Financial Management Reform in The Australian Public Sector: Marginalising Public Accountability and Welfare

M. McCrae
University of Wollongong, mccrae@uow.edu.au

M. Kaidonis
University of Wollongong, maryk@uow.edu.au

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by

Michael McCrae & Mary Kaidonis

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FINANCIAL MANAGEMENT REFORM IN THE AUSTRALIAN PUBLIC SECTOR: MARGINALISING PUBLIC ACCOUNTABILITY AND WELFARE

Michael McCrae*       Mary Kaidonis**

Abstract
The reform program revolutionising financial administration and management in the Australian public sector has brought substantial gains in the cost efficiency and effectiveness of operations of both Departmental and non-departmental organisational entities and programs. The instillation of a business or commercial ethos into public service organisations through the adoption of private sector financial management practices, objectives and accountabilities has wrought profound change to the way the public sector 'does business'. But there is strong evidence that the commercialisation of public sector financial administration has also 'commercialised' public sector accountability and attitudes towards public service and infrastructure provision. This article examines the nature, historical perspective, objectives and characteristics of the managerial reform process within the Australian public sector administration in order to give context to these issues. We suggest that identification and discussion of these issues may help to mitigate against any negative consequences which may detract from the benefits to be gained from the improvements in financial administration.

*Associate Professor, **Lecturer,
Department of Accounting and Finance,
University of Wollongong
Introduction

What impacts do radical shifts in financial administration cultures have upon the fundamental objectives and accountability requirements imposed upon public sector entities? The question continues to entice and intrigue political economists, government accounting researchers, managerial scientists and public sector managers alike (e.g. Yeatman 1987, Lapsley and Pettigrew 1994, McCulloch and Ball 1992, Guthrie 1989). No less so in Australia where the rhetoric used to support the need for financial management reform may lead to the rise of the financial reporting imperative, the dominance of ‘commercial’ accountability objectives implying residualisation of equity and distributional issues (Yeatman 1990), and a dilution of traditional Westminster accountability objectives.

Managerial reform in the Australian public sector has brought massive change to both the process and objectives of public financial administration and to the administrative structure of public sector organisations. This article examines the nature, historical perspective, objectives and characteristics of the managerial reform process within the Australian public sector administration in order to give context to the consequences mentioned above.

The proposition developed here is that the ‘scientific management’ paradigms underlying the reform process are not value-free, unbiased techniques or organisational forms. They represent particular doctrines about society, the economy, and social order which can be used as powerful instruments for social engineering. The social, political and economic assumptions and values inherent in the ‘managerialist’ approach may imply crucial changes to the objectives of public sector service delivery and the nature of public sector financial accountability.

Financial objectives have become organisational objectives rather than client focused objectives. The financial reporting emphasis for public entities has turned away from the provision of needed public services as the main objective towards a
requirement to show the cost effectiveness and cost recoupment nature of its operations. The underlying requirement is that public sector bodies should earn an acceptable rate of return on their main business through the construction of quasi-markets. Uneconomic public service provision is to be marginalised and treated as the exception to which subsidisation rules apply.

But under a Westminster system of government, these changes in principle may require society’s sanction as desirable political policy objectives. We use, as examples, the three issues already mentioned - the possibility that reforms may force managers to focus on ‘commercial’ operations at the expense of social welfare and equity issues (McCrae and Aiken, 1994), the dominance of financial reporting requirements as the fundamental imperative in public entity operations, and the fundamental change wrought on the unique underlying concept of Westminster accountability.

There is already strong evidence that the unique concept of Westminster accountability with notions of equity, social welfare and operation of public sector entities for the public good may be irrevocably diluted to a narrow form of commercial accountability which emphasises competitive operations in commercially viable markets.

**Historical Perspective**

Various terms are used to describe the current public sector financial administration reform process - 'new managerialism', 'scientific managerialism' and 'corporate managerialism' have all been used in essentially the same context. For consistency we will use the term ‘managerialism’ to describe the broad domain of financial administration reforms pervading both Commonwealth and State organisations.

Some observers view managerialism as a reactionary response to past bureaucratic formalism and proceduralism (Painter 1988). Others describe it in more theoretical
terms as a paradigm shift away from the Weberian bureaucratic model, to one
guided by private sector corporate management philosophy (Considine, 1988 and
Yeatman, 1987). Still others (Wilenski, 1988) argue that irrespective of the
ideological labels, it represents a strategic approach to resource use: an approach
which focuses on outputs and results. This focus contrasts with traditional public
sector administration which focused too much on process and too little on whether
the desired ends were being achieved.

Speculation about why managerialism gained momentum during the 1980’s
continues unabated. Committed managerialists, such as Paterson (1988), see the
movement as a reflection of changing societal preferences in relation to the proper
sphere of public sector involvement and the priorities that are pursued by that
participation. To this extent, Paterson argues that change was inevitable. He draws
similarities with the classic nineteenth century critiques of bureaucratic orthodoxy
and the motivations for change which occurred at that time. roots

The foundations of the managerialist approach are not unique to Australia, nor a
product of recent times. Patterson (1988) and Wilenski (1988) point to the
emergence of techniques, such as operations research and related public sector
investment planning approaches in the United States prior to and during World War
II, as the precursors of the age of scientific managerialism. Broadbent and Guthrie
(1992) have highlighted alternate research of public sector reforms in the last ten
years. The contemporary (1980’s) moves to implement scientific managerialism in
the Australian public sector probably resulted from a coincidence of factors
(Considine 1988, Pusey 1988). These factors include:

(1) The economic problems in the 1970’s and early 1980’s (in contrast to the
relative prosperity of the previous post-war decades) created a climate for critical
review of public sector size, role, and level of efficiency.
(2) The introduction of a range of legislative and administrative reforms to make public sector administration more open, accountable and subject to public scrutiny (such as the Commonwealth’s Freedom of Information Act),

(3) The rise of Liberal and Labour Governments supportive of the concepts embodied in public sector managerialism.

(4) The reports of several inquiries and reviews which stressed the need for public sector management reform given the inadequacies in the traditional administrative approaches. The most notable being the Coombs Royal Commission on Australian Government Administration in 1976, the Reid Review of Commonwealth Administration in 1983 and a joint diagnostic study of financial management problems in the Commonwealth by the Public Service Board and the Department of Finance in the same year (1983).

No one factor dominates the push to reform. At the implementation level, the extreme economic problems of the seventies and eighties combined with the election of a Labour Party government after 23 years in opposition were perhaps the main immediate forces for change. At a more fundamental level, the fundamental business of the modern public sector was changing - a shift away from a predominance of the exercise of administrative discretion (in the classic sense ?) to the production of goods and services. Public sector activities became 'business orientated' with new concepts such as 'commercialisation' and 'corporatisation'. The traditional administrative functions were to account for a much smaller proportion of the aggregate public sector turnover.

Managerialism has dominated financial administration reform in Commonwealth, State and local public sectors. Acceptance of the reform agenda and processes is almost universal. Opposition practically non-existence. Reflection on the assumptions and values underlying the approach is only just starting to emerge - long after its wide implementation (Yeatman 1990). Even Yeatman (1987 p. 475) considers the reform process of such magnitude as to represent a "modernisation of
public service culture" and the development of a "new bureaucratic ethos of scientific management". Others have argued that the new managerialism is no more than rational economic dogma dressed up to look like a reformist response to these factors above (Painter 1988). Economic rationalism in the use of resources and operation in competitive market situations were re-emphasised as fundamental principles underlying reform.

**Objectives of Financial Managerialism**

A fundamental component of the new managerialist culture is the clear, precise definition of program and organisational objectives by financial managers. Quantifiable objectives capable of translation into operational goals are essential for monitoring outcomes through performance indicators. Objectives should be internally compatible and consistent with the mission statement of the organisation. Management should then provide targets for achievement and details of how it aims to meet those targets (Holmes 1988, NSW Public Accounts Committee, 1985). The objectives require periodical review to ensure that they are still appropriate to the goals of the entity or program which may have changed over time. This review process also contributes towards the comparison of alternative operational strategies to determine the most cost efficient programs for goal attainment.

The specification of precise operational objectives, the identification and costing of alternative program strategies and the strong, almost overriding emphasis on efficiency and effectiveness are all fundamental elements of a 'results orientated approach' to financial management by which managers are now to be judged.

But there are limitations to this type of approach. The goals set for many public sector entities are often conflicting, imprecise and vague. They are sometimes inherently imprecise, complex and ambiguous due partly to their political nature. These characteristics often lead to conflicts, both in interpretation and performance effectiveness evaluation. Consequently, the pursuit of efficiency and effectiveness
at all costs is not uniformly accepted by all analysts or senior practitioners in the public sector management arena. For some, the costs of doing so are too high. The myopic pursuit of such goals may conflict with some of the more traditional roles of public sector operation, such as equity and income re-distribution considerations.

However, the requirement for quantification of objectives creates conflicts with the priority given to community service obligations (CSOs). Not all CSOs can be readily quantified. At best the quality of service delivery may be ignored; at worst, the pursuit of efficiency may degenerate into cut backs of public goods provision for the sake of 'economy' and lead to decline in infra-structures such as health and education services (Gray and Jenkins 1985). Emphasis has changed from processes to outcomes "(b)ut this does not ensure a satisfactory delivery of care" (Ezzamel & Willmott, 1993, p 119). Similar concerns are echoed by Walker (1995) who recognises that many community service obligations are such as late-night bus services, would not be offered if cost effectiveness was the only criteria for their availability.

Despite the "irreconcilable conflict between efficiency and equity in decision making." pointed to by some economic rationalists, Keating (1989) argues that:

...(f)or those programs which involve service delivery, we believe that shifting the focus to outcomes has allowed the program administrators more discretion and has led to better results than hog-tying that administrator with time consuming and inefficient processes / procedures and rules. (p. 129)

Against this view, Yeatman (1990) claims that cost effective achievement of outcomes as proposed by scientific management is generically different to management for results. The latter has a much wider, social connotation. The emphasis on outcomes or results properly involves consultation with public service users to determine what they want. The users should be the final arbiters of the purposes served by public sector activity, not the public sector reformists. A role which Yeatman (1990) asserts is being denied:
cost effective achievement of outcomes is an economistic orientation to outcomes guided by the interest of the executive levels of government in the rationing of scarce public resources at a time when those levels of government have accepted the radical liberal agendas of small government, economic rationalism and deregulation. It is an orientation to outcomes which de-authorises the participation of citizens as individual and community users in the planning and evaluation of services. Such participation is not cost effective. (p. 17)

In particular, reform in public sector accounting arena has brought fundamental change. Public sector accounting and reporting are now universally based on principles and standards imported directly from the private sector with little modification. But as Guthrie and Parker point out, the unbridled application of the scientific management school of thought to public sector accounting systems and procedures, (with its engineering perspective of management and its pursuit of maximum efficiency and effectiveness at all costs) can produce dysfunctional behavioural effects (Parker 1986a, 1986b, Guthrie and Parker 1989). They cite the private sector example of the punitive effects of using budgets as pressure devices for ever-increasing performance improvement, and cite Hopwood (1984), Govindarajan (1984) and Lukka (1988) among others as providing substantial empirical evidence in this regard.

**Characteristics of the New Financial Management Ethos**

The scientific management approach is often characterised by the management techniques employed in its pursuit. Wilenski (1988) describes it as encompassing such well known management techniques as the formulation of corporate plans, program budgeting, program evaluation, performance indicators, performance contracts and sometimes performance pay. Paterson (1988) argues that the tendency to characterise the new managerialism in terms of the tools it uses, has
led to criticism of it as 'technical' or 'instrumental'. Those leading its development are seen as merely narrow technocrats. However, the more fundamental character of managerialism centres on wider issues, such as the clear specification of the public goods and services provided by public sector agencies, the legitimate expectations of the client group and measurement of social and economic costs and benefits of service provision to estimate return on investment.

Although this type of rhetoric may pay lip service to social concerns, managerialism often gives a low priority to social goals which cannot be readily encapsulated in numeric terms. Further, the specification of services and products is not separated from the requirements of efficiency and effectiveness. This has the potential to exclude CSOs which by their definition offer more service to the public (eg late night transport) but is inefficient and ineffective. As pointed out by Paterson (1988), this characterisation should properly be viewed as a belated catch up of public sector external performance with public preferences.

The impetus and practical implementation of managerial reform over the past decade has been highly focused on one particular department - The Commonwealth Department of Finance. The tight centralisation of the reform process enabled the Department to pursue its own particular management philosophy. This approach to administrative reform can be summarised as:

1. Fostering (requiring) a corporate ethos and attitude of mind in individual managers of appreciating and accepting responsibility for the achievement of desired outcomes.

2. Defining precise operational objectives in any given area of public administration.

3. Translating these objectives into coherent performance targets, work plans (both corporate and individual) and mission statements.

4. Removing administrative constraints to provide individual managers and government agencies with flexibility and authority, commensurate with public sector
administrators accepting greater responsibility and accountability (ie, devolution of control).

(5) Setting performance orientated accountability requirements to give maximum stimulus to changing the management environment.

(6) Emulating private sector forms of organisation (corporatisation) and operation (commercialisation).

The pursuit of effective, efficient and economic management of human and financial resources has now become the catch cry of public sector management, in an era where the public sector administrator is being asked to do more with less (Nethercote 1989).

The recent creation of the Senior Executive Service (SES) in the Commonwealth Public Service represents an interesting instance of culture replacement (Uhr, 1987). The new SES is to produce results through managing themselves and others. The Senior Executive Management Plan (SEMP) 1987 states that it requires managers to make government work as efficiently as possible by doing more with less, focusing on outcomes and results and managing change better.

The management reform process brought an emphasis on new skill sets. Shand (1988) suggests that the education of financial managers in the public sector requires training in at least five key areas. These are corporate management, program management, organisational design, management information systems and evaluation principles and techniques. The gap between traditional public administration ethos and the new management technocrat is underlined by the implicit assumption that the skills outlined as desirable by Shand (1988) were not necessarily possessed by the traditional manager. Indeed it has been suggested that the traditional public administration precluded these qualities. There has even been a shift in the use of terminology - from public administrator to manager. The evolution of such skill sets arguably depends on the rise of a new management intelligentsia at the higher levels within the SES to oversee the incubation and
realisation of a class of managers who possessed the organisational and political mind set and training which implicitly accepted the need for such techniques.

A Private Sector Culture

A basic tenet of government administration reforms is the adoption of the profit motive and commercial management techniques from the private sector. Although good management and profit often occur together in the private sector, they are two very independent items. Good management does not necessarily lead to profit, while making a hefty profit can occur in spite of, rather than because of, good management. In the longer term, the appropriateness of a management philosophy nurtured in a private sector environment (where profit, bankruptcy and private interest reign supreme) to the public sector where public interest, social justice and redressing distributional imbalances play a fundamental role will continued to be argued.

Unfortunately, it will most likely be impossible to determine whether the costs of the reform process exceed the benefits gained, since any evaluation will inevitably be coloured by the assumptions about the fundamental purposes of the public sector and the forces which shape that environment. A management culture borrowed from the private sector where private interest is the overriding assumption may be inappropriate to a public sector environment where concepts of social justice and public interest replace private interest. Cole (1988) questions the adoption of an administrative culture which logical precludes reference to public service obligations in its drive for efficiency.

In practice, these problems are often avoided by regulating change. The traditional public sector administration is largely based on a regulatory framework, both in terms of structure and practice. The growing demand for immediate, far-reaching reform to what was seen as an archaic, moribund and inflexible administration required a substantial and fairly immediate response. The regulatory
framework could be used to push through a coordinated reform program that was politically acceptable and economically in tune with the economic rationalism of the times. The conceptual validity and theoretical credibility could be worked out later. What was required was action.

Prior to these reforms the Commonwealth and State public service administrations suffered from fundamental faults of structure, motivation and technique that made it bureaucratic, inflexible, inefficient and resource wasting. Current reforms have gone a long way to redress this balance and make for a leaner, more responsive, efficient public service profile with a great improvement in resource usage. On the other hand, the charge of theoretical inadequacy, lack of conceptual rigour and consequent tendency towards regulation as a means of reform implementation is hard to deny.

What must be remembered is that the call for more accountability of the public sector, while using private sector assumptions, is not reflected in the private sector annual reports. The profit and loss statement and balance sheet merely reflect outcomes and do not necessarily reflect efficiency and effectiveness. The detail of arriving at the operating profit are not revealed, supposedly so as not reveal information to competitors. However, it is assumed that if there is a profit, this reflects the best use of resources. Whether their consumers may be exploited is not an issue of private sector accountability.

The Political Factor

The growth and decline of the new managerial culture may well be significantly dependent upon political pressure. It is probably not by chance that a new ethos of management gained ascendancy in a period when a conservative Labour Party itself emphasised an administrative reform discourse emphasising commercialisation, prudent financial management and accountability, and cost cutting public management. But if the scenario should change to one of tension between political
pressure and technical management then the reform agencies might see an undermining of their independence. When politics and managerialism no longer sit comfortably together, this may lead to the latter's partial demise.

In a similar vein, Chua (1987) makes a telling argument about the inherently contextual nature of the symbols of organisational performance. Such words as 'efficiency' and 'effectiveness' are not absolute constructs but politically motivated concepts which take on meaning only in the specific environment of their usage. As such, they are often raised to the level a very desirable goals as a means of preserving the power and prestige of the main players in the management culture that spawns them.

Is the Reform Effective?

The whole issue of the effectiveness of the managerial reform process remains controversial. Perhaps the major problem is the absence of research which might provide a basis for considered judgement. Two reviews have been undertaken to date. A study of the impact of FMIP in Australia has been conducted by its originating body - The Department of Finance (Department of Finance 1988) conducted a study of the impacts of the Financial Management Improvement Plan. Secondly, a very comprehensive study of management reforms in the Commonwealth sector by the Task Force on Management Improvement (1993) surveyed several categories of reforms, including structural, industrial, human resources, financial management and budgeting, commercial and planning and reporting reforms. Unfortunately, this review tends to focus on issues identified by the reform process and how success might be achieved rather than on case study or other research of the experiences of the degree of success actually achieved. Predictably perhaps, the conclusions are non-committal.

Yeatman (1987) foresees severe costs to the new culture of scientific management which may cast doubt on its long-term viability in the public sector
environment. The traditional career public servant, with a desire to improve the lot of society through long term policy and plans, will be restricted by management agreements on performance which will require short term results oriented management of doing more with less. Similarly, entrepreneurs will not accept the restrictions of this scientific methodology of management, as it would restrict their activities to technical and not innovative choices.

Providing performance indicators to measure the success of programs is a perennial problem that can severely distort intentions. How do you measure the success of an old age nursing care service? Is it the number of patients seen per day or is it the quality of service performed for a small number of frail and infirm patients? We must be careful in providing technical measures of performance, or the real reason for providing good public service may well be lost through inappropriate performance evaluation.

People are the key to the success of an organisation. Consequently, financial and budgetary controls need balancing with a human relations approach to management. The difficulty for exponents of a people oriented approach, is the problem of providing performance measures to support their theme. In an environment which stresses doing more with less, the people approach has had little real success in the public sector in recent years.

Perhaps the most telling argument against managerialism is that raised by Yeatman (1988) and others, who suggest that it is merely a reflection of outmoded rationalist economic dogma and lacks the essential people or process focus of more enlightened contemporary private and public sector management thinking. Conversely, Paterson (1988) sees this view itself as an interpretation which equates scientific management with technical considerations and fails to represent the totality of the true managerialist approach.

One issue that does not figure prominently in the literature on managerialism is the relationship between senior managers and elected representatives. What
responsibilities, beyond those relating to efficient and effective management of resources, should reside with public service manager? Yeatman (1988 p. 487) comments that the new managerialist environment is not likely to generate “great professional architects of public policy” such as Coombes, Beveridge and Keynes. Considine (1990) claims that politicians as well as some academic analysts are complaining that the new corporate management is too concerned with management for management’s sake and too little concerned with policy implementation; and that 'managerialism' is being confused with good management.

Issues about the legitimate role of executive government in relation to the bureaucracy, go to the very heart of understanding the dynamics of managerialism. The past decade or so of public sector management reform has also seen a reshaping of executive government's role, especially its proper relationship and interaction with the upper levels of the bureaucracy. The increasing power and influence of executive government (Cabinet, Cabinet Ministers and their advisers) in public sector administration has affected both the role and power of public sector ‘mandarins’ in many respects.

This issue is important given the fundamental criticism that the new managerialism in the public service has led to a diminution of the attention paid to, and policy emphasis on equity, social justice and related considerations. At the very least these have been subordinated to economic policy imperatives. Recent research appears to indicate that this tendency is quite widespread and bears further empirical investigation.

**Evaluating the Reform Process**

The short answer is that managerialism will be judged successful because it is self referential. The evaluation of public sector reform will involve measuring the performance outcomes which managerialism considers relevant. Only outcomes which can be measured and which have been part of the performance agreements are
included in the analysis. This implicitly excludes outcomes which cannot be measured or which do not easily fit in performance agreements. Generally this has meant that the social effects of the economic policies are not identified, signified and can or have been silenced. Hence areas which managerialism effects either positively or negatively are not ever considered significant. Similarly, ‘cost effectiveness’ is but one standard for performance estimation. Other criteria may be just as important for public sector organisations. Quality of service, maintenance of adequate service and the re-dress of social and economic distributional inequities may be just as important.

The managerialist would reply that demoting these criteria is not intended. Managerialist reform merely represents a way of improving performance and achieving stated outcomes in the most efficient and effective way possible. But this attitude is based on a rather naive assumption that such reform processes are, of themselves, value free. That they say nothing about the intended outputs or outcomes of a public sector entity - that is a matter of government policy and decision. Unfortunately, this is not the case. Managerialist reform has implicit within it all the assumptions of economic rationalism. It almost inevitably concentrates attention on provision of goods and services producing an economically viable return at the expense of social equity and welfare considerations. Departmental entities as well as public enterprises are now to operate in a commercially viable manner which will produce an acceptable return on the public investment. This requirement will soon extend to all public sector entities. Social and welfare issues are to be seen as an ‘add on’ requiring justification and direction by government.

The inevitable consequence is that many Departmental organisations are restructuring themselves to conform to the financial accountability and reporting imperatives. Their organisation, administration and operation are determined by the requirements of financial reporting and accountability. The original intention of
public accountability and service provision. Managerialism is not merely an inert technology offering the benefits efficiency and effectiveness (Kaidonis, 1995). It is a very value laden and political process. Managerialism may itself be used for political motives or the entrenchment of existing power differentials within society. Governments must remember that market mechanisms and economic rationalism also have their limitations and potential for unintended consequences.

These unintended consequences can be prevented or cured. Governments can maintain issues of justice and equity and get the best out of managerialism by ensuring that governments retain command the agenda for decisions about policy. If a government is elected on a platform of ‘commercialising’ public sector operations, reduction of welfare service provision and social infrastructure, and downsizing public sector operations then that is a matter of political policy determination. But a managerial reform process should not usurp this process or be used as the means of implementing a hidden political agenda without electoral consent.

Further, the application of managerialist technologies must be prepared to be challenged in the true spirit of feedback. The extent to which managerialism is responsive to challenges by all sections of the community will influence the whether the public sector reform story has a happy ending. The performance agreements must be used only when the articulation and debate of social policies of equity and justice are prioritised. Where technologies cannot reflect these policies then managerialism must be open to feedback and be adaptable to change. Where performance agreements cannot adequately reflect these then these deficiencies must be highlighted. The technologies must fit the issues and not the converse of making issues fit the technology.

If the public sector is to survive and contribute to the well being and progress of its community, then it must be willing and able to be reflexive. Reflexivity (Woolgar, 1991) involves a form of feedback where all players - policy makers, people affected by policies, are involved in a dialectic. Governments have been
willing to listen to and be influenced by supporters of managerialism. Governments
must be prepared to listen and be influenced by people affected by the policy
decisions. Sensitivity to people's disempowerment is necessary.
Managerialism will only become more than an offspring of economic rationalism if
it is prepared to apply its own rhetoric of change. ‘Managerialism’ as a reform
process must be prepared to change itself - be willing to be influenced and even
transformed. This is the ultimate challenge - is managerialism confident enough to
be able to be reflexive?
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An empirical positivist would almost inevitable reach a different conclusion from a researcher adopting a more socio-political stance such as a critical theorist or constructivist (See, for example, Chua 1987)