. Where each of the activities performed by the center earns revenue or is assigned notational revenue (transfer price) by the organization's controller, these centers are referred to as revenue centers. University development offices are frequently revenue centers. Managerial accountants generally believe that unit should be set up as a discretionary expense center only where there is no satisfactory way to match its expenses to final cost objects, as in an accounting department.

In a cost center, the manager is held responsible for producing a stated quantity and/or quality of output at the lowest feasible cost. Someone else within the organization determines the output of a cost center — usually including various quality attributes, especially delivery schedules. Cost center managers are usually free to acquire short term assets (those that are wholly consumed within a performance measurement cycle), to hire temporary or contract personnel, and to manage inventories. In a standard cost center, output levels are determined by requests from other responsibility centers and the manager's budget for each performance measurement cycle may be determined by multiplying actual output by standard cost per unit. Performance is measured against this figure — the difference between actual costs and the standard. In a quasi-profit center, performance is measured by the difference between the notational revenue earned by the center and its costs.

In profit centers, managers are responsible for both revenues and costs. Profit is the difference between revenue and cost. Thus, profit center managers are evaluated in terms of both the revenues their centers earn and the costs they incur. In addition to the authority to acquire short term assets, to hire temporary or contract personnel, and to manage inventories, profit center managers are usually given the authority to make long term hires, set salary and promotion schedules (subject to organization wide standards), organize their units, and acquire long lived assets costing less than some specified amount.

In investment centers, managers are responsible for both profit and the assets used in generating the profit. Thus, an investment center adds more to a manager's scope of responsibility than does a profit center, just as a profit center involves more than a cost center. Investment center managers in the private sector are typically evaluated in terms of return on assets (ROA), i.e., the ratio of profit to assets employed, where the former is expressed as a percentage of the latter. In recent years many have turned to economic value added (EVA), net operating "profit" less an appropriate capital charge, which is a dollar amount rather than a ratio. This change has clear implications for public sector budgeting and accounting to move toward performance reporting, measurement and management, as argued in this article.

Finally, under responsibility budgeting, support centers provide services or intermediate goods to other responsibility centers and charge a notational or an actual transfer price, e.g., in the U.S. defense department (see Jones and Thompson, 1999: insert pages). Reasons for transfer pricing within organizations include determining the costs of services provided by one unit to another, establishing and manipulating incentives, and measuring the performance of responsibility centers. Transfer pricing also reveals the internal costs of service decentralization where costs are born to transfer decision rights to others within an organization. When one sub-unit transfers goods, knowledge, skills,

etc. to another, both units calculate the cost as a means of revealing their liquid and tangible asset use internally and in external provision of service.

Responsibility Structure Reform in the U.S. Government

The federal government of the U.S. accounts for purchases, outlays, and obligations, but it still does not account for consumption.³ Full value from the application of responsibility budgeting can be obtained only where government adopts a meaningful form of consumption or accrual accounting (measuring the cost of the assets actually consumed producing goods or services). Because the U.S. government does not account for resource consumption, its cost figures are necessarily statistical in nature (i.e., they are not tied to its basic debit and credit bookkeeping/accounting records). Without the discipline that debit and credit provides, these figures are likely to be satisfactory only for illustrative purposes or where a decision maker must make a specific decision and a cost model has been tailored to the decision maker's needs. Another aspect that contrasts current U.S. practice and responsibility budgeting and accounting is that the appropriations process does not employ a separate capital budget. Finally, the existing process segregates every operating cycle to fit the federal fiscal year. Under the fully applied responsibility budgeting and accounting concept, budgeting for operating expenses and capital asset acquisition is separated, and all budgeting is continuous across a multiple year period of time. However, in matrix or networked (versus hierarchical) organizations, the distinction between capital and operating budgets is less necessary, as is the distinction between cost estimation and cost measurement (Tani, 1995; Otley, Broadbent, and Berry, 1995).

Responsibility budgeting and accounting has been implemented on a broad scale internationally, e.g., in the United Kingdom in 1982 and modified in 1988 (Pollitt, 1993; Lapsley, 1994), in Australia, Canada, Denmark, Finland, and Sweden. All of these nations have adopted responsibility budgeting and accounting in one form or another. No nation, however, moved as far or as fast with this reform as did New Zealand. Moreover, New Zealand's reformers explicitly recognized their debt to the framework of agency theory outlined at the beginning of this article (Boston, *et al.*, 1996).

Responsibility budgeting and accounting has been attempted in the United States and influenced reform in both the Bush Administration in the period 1988-1992 and the initiatives of the Clinton Administration from 1993 to 2000. Additionally, the content of both the Chief Financial Officers Act of 1990 (CFO Act) and Vice President Gore's National Performance Review called for performance-oriented organizations and mission driven, results oriented budgets (Jones and McCaffery, 1992; Jones and McCaffery, 1997; OECD, 1995: 230). Further, in 1993 Congress passed the Government Performance and Results Act (GPRA) that requires experimentation with responsibility budgeting and accounting and reporting by all departments and agencies of the federal government under the supervision of the Office of Management and Budget and oversight committees of Congress. In particular, the Defense Management Report Initiatives under Bush and Secretary of Defense Dick Cheney, and the Gore NPR stimulated considerable effort at accounting and financial management reform in the U. S. Department of Defense. Clearly, greater progress was made under Bush (e.g., introduction of reimbursable transaction accounting and budgeting) than during the

Clinton - Gore administration, but both successes and failures have resulted from these initiatives (Thompson and Jones, 1994; Jones and Thompson, 1999). It is clear that government-wide progress has not been rapid. As with most large governments, the U.S. federal government has been slow to change (Jones and McCaffery, 1997; Jones and Thompson, 1999). The impetus to change presently emanates from a combination of the CFO Act and the GPRA.

The CFO Act requires double-entry bookkeeping and accrual accounting, neither of which are standard practice in the U.S. federal government. To receive a clear audit report from the Inspectors General who perform CFO audits, these accounting changes need to be implemented in federal department and agency accounting systems. However, few federal agencies can comply with either the double-entry or accrual requirements, and there is resistance to investing to do so given that the federal budget and appropriation accounting are done primarily on a single entry and cash basis. Changes in federal appropriation law and congressional appropriation procedures, at minimum, appear to be required to push federal agencies further toward CFO Act compliance.

The GPRA requires strategic planning (SP) and development of performance measures, which has been implemented throughout the government, and linkage between SP and resource planning and budgets, which has been done with varying success. Further, GPRA invited agency experimentation with performance budgets on a voluntary basis, to be evaluated by Congress. To date, the results from these experiments have not persuaded Congress or the President's Office of Management and Budget (OMB) that broad application of performance budgeting, using an agency theory oriented contracting system of the type employed in New Zealand and elsewhere, is worth the effort. Agencies report that their own ability to plan and execute programs, and to justify budgets has been in some instances enhanced as a result of SP and performance measure development (as required by OMB). However, few agencies and no departments in total have the capacities in their accounting systems and procedures that permit accurate and reliable (or in some cases any) linkage between performance or results data and costs or budgets. Consequently, whether reporting costs related to organizational units, functions, accounts and sub-accounts or workload for the CFO Act, or cost performance (e.g., for results) for GPRA, there is little hope for broad-scale success in the medium term for most of the U.S. federal government.

There are additional explanations for this fact. The first is that many participants and observers of the U. S. expenditure process reject the notion that responsibility budgeting and accounting can be reconciled with the American legislative budgetary process. Some even assert that it can be practiced only by unitary governments under the Westminster model, although that claim seems to be contradicted by Swiss and Swedish examples of successful implementation (Schedler, 1995; Arwidi and Samuelson, 1993). While acknowledging that it would not be easy to reconcile responsibility budgeting and accounting with the American legislative process, we do not believe that they are necessarily incompatible (Thompson, 1994; Harr, 1989; Harr and Godfrey, 1991 & 1992). If operating budgets were multiple year and funded on the base of what departments and agencies received in their previous year's base, which is how federal budgeting operates for the most part presently only on a one year cycle (Wildavsky, 1964; Wildavsky and Caiden, 2000), then budgets could be linked to whatever performance standards congressional appropriators (and authorizers) would prefer.

Good performance would be rewarded and poor performance sanctioned -- again, much as it is done presently. Departments and agencies would benefit from a more predictable revenue base, and presumably this stability would be reflected in better service to citizens, although this advantage cannot be predicted accurately.

Capital budgeting under responsibility budgeting would be separate from operating budgets, continuous and responsive to department needs and justification as per the current system. However, persuading members of congress to pass up opportunities for annual "pork rushes" to push pet projects in favor of a more stable, longer-term resource allocation methodology would not be easy, because it is through the annual budget that rewards are provided to loyal and, in some cases, needy constituents. Perhaps the Senate would be more likely to adopt multiple year appropriation because senators are elected for terms of six years, and are often reelected for several terms. On the other hand, members of the House of Representatives serve in two year terms, which means that they have much shorter time horizons within which to provide benefits to supporters. Clearly, multiple year budgeting would be a much harder sell in the House. Still, the reelection rate of members of the House is high, so there is moderate continuity in the business of the lower house of Congress. However, the high rate of reelection is in part attributable to the ability of representatives to demonstrate results from their election quickly. Of course, none of this mitigates against the use of performance measures in budgeting. It only affect incentives toward longer-term or continuous budgeting. And, obviously, little that Congress does with its budget process has anything to do with improving department and agency performance accounting, as demonstrated by the limited results achieved under the CFO Act.

Another, perhaps weaker, explanation for failure of responsibility budgeting and accounting to influence government accounting and budget practices in the United States significantly is that, unlike most other countries, America has large, well-organized associations of government accountants, auditors, budgeters, program analysts, and teachers of government accounting and budgeting. All of these groups have to varying degrees a vested interest in differentiating public from private practice, because that difference gives value to their expertise. Anyone inclined to doubt the significance of this explanation should look carefully at the politics of the Financial Accounting Standards Advisory Board (FASAB), responsible for developing accounting standards for the U. S. federal government, where accountant members did not understand the perspective of appropriation law and the budgetary process and those with experience with appropriations process were frustrated at having to confront a wide range of issues that seemed unresolvable unless appropriation law and procedures were modified, as noted.. The standards were completed in 1997, but their success is now under evaluation as departments and agencies attempt to implement the CFO Act, with mixed results. What agencies complain about most, in addition to the absence of financial support for implementation, are the inconsistencies between the standards and the capabilities of the accounting systems, data bases and procedures used by their agencies to perform required tasks in budget formulation and execution, i.e., the same things that irritated "budget-wise" members of FASAB during development of the standards.

Responsibility Structure Reform in Italy

The introduction of responsibility budgeting in Italian government is a recent phenomenon. This introduction is only a part, even if particularly important, of a larger process aimed at the modernization of all Italian government. Many sectors of Italian government have been reformed during the 1990s. The sectors generally considered more advanced in this process are local governments, and health service organizations. Central government was also interested in reforms that attempted to introduce New Public Management philosophy and the related managerial tools but, national government seems more resistant to change in comparison with other parts of Italian public administration. Since the aim of this article is examining responsibility budgeting in government, local government is the focus of this exploration on Italian practice. This choice is to the fact that, in the last six years, it has been the object of the most interesting reforms in Italian government. Initially, it must be clear that local government in Italy is not a homogenous and standardized phenomenon. Furthermore, the socio-economic status of our Italy is far from uniform and this is unavoidably reflected in the behavior of administrators and those administered, in the different parts of the country.

In addition to Provinces there are more than 8,000 municipalities, the greatest portion of which have very small numbers of inhabitants (in 1995 only 1325 Municipalities had more than 8,000 inhabitants). This implies that, in practice, a large majority of public entities do not have human and financial resources at their disposal which are capable of implementing a demanding process of reforms. However, the National Legislature has already changed the rules of the accounting and budgeting practice for the nation through laws passed in the early 1990s, and this is the sure sign that the process of modernization of government can no longer be prevented. In the Italian situation, and especially in the institutional context of local government, it is not necessary to use the adjective “new” in the sense that the mode that Italy is trying to change cannot be labeled presently as managerial. Any implementation with a public management orientation will be new. The aim of this portion of the article is to provide reflections on the relationship between autonomy, responsibility and the introduction of a new conception of public management and management control in Italy. The effort here is to verify whether, and to what extent, the conquest of autonomy and the assignment of responsibility for results can contribute to stimulating a new public sector managerial culture in Italy.

There is extensive literature in Italy that explains the reasons for the prevailing of bureaucratic and formalist culture in our public administration and the difference between the managerial culture and control (see for example Borgonovi, 1988; Borgonovi, 1991; Anselmi, 1993; Mussari, 1994). It is necessary to emphasize the significant role that the law has in Italy. The life of our national and local communities is ruled by an enormous number of norms (laws, decrees, legislative decrees, circulars, regulations, and so on), continuously renewed or updated, that oblige public administrators to be experts more in law than in management. Current reform of local governments is based on a significant number of laws and decrees and entails the updating of municipal statutes and regulations.

The overproduction of rules often generates strong contradictions between norms so that, sometimes, the behavior of public administrators differs according to the law they

consider as prevailing. It is not accidental that the leaders of public organizations and a large majority of politicians have been educated in the disciplines of law or political science rather than public administration, management or business administration. In the 1990s, the evils of poor or no management control and poor choice of which laws to enforce and to ignore was made more evident by financial scandals and corruption (Tangentopoli) that shook the country. The fear of error and of the legal consequences of error has been so strong that many local and national public services have been virtually paralyzed or significantly decelerated, e.g., public works. Scandals have ended up reinforcing the traditional prevailing model in Italian public administration that is excessively bureaucratic and one of relatively arbitrary rule enforcement relative to political motives and expedience.

Management control systems in Italy are not based on a results orientation in terms of efficiency, effectiveness, quality, equity or other criteria, but on the stiff observance of highly defined rules – rules typically decided upon and written very far from local communities. This kind of control, generally labeled as legalistic and bureaucratic, is the expression of an administrative culture and of a general culture designed to prove the validity of predominating rules and models. So, the basic problem in Italy is not to overcome or to update a managerial model that is “old” in order to change it for a new and more effective one, but to introduce, *de novo*, a managerial orientation that does not have historical or cultural roots in Italian government.

Given this fact, the first question to be answered is why did the debate about the necessity for exchanging the bureaucratic model for a managerial model begin in Italy? The most fundamental answer is that the existing model no longer works. Secondly, the reasons for the development of pressure for transformation can be traced to the need to supply a reasonable, non-utopian reply to the signals emerging from the contemporary economic and social scenario. Redesign of local government and the manifest legislative rules of law demonstrates a will to re-establish stronger links between local governments and the administered community. This effort is an attempt to fill the gap which, over the decades, has been created between the capacity to fulfill social needs and the actual capacity of local authorities to respond to demand for better service. Local officials need to learn to heed these signals, to decode, and to interpret them in order to translate them into effective solutions. In fact, the crisis of local governments is widely verifiable by observing that the administered community is neither adequately served nor satisfied with service availability and quality.

For too long a time, local governments have been estranged from the Italian public, functioning in effect as quasi-closed systems providing services to politicians and government officials. Consequently, with a some exceptions, in Italy there is little match between the values upon which decisions and actions of local administrators (politicians and officials) are based and the values held by different local communities, i.e., the values of people, families, businesses that pay taxes and use public services and legitimate the existence of local government. This is the “government failure” portion of the demand for managerial reform. Other variables include an increase in the service expectations of local communities as a result of better education, ever growing municipal problems that require attention and more rapid replies to continually changing circumstances, a reborn faith in market mechanisms as a means to guarantee social equilibrium, a national crisis of public finance, the disappearance of traditional political parties, and changes in the electoral system.

Some of the consequences emerging from the variables noted above include:

1. *More affluent people turning to private services as an alternative to public services, i.e., public services are only for poor people;*
2. *Difficulty for taxpayers to understand the relationship between taxes paid and the qualitative and quantitative level of the services offered;*
3. *The progressive return to market mechanisms for a growing number of public services (health, education, etc.);*
4. *The weakening of the institutional conditions that artificially guarantee the survival of local government organizations.*

Local governments face the need to respond to a different articulation of the scale of needs that follows modification of the cultural characteristics of the community (Catturi, 1995: 21; see also Di Toro, 1993; Farneti, 1995). They must do so not only by varying the mix of products and the services rendered but by changing managerial objectives to coherently correspond to the evolution of the socio-economic scenario in which they operate. Given these reasons for change, Italian local governments will be successful only if the subjects who have the duty to run them (politicians and officials) promote new values: learning capacity, organizational flexibility, orientation to quality, centrality of the citizen-user-tax-payer in the economic processes, clear identification of goals, objectives, attribution of resources, responsibility for results and overall performance of the system.

Autonomy as a Necessary Condition for Responsibility

Metcalf and Richards (Metcalf and Richards, 1987: 217) state that management means taking responsibility for the performance of a system. There is a consensus among public management scholars (see for example Jones and Thompson, 1999) that autonomy is a precondition, necessary but not sufficient, for effective management. It is not feasible to judge managers responsible for the results of an organization, function or a service without having made them autonomous. This condition is summarized in the expression, "the right to manage." Yet, we should clarify some aspects of this view.

Is it possible to have autonomous management and a management responsible for the results inside a public organization that is not autonomous? If we look at the Italian historical experience we come up with a negative conclusion. When local governments are not autonomous, the agents they serve are not in the local community but the central government of Italy that guarantees organizational survival. Because of cultural hindrances and also to guarantee equal treatment between different provinces and regions, in this situation the law becomes the only rule by which to measure results.

Thus, the first step to be taken to arrive at a managerial orientation is full recognition of the autonomy of local governments. In this analysis we distinguish two types of autonomy: autonomy of local government, and autonomy inside local government

Autonomy of Local Government

What does autonomy of local government mean? From who has local government to be autonomous? Autonomy means the possibility, capacity and will to make decisions, to

direct decisions, resources and actions towards defined and proper objectives that reflect the values shared by the local community. Autonomy, then, means to have the freedom to make independent decisions and to establish strategic and operative objectives along with the ways to fulfill them. Autonomy also includes the capacity of survival without artificial intervention based upon economic and social evaluation made by the taxpayers and users of public goods and services. An organization is autonomous when its components are coordinated to allow – by means of their dynamism – the fulfillment of the aims for which it exists (on autonomy of Italian local government, see Zangrandi, 1994).

Local governments were declared autonomous in the Italian Constitution (Articles 5 and 128) but, up to the promulgation of new law in 1990, autonomy was essentially fictitious. The autonomy of Italian local government is a recent, but still not completely realized, convention. Since the 1970s the expansion of local government service responsibility in the areas of social welfare and education has been very rapid, but there has not been a corresponding expansion of the tax base or managerial competence. This disparity, coupled with the decision to centralize Italian tax collection, increased dependence on the central government and caused a crisis of results and, slowly, of legitimization. The gap between the cost of local services and the insufficient taxes raised locally has been filled by central government transfers. This has contributed to raising the Italian national debt and deficit. The acknowledgment of local government autonomy is, on the one hand, a late answer to a social embarrassment and, on the other hand, an attempt to reduce the financial burden caused by the centralized fiscal system. And, the absence of autonomy was not limited to tax or financial matters, as noted below.

Previous to the approval of reforms in the 1990s, the following conditions applied. Public finance was strongly centralized. The central government raised money from taxation and distributed money, year by year, directly or through another public entity (regional government for instance) to local governments to perform many public functions and services. However, only a very small part of disposable national resources that derived from local communities was returned. It is important to note that, in the past, resources were transferred according to several criteria (in particular past expenditure) but none of these reflected the capacity of local governments to economically satisfy the needs of local users. The quantity of transferred resources depended essentially on the political leverage and negotiation abilities of the local government lobby in Parliament and, above all, on the fiscal and financial situation of the Italian state more than on performance. And the capacity of local governments seemed to be dependent more on the money available than on the capacity for using it wisely.

The administration was regulated by several Consolidation Acts promulgated before or during the years of fascism, i.e., before the present Italian Constitution was approved in 1948. This meant that organization of services, the way of rendering them, and the functioning rules were centrally fixed and, essentially, the same for all local governments without regard for their specific characteristics. The Local Government Model was uniform and predetermined by the State. Budget, accounting and financial reporting were modeled on those of the State. The system was very traditional without accrual accounting or management accounting. This was consistent with the centralized model of the State. Accounting language had to be the same since the system was only

used to allocate resources rather than according to the socio-economic effects of decisions. There was no a performance measurement system.

Auditing was internal and, in conformity with the law of 1934, the accounts of local governments were audited by three councilors chosen by the Municipal Council among those who were not members of the Town Executive Board. The role of the auditors consisted of verifying the “formal correctness” of decisions made by the Town Executive Board and the correspondence between values reported in the accounting books and the figures in the Statement of Accounts. Therefore, this consisted of only a legitimacy control without any regard for the results of local government activity. Moreover, even if in most cases the audit function was assigned to honest people this, unfortunately, did not determine professional competence in performing the job.

Since the spending power was in the hands of the Town Executive Board and not senior officials, politicians ended up managing without requisite competence and, in so doing, neglected the role of managers. The consequent want of coordination among the various functions of the local government organizations made it impossible to making anyone responsible for the results of programs and services. In turn, the relationship between planning, execution and performance could not be clearly specified and this caused a lack of feedback of information for managerial and political decision-making and reporting to citizens.

The process of New Public Management (NPM) oriented reform started in 1990 (Law n.142, of 8 June 1990) and other reform laws passed since have contributed to modifying the features described above. Two fundamental principles have been prominent since 1990:

1. *Financial autonomy of local governments was guaranteed based on the certainty of receiving their own and transferred resources;*
2. *Local governments gained the power to levy new taxes. Local government finance remained a mixed type with the State continuing to finance local institutions by means of transfers.*

The reform law stated that the State will continue to contribute to the financing of local services which are considered indispensable, the State assigns specific contributions to cope with exceptional situations; the State contributes to local government investment in financing public works of primary social and economic interest. All the other services that local governments wanted to render to their communities have to be financed by levying taxes or imposing prices at a level sufficient to recover the full incurred costs. New local taxes have been introduced (in particular a local property tax intended to constitute the central pivot for fiscal autonomy). Other taxes have been reformed and now local governments can issue bonds.

Since 1990, municipalities can be established to render social services, and each local government has its own Statute (Charter) and regulations. Old laws have been abrogated. Now, the State establishes only the main criteria, the principles, and it is the local government that has to establish its own rules. The Statute is a sort of constitution for local government where each authority can determine the norms which before were imposed by national law. It contains the fundamental norms for the entire organization, for the tasks of the entire single organs and their co-ordination. Municipalities are free

to decide the number of staff needed to perform each function and service following principles of autonomy and economy, and according to criteria of professionalism and responsibility. Particular emphasis has been placed by the Italian Legislature on public participation and encouragement of local government to engage in dialogue with their communities to take into consideration all public information in decision making processes.

The financial accounting system was modernized and managerial accounting was introduced. In 1995, a reform was approved that significantly changed the previous system. Below are summarized some of the most important innovations from this change.

1. *Guidance for programming activity is strongly reinforced and the fiscal authorization function is designated to a multi-annual budget;*
2. *The classification of expenditure in the budget is now less detailed than in the past to enhance the intelligibility of the document and reduce the necessity to update the budget too often during the fiscal year;*
3. *The cash budget was abrogated;*
4. *The operative budget was introduced, aimed at making officials responsible for results of the organizational units (services) they manage;*
5. *A management control system is mandatory;*
6. *Accrual accounting will be gradually implemented by local governments;*
7. *Financial reporting has the obligation to prepare not only a financial accounting but also a reliable balance sheet and a profit and loss account.*

Notwithstanding the necessity to guarantee formal and substantial uniformity to public accounts to allow their consolidation, the law gives local governments a certain degree of autonomy also in the accounting field, especially with regard to financial reporting. For instance, it is possible to add indicators of efficiency and effectiveness, to draw up a consolidated balance sheet, and to present a balance sheet at the beginning and at the end of the electoral mandate.

However, the real obstacle to overcome is not simply the production of this or other more sophisticated data but the understanding of their usefulness and, consequently, the will and capacity of communicating them. It is clear that the success of the reform will depend not only on the production of new accounting information, but also on the understanding that this effort is useful only if it produces effects. Since in the area of communication style each local government is widely autonomous, these organizations should be concerned with exploiting this opportunity.

What can be said for sure is that the old way of producing and communicating accounting data no longer will work (see Caperchione and Garlatti, 1994; Matteuzzi Mazzoni, 1983; Mulazzani, 1992; Puddu, 1984). The informative objectives, the quality and the quantity of public needs to be satisfied, the role of public organizations in the present scenario have definitively changed. But, above all, the interlocutors of local governments have changed: management control responsibility no longer resides with the Central Government but with the local communities. Importantly, the new accounting system has been implemented starting in 1999. And, unfortunately, there

have been legislative interventions aimed at modifying some important aspects of the reform.

A new audit system also was introduced in 1990. The introduction of professional auditing is an attempt to satisfy the growing demand for transparency in the managing of public money and should act as a deterrent against impudent local administration. However, in addition to traditional financial auditing, the Board of Auditors, made up of three professional Auditors, must evaluate results achieved in terms of performance (efficiency, productivity and overall performance) so that the Council can judge managerial performance, and make political choices using economic information which, before the reform, was practically non-existent (on the need for accounting to relate economic information, see Stewart, 1986; Stewart, 1988; Giovannelli, 1995; Mussari and Scalera, 1994).

The Board of Auditors, in conformity with the law, the Statute, and the regulations of the municipality, must:

1. *Ensure that funds have been spent in accordance with what was approved in the budget and verify the formal correctness of the decisions made by the Town Executive Board;*
2. *Cooperate with the Town Council in its function of control and policy;*
3. *Prepare a report, enclosed with the statement of accounts, in which it expresses remarks and proposals aiming to achieve greater efficiency, productivity and overall performance.*

Considerable importance is now attributed to the auditors' duty to express substantiated judgement on the clarity, coherence and reliability of the budget and relative projects and programs. The auditors are bound to suggest to the Council all measures necessary to guarantee a credible framework. In turn, the Council is required to carry out all such measures or to adequately substantiate any lack of compliance with the auditing body. Thus, the Board of Auditors becomes, in addition to its traditional role, a kind of consultant directly connected to the supreme decision makers of the organization, the Council, in the performance of its functions of management control and policy (Marchi, 1997; Mussari, 1997; Persiani, 1996).

Autonomy Inside Local Government

The apparent achievement of greater local government autonomy can be judged a necessary but not sufficient condition for improved management control of local government. We must address the question: autonomy from whom? In this circumstance the answer is far more complex since it presupposes a clarification of the meaning of management of local government. If it is really necessary to identify specific subjects in order to give them the qualification of public managers, probably we should admit that this term refers to public officials who are irresponsible for local services rather than to elected representatives. This would mean looking at local government managers in the strict sense. If we accept this limitation, the answer to the previous question (autonomy from whom?) is autonomy from politicians.

Without entering into political detail that is not important for our analysis, it is evident that a primary goal of the National Legislator was to permit municipalities and citizens to regain the decision power that in the past was largely held by long-standing political parties that have been involved in scandals related to widespread corruption. Thus, the mayor is no longer chosen by the majority parties but is elected in open elections. Further, the mayor is no longer the “hostage” of the Town Council, given direct by the citizens on the basis of a detailed program that, during the electoral campaign, must be communicated and in which candidates have to compete against each other for office.

With these and other political changes, public managers are given latitude to focus more succinctly on the administrative activities that occur within government agencies. Instead of emphasizing the political considerations that permeate the policy process and pervade the external relations of government organizations, public management is primarily concerned with the policy implementation. On the contrary, if we were to refer to local government management as a process, without any specific interest in identifying the managers of local government, then we cannot limit the responsibility for management only to those predominantly involved in administrative functions.

Management, therefore, is a process, the starting point for strategic choice of priority among purposes and the best means of achieving them (Borgonovi, 1988: 133). This process of strategic decision-making defines the way in which a number of tasks, inherent in management, are to be interpreted, together with the conditions that are essential for these tasks to be delivered effectively. These processes of management are, moreover, always located within and have to respond to a particular institutional and environmental context. Management is not just an executive process separate from policy making: effective public management requires strong links between policy-making and implementation. In the real world, there is no clear division between management and politics.

However, we have to recognize that a similar approach demands a maturity of political class that cannot be easily verified in Italy especially given the disappearance of some traditional political parties. Yet, if we agree with the broader definition of local government management (management as a process that involves both the politicians and officials responsible for services), management autonomy should be referenced to the whole organization and, consequently, autonomy should be from central government, and responsibility for results should be with respect to the administered community and citizen users of local services.

On the other hand, we cannot overlook the fact that within any public organization it is necessary to establish roles, competencies and consequent responsibilities to avoid overlapping confusion. We cannot overlook that the absence of clear delineation of the roles of politicians, senior officials and staff is common and, after corruption, the most important reason for the crisis in Italian government. A qualifying element of the Italian reforms was the new distinction between politicians and officials responsibility for services. The solution offered by the National Legislature to solve the problem was to clearly establish and separate the tasks and the responsibilities of managers and politicians.

A rigid definition of roles and competencies will only work from a theoretical point of view since the solution ignores that local government is, first of all, an organization, a

system in which the parts have to communicate and cooperate to achieve goals and objectives. It would be naive not to take into consideration the fact that public organizations will have try hard to find practical solutions to ensure harmonious coordination between the political and the managerial.

Given these crucial considerations, according to the law, managers must now:

1. *Manage offices and services according to the criteria and the norms established in the Statute and regulations of the municipality;*
2. *Perform all the tasks, including the adoption of acts to bind the administration to other entities, which the State law and the local Statute do not reserve specifically to other organs of the municipality.*

The approval of the accounting reform introduced important innovations. Each year, following the approval of the municipal budget by the Council that is following the decision on the amount of funds that can be spent for each program, function and service, the executive board assigns an operative budget to each manager responsible for a service.

In this document, the short-term objectives to be fulfilled, for each service, is known in advance (this should be consistent with those defined in the documents in which the programs are drawn up) and the financial, human and technical resources available during the next year. So, an important process of decentralization has been promoted, the consequences of which should be:

1. *The necessity for managers to have more specialized information and skills;*
2. *The increase of managerial autonomy from the Town Executive Board in decision-making -- it is important to note that in the future the spending power will be in the hands of managers and not Town Executive Board members;*
3. *Increase of authority and prestige for managers.*

The Town Executive Board is made up of the elected mayor and assessors (councilors) whose number is fixed by statute to link the maximum number relative to municipal population. The mayor gives each assessor a delegation for a specific sector of municipal administration. Then, whereas in the previous system the assessors were independent from the mayor, since they were appointed by the Town Council, under the new reform they are qualified by the law as appointees responsible to the mayor.

These norms entail a redistribution of decision power between political actors and managers of local governments. The clear identification of objectives and performance targets to be assigned to managers, along with the other variables mentioned in the previous paragraphs, signal a change for managers. They are also intended to impose widespread use of management techniques (including management accounting) indispensable for performing new tasks and making managers responsible for results.

Definition of the Management Control Structure

To clarify the definition of Italian local government management control and responsibility reform it is necessary to define the persons now to be held responsible for results. This, in turn, entails clarification of our conception of management. In this

effort we limit our analysis to top public officials whom, according to the will of the legislature, are considered managers responsible for both internal and external services. The organizational structure of the municipality is articulated by services, grouped in functions, and each service becomes a responsibility center led by a manager responsible for the use of the resources assigned by the approval of the municipal budget. Three issues to be resolved in defining management control responsibilities and relationships are:

1. *Who demonstrates results and who has the right to make decisions based on results?*
2. *How are the objectives set and what do we mean by results?*
3. *What techniques should be used to demonstrate results?*

Results Responsibility and Decision Rights

Under the new approach, local government managers are accountable to the Town Executive Board, and in particular to the mayor. The mayor, who is directly elected by local voters, has significant powers. The mayor appoints the members of the Town Executive Board, the representatives of the municipality to public entities, and officials responsible for offices and services. In addition, the mayor attributes tasks including those for external cooperation. The power of appointing and, in some cases, of dismissing, gives the mayor the possibility to that programs introduced are operative. Decision power and responsibility for the results are now concentrated on more recognizable subjects than in the previous system. In particular, the mayor's power to appoint members of the Town Executive Board, the town managers, and the management of public entities related to the municipality, should create greater stability, cohesion and coherence in the actions of the government. Greater efficiency in the organization of the public services also should occur. Following the most recent reforms of 1998, officials responsible for services are essentially accountable to the mayor since they are appointed by him or her and because each year the Town Executive Board assigns to each manager the resources necessary for fulfilling the objectives for the following year by approving operating budgets.

Objective Setting and Definition of Results

Managers have the right to manage but the area of their responsibility has increased significantly. Since the power to spend is in their hands and no longer in those of politicians who only to approve budgets, the concept of responsibility has broadened considerably and now it includes not only formal and legal responsibility, but also the evaluation of results achieved in terms of economy, efficiency and effectiveness. This implies that it is no longer only the law that dictates the standards by which the performance of public officials is measured. In addition, new and more subjective evaluation criteria of managerial activity must be introduced. Separate from the technical implications of this necessity, it should be noted that an important consequence will be the change in the role of public officials (now public managers).

As noted, there should be a redistribution of power inside municipal organizations. In the past, public officials learned that correct behavior was judged by conformity to rules

regardless of results and they tended to avoid the exercise of discretion because such an act could easily be deemed an infraction of law. Now, public managers should be able to be more innovative, experimental and, to some extent, prepared to take risks (Blease, Graham and Hays, 1986: 14; Hopwood, 1984:171). Contrary to the past, there is no longer a pre-packaged answer dictated by the law, experience or political convenience. Instead, it is necessary, within the limits of the resources available, to make autonomous decisions and run the consequent risks to obtain the results desired by the mayor and Town Executive Board.

Techniques to Demonstrate Results

The tools for acquiring information on results achieved by officials responsible for services to evaluate performance are limited, even if not exclusively, to the area of accounting and Value for Money Auditing. Limiting our analysis to relations between managers and the mayor and Town Executive Board, the organizational structure should be divided up into responsibility centers, that is the services, and responsibility accounting should be the main tool to be used to measure managerial performance. Unfortunately, in this field Italian municipalities are only beginning to experiment. On one hand, there are cultural barriers to evaluation in the use of any technique in a context that has not considered efficiency and effectiveness as measurable or valuable. Secondly, in many municipalities there is a lack of financial resources and technical competence to define and measure results and to perform evaluation.

However, independent of the ability to introduce new systems of evaluation, the value placed on accounting and auditing information is bound to increase and the evaluative role will not be limited to the assessment of managerial performance but will also influence priorities, policy determination and decision-making (Borgonovi, 1991: 185-186). In this respect, if distribution of power within local governments changes, it is possible, paradoxically, politicians may pressure for the introduction of new techniques to control and evaluate managerial performance.

In coherence with these developments and in line with the precepts of national labor contracts, local governments are bound to evaluate the performance and duties of their managers. This evaluation is to be repeated yearly and is based on the principle of participatory evaluation. The task is entrusted to an internal evaluation organ whose formation was provided for in law in 1993 and modified in 1999. Therefore, the data collected not only makes it possible to remunerate managers with variable salaries, but also puts the mayor and the Town Executive Board in a better position to make decisions concerning reconfirmation of the posts assigned to executives in the organizational units.

There are two separate but interconnected remuneration parameters (role and performance) of the evaluation system. Role evaluation requires setting relative values for each professional role through the adoption of globally accepted criteria. Role evaluation is in no way dependent on judgement of the individual assigned to the role under evaluation. It takes into consideration the necessary qualifications, responsibilities, organizational relations and complexities associated with each role.

Performance evaluation is based on the extent to which specific objectives or pre-defined performance goals are attained. This requires detailed and timely programming of operations. Performance evaluation also involves analysis of any organizational practices considered relevant for a particular role. As such, it takes into consideration aspects including capacity to motivate, leading and evaluating collaborators, promotion of technological innovation and efforts to integrate the organization and its services (Busco and Riccaboni, 1999).

The National Legislature seems to have indicated in the reforms that level of citizen satisfaction should influence policy and organizational decisions of the officials responsible for services. If so, it is in the interest of the elected representatives and, in particular, of the mayor to control the activity of the managers. This is because they have no managerial powers themselves, but instead have powers to control managers. However, politicians have to answer to the local citizens on the quality, effectiveness, equity and efficiency of local public services. Consequently, they should be come more results oriented in their demands on managers.

This underlines the direct relationship between the local government elected by the people and the demonstrated ability to manage public resources. If political consensus is increasingly influenced by the quality and quantity of the services supplied, as well as by ideological factors including values, common interests and opportunity (Catturi, 1995: 20; Costa, 1991: 362), then political consensus will be determined more by the ability of local government officials to do the things for which they are elected or appointed. As the values and expectations of society create pressure in terms of quantitative and qualitative increase of things to be done, the ability to find the best combination in the use of scarce resources becomes a more visible and important element for acquiring and maintaining political consensus. The following appears to be occurring in Italian municipal politics:

1. *Because the number of people who believe political promises appears to be decreasing, as citizens are tired and disappointed by inconsequential ideologies, politicians may be obliged to make their messages and promises more personal and results-oriented to reach all citizens and not just specific political interest groups;*
2. *The form used to communicate the political message generally no longer is holding citizen attention because it has been perceived to be inadequate in content. Therefore, the form of the message may change, i.e., more toward a results-orientation;*
3. *Many citizens now have a better-informed view of public services and the responsibilities of government. They have learned to decode political messages and refuse to receive stimuli passively;*
4. *The increasingly presence of reference values favoring more effective government among citizens and citizen groups, and increased public awareness of financial and managerial scandal and fraud in government makes difficult all relationships of trust in the polity. What citizens expect from public officials and managers is shifting to clarity on objectives, honesty about results, and more effective delivery of services.*

Obstacles to Italian Reform of Management Control

There are two primary obstacles to the transformation of administrative culture taking place in Italy:

1. *Part of the political class does not willingly accept losing its spending power and, consequently, its ability to influence the effects of public activity. Therefore, some use all means possible to restrain the increased autonomy of public officials;*
2. *Many public officials realize that they do not have the technical know-how for carrying out their assigned functions autonomously and are afraid of being judged on the basis of results that they are not certain can be achieved. They are tempted to maintain the status-quo to avoid being judged on the basis of parameters completely alien to their culture and, above all, that they are unable to control. For some, it seems better not to be autonomous and not to have the worries that come with responsibility. Furthermore, this tendency has been increased by a lack of trust in auditors. From the beginning of the reform period in the late 1990s, auditors did not seem to favor the change in management control to greater autonomy and voiced concern over what they perceived as an absence of effective managerial incentive to stimulate good performance.*

Conclusions

There are distinct similarities between the management control reform initiatives in the United States and Italy. In both nations, the driving force for implementation of responsibility budgeting and accounting is the legislative branch -- the U.S. Congress and the Italian Parliament. In both systems, increased emphasis on delegation of responsibility to managers is a cornerstone of reform and has met with political resistance. In both cases, there is an absence of capacity, in managerial preparation and in the capabilities of accounting systems, to fully implement the changes authorized. In both nations, traditional budget process roles are or will be changed with implementation of reform. In both nations there are technical problems in learning how to define and use performance and results measures to influence decision making. In both the U. S. and Italy, parts of the administrative culture prefer a safer existence with less rather than more responsibility for results. In both nations, the legislative branch has directed elected officials and managers to become more responsive to citizen demands and preferences and to report financial and service results with increased transparency.

The changes in management control in the U. S. and Italy detailed in this article provide some new perspectives on the implementation of responsibility budgeting and accounting. Although problems faced in these nations have been encountered and resolved to varying degrees in a number of other nations, the means for overcoming barriers to implementation tend to be particular to each nation to a great extent in our view (Jones and Thompson, 1999: 169-171). However, some generalizations seem to be evident.

It is now apparent, as not before, that responsibility budgeting and accounting systems restrict the upward flow of operating information within public organizations — making decentralization and autonomy a necessity and not just an ideal. Responsibility budgeting is essentially a form of internal and external contracting wherein costs of services to meet mission requirements are negotiated. Decision units are then held accountable for execution of their budgets to fulfill the commitments agreed to in the negotiation process. Responsibility budgeting employs explicit contracting between units for the provision of specific services or goods in exchange for financial resources for operation and capital acquisition necessary for production. The distinguishing elements of responsibility budgeting are (a) the evaluation of units and managers relative to the contract obligations they accept, (b) the use of financial and performance measures to reward accomplishment and sanction failure, and (c) identification and attribution of financial success or failure entirely to managerial decisions and employee performance.

From the perspective of the environments within which public organizations function, in networks and alliances people work in information rich environments. However, access to information is not necessarily symmetrical (equally available to all). Decentralization works in such an environment only where elected officials (e.g., in Congress and the Italian Parliament, and municipal politicians in Italian local governments) and senior management in public organizations attend to executive decision and management functions including strategic planning, organizing, staffing, investment in the intellectual and cultural development of the organization, but refrain from attempts to manage the conduct of operations. This takes practice, self-restraint and a willingness on the part of legislators and senior management to accept the risks of being held accountable by citizens for results that are, to a great extent, determined by public managers and those working for them providing services distanced and insulated by management control delegation from the immediate influence of politics. This is asking a lot, as noted.

For this reason, it may make sense for governments to experiment with responsibility budgeting using pilot projects of the type authorized under the Government Performance and Results Act rather than going quickly to other, more radical, new modes of organization and control. The same may be recommended for Italian local governments. Slow adaptation probably is better than attempts to convert to the new model quickly. One impediment that makes slower transformation almost a necessity is the fact that few managers in government to whom greater delegation of authority and responsibility is to be given under reform have had much experience with this approach, or with New Public Management-oriented devolution of decision making, or decentralization generally. Further, few elected officials and senior executives outside of New Zealand and other nations that have implemented reforms of this nature have much experience with self-restraint and management by results.

The incentives and disincentives implicit in NPM-oriented responsibility budgeting, accounting and management control must be experienced and evaluated in individual institutional contexts. The methods outlined in this article must be adapted to the levels of budgeting, accounting and management control sophistication of each organization and level of government in which they are applied. In addition, attention must be paid to the fit of this approach to the political culture of the organization and government in which it is implemented. Leadership and politics make a significant difference in

overcoming bureaucratic resistance to change (Jones and McCaffery, 1997; Johansen, Jones and Thompson, 1997; Reschanthaler and Thompson, 1997). Experience with NPM in other nations teaches that slow, careful and incremental implementation, in contrast to rapid and comprehensive change, is more likely to lead to success in attempts to reform public sector budgeting, accounting and management control practices. Provision of empirical support for this observation is not the purpose of this article. However, this has been found to be the case in the United Kingdom, Australia, New Zealand, Sweden, other European nations and elsewhere (Jones and Schedler, 1997). Why should we expect it to be any different for the U.S. and Italy?

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Notes

¹ This article also distinguished between *ex ante* and *ex post* controls, a notion central to the exposition of budgeting for results.

² This section is based on Anthony and Young, 1995.

³ One proposal to fix this problem is with a set of accounts similar to fund accounting systems used by non-profits. Departments would have one or more capital asset acquisition accounts. Outlays to acquire capital assets would be charged to these accounts that would hold assets but perform no operations. Assets held would be rented/leased to programs; each program account would show the cost of using assets, and rent would net out of department totals. Under this system, programs would buy their support competitively from their own department, other departments, or the private sector. Program outlays would approximate program costs and could be related to program outputs (see Rodriguez, 1996).

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