

School of Accountancy

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MANAGEMENT IN NEW ZEALAND:
OBSERVATIONS ON THE CONFORMITY
PATTERNS OF SCHOOL ORGANISATIONS TO
CHANGE**

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ABSTRACT

This paper examines the intent and consequences of 'new' financial management (the 'New Public Financial Management') (NPFM) procedures invoked to facilitate a macro-micro interface within the context of the significant administrative reform of the New Zealand (NZ) state education system. The 1989 administrative reform of the NZ education system was predicated on a particular view of public sector management, which was characterised by the umbrella heading of 'New Public Management' (NPM). It was claimed that NPFM provided a link between the sets of values highlighted through the NPM reform process and the internal workings of various public sector organisations.

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

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1. INTRODUCTION

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

The re-election of the fourth Labour government (1984 – 1991) in 1987 heralded the commencement of a period of considerable change to the administrative structures and processes of NZ state provided education (Codd, 1990; Macpherson, 1989). In brief, the reform abolished the intermediary stages of education administration, radically reduced and restructured the central agency and identified individual schools as "... the basic building block of education administration" (Department of Education, 1988, p.1). Elected Boards of Trustees (BoTs) were responsible for the governance of individual schools and principals were charged with day-to-day management. Many of the direct controls that existed under the pre-reform structure were replaced by other steering mechanisms such as: school charter; national curriculum; national educational guidelines; educational reviews and financial audits.

Arguably, the then government had sought to introduce economic and managerial 'rationalism' into the education system and, specifically, the school site. The official rhetoric of the wider public sector reforms emphasised issues such as 'efficiency', 'devolution', 'choice', 'competition' and 'accountability' and impacted on all areas of the NZ public sector, which the government sought to steer, including education. Schooling was re-oriented in line with these terms and schools modelled on structures more commonly found in the private business sector. The vertically integrated operational model of the education system that existed prior to the 1989 reform was remodelled with a decoupling of politics and management, and has been redefined in terms of purchasers and providers of education. The reform intent had more to do with making education providers more responsive and to be held accountable for the efficient and effective use of resources (Education Review Office, 1994; Picot Report, 1988), and had less to do with issues of 'education' (Bowe, Ball & Gold, 1992; Dale, 1994; Dale & Ozga, 1993). This led to significant change in the administrative structures and processes within the NZ education system.

Fundamental to the change in the management and control of the public services, including education, was a 'new' emphasis on the use of business accounting technologies¹. As

¹ 'Business accounting' techniques include the following features: accrual financial reporting; accrual management systems; whole of government reporting; accrual budgeting; performance indicators; asset registers; accrual accounting; performance auditing; quantitative risk assessment; and risk benefit analysis (Guthrie, 1998; Hood, 1995).

suggested by Olson, Guthrie and Humphrey (1998, p.18), “an increasingly notable element of the New Public Management movement is the seemingly endless list of accounting-based techniques that are being drawn on in the pursuit of reform.” As an instrument of change, the significance of accounting information and practices was particularly evident in the context of the NZ public sector reform, as the then Governor of the Reserve Bank, Donald Brash (1998, p.3; as cited by Lapsley & Pallot, 2000, p.214), observed:

We have greatly improved the efficiency of resource use in the public sector ... partly through the simple expedient of introducing **proper accounting principles** to the public sector. (Emphasis added).

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

Much of the interest in public sector management reform has taken the form of commentaries of the changes that have occurred in the public sector (for example, Boston, Martin, Pallot, & Walsh, 1996; Hood, 1991; 1995; Jones, Guthrie & Steane, 2001a; b; Olson *et al.*, 1998; Parker & Guthrie, 1993), with comparatively few studies investigating the development of a ‘managerialist’ ethos within public sector organisations. Also, much of the research into the reform of education administration has been contextualised within the UK education system (for example, Broadbent, Laughlin, Shearn & Dandy, 1992; Broadbent, Laughlin & Wilig-Atherton, 1994; Edwards, Ezzamel, Robson & Taylor, 1997) and less research within the NZ context (for example, Jacobs, 1998). Further, reported NZ-based research was undertaken early in the reform process when many of the reform initiatives may not have been embedded at the local school site and was predominately concerned with school-based resistance to the reform and, specifically, to issues pertaining to devolved responsibility for school management.

With this in mind, the study reported here was conducted to discover more about the way in which a selection of NZ secondary schools responded to the official rhetoric for school-based systems of ‘New Public Financial Management’ or what is referred to in this paper as ‘School-based Financial Management’ (SBFM)². Through a discussion of the continued attempts at operationalising financial management technologies and processes, some ten years into the post-reform period, it highlights a disparity between the normative intent of the NPM reforms and the operational reality and consequences of the official demands at the school site level.

² School-based financial management denotes the ‘new’ emphasis on accounting and the use of business accounting technologies within the NZ education system, arising from the 1989 education administration reform.

Two competing theories of change processes – NPM and aspects of institutional theory – provide a theoretical framework within which the empirical findings are discussed.

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

2. A Theoretical Framework

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

2.1. THE ‘NEW PUBLIC MANAGEMENT’ AND THE ‘NEW PUBLIC FINANCIAL MANAGEMENT’

New Public Management characterises an international phenomenon concerned with the transformation of the machinery of government. The NPM reforms have led to a move from an ethos of public sector administration to one of public sector management (Hughes, 1992). In his seminal work, Hood (1991) identified seven ‘doctrinal components’ of NPM which appear in most discussions of the NPM. These doctrinal components are:

- financial devolution to service providers;
- explicit standards and measures of performance;
- differentiation between inputs, outputs and outcomes;

- increased accountability of service providers;
- private sector styles of management practice;
- increased competition and contracting between service providers; and
- greater emphasis on efficiency, economy and effectiveness of resource usage.

In essence, NPM incorporates the application of 'market discipline' and 'best commercial practices' into the management of public services. However, there is a danger in oversimplifying the NPM as the application of private sector management technologies and processes into the public sector. There is no single or unified model of the NPM, and no clear or agreed definition of what the NPM actually is or represents (see, for example, Ferlie, Ashburner, Fitzgerald & Pettigrew, 1996; Wilson & Doig, 1996). In their international comparative studies, Olson *et al.* (1998) and Guthrie, Olson and Humphrey (1999) found a wide diversity of practice in the adoption of NPM changes. Arguably, the resulting form of the NPM is contextually defined.

Within the NZ context, the 'model' of public sector reform drew not only on the ideas of the NPM, but was also influenced by theories of 'new institutional economics' such as public choice, agency theory, and transaction-cost economics (see, Boston, Martin, Pallot & Walsh, 1996; Scott & Gorringer, 1989). From the internationally acclaimed fusion of management practices within the economics paradigm, a series of common principles have been applied across the entire NZ public sector including central government departments and the education sector. These common principles are:

- a clear specification of the objectives for which managers are responsible and an avoidance of multiple, conflicting objectives;
- freedom for managers to make resource allocation decisions that enable the most efficient attainment of objectives;
- accountability through the imposition of incentives and sanctions to modify the behaviour of managers to ensure they meet established objectives rather than pursuing independent goals of their own;
- effective assessment of performance so that managers can be held accountable for their performance; and
- sufficient quantity and quality of information, to make performance assessment possible.

(Treasury, 1987, pp.55-56)

In his work, Tooley (2002) argued that accounting technologies and techniques (or NPFM) were key elements in the NPM reform as they facilitated a macro-micro interface by providing a link between the external values associated with NPM reform and the internal workings of organisations within the public sector, including schools. That is, accounting performance measurement and control tools provided the state with the technology to transmit the market and managerial values of the reforms into public sector institutions (Jacobs, 1995). In particular, the *Public Finance Act 1989* introduced changes to accountabilities and

requirements for managing financial matters. School BoTs were required to develop accounting structures and information systems, which enabled internal and external reporting. No such structure or system was emphasised in the pre-1989 reform period.

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

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

2.2. INSTITUTIONAL THEORY

The most highlighted element of institutional theory (see, for example: DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Scott, 1995), is the tendency of organisations to continually strive to strengthen their 'legitimacy' within their appropriate environments (Mizuchi & Fein, 1999). Legitimacy was achieved if organisations operated within the bounds and norms of their respective institutional environments. Notably, organisations were prone to construct rhetorical 'stories' about their actions that corresponded to socially prescribed expectations about what the organisation should do. Such rhetorical stories did not necessarily have any connection to what the organisation actually did, but

rather were used as forms of symbolic reassurance to appease external expectations and often because they were rewarded for so doing through increased legitimacy, resources and survival capabilities.

Accounting can become implicated in the attainment of organisational legitimacy. As defined by Scott and Meyer (1983, p.149), the institutional environment within which the organisation operates is “characterized by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy....” Investments in rational organisational structures, and technical management and accounting procedures can be used to demonstrate the organisation’s acceptance of the legitimacy of economic and technical bases for action. Within this institutional environment, accounting can provide a basis for enhancing organisational legitimacy. As described by Meyer and Scott (1983, p.235):

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

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

The response of schools to the adoption of NPFM technologies can therefore be depicted in two interrelated ways: first, and through an acceptance of the normative requirements as rationalised and impersonal prescriptions, accounting comes to represent impersonal rules applied by the organisation in the rational pursuit of its aims and objectives; or second, and through decoupling the core organisational activities from its legitimating activities, accounting provides a façade that enables the organisation to maintain standardised, legitimating, formal structures while their activities vary in response to practical considerations.

3. RESEARCH DESIGN

The aim of the study is to investigate the response by schools to ‘new’ financial management procedures invoked at the school-level. To achieve this aim, the focus of the research is on case study settings. The research subscribes to the theme of case study research as “a phenomenon of some sort occurring in a bounded context” (Miles & Huberman, 1994, p.25).

In this research, School-based management (SBM)³ and, in particular, SBFM, is seen as the 'phenomenon' to be investigated and individual schools are seen as the 'bounded context', the intention of which is to bring some depth and understanding to the phenomenon studied in context, rather than simply explain causes dispassionately (Merriam, 1988; Scapens, 1990).

Within a multiple case-study design it is not appropriate to talk about a sample (Yin, 1994), therefore, no attempt was made to obtain a 'random' sample of sites. However, while the uniqueness of individual school sites is recognised, case-study research does not preclude any attempt to try to survey a range of sites that might share certain characteristics or differ with regard to others. Two key selection criteria were used: funding arrangement and socio-economic area. The devolved budget received by BoTs may have been comprised of two grants – operational and salaries. All BoTs received an operational grant, but could voluntarily elect to be funded for their teachers' salaries grant (for schools that did not elect, teachers' salaries continued to be centrally administered). The term 'Fully Funded Option' (FFO) is the label used to describe the 'bulk funding' (of both operational and salaries grants) scheme. The FFO scheme provided BoTs with greater control over all financial resources and, it was claimed, provided greater discretion over the level and mix of resources deemed desirable for BoTs to carry out their educational responsibilities. Arguably, the FFO scheme also increased the scope of performance accountability. The schools selected in this current study had elected the FFO scheme.

A distinction between the schools was made on the basis of socio-economic area as evidenced by their individual decile rating. The decile rating is an indicator of the socio-economic status (10 = high, 1 = low) of the school's local community. A portion of government funding is a function of the decile rating. Of the four schools, two are located in more 'well-off' areas and two are located in less 'well-off' areas. The socio-economic location of the schools is important because it illustrates the principle of equality of opportunity. Schools within the more 'well-off' socio-economic areas are more likely to derive additional financial resources through local fund raising activities and would, therefore, be able to provide more facilities and opportunities to students. Schools within less 'well-off' areas would not have the same financial opportunities and would be unable to provide the same facilities and opportunities. Thus, the socio-economic location of the schools would have a bearing on the total amount of financial resources under the control of BoTs.

To maintain confidentiality, the identities of the participating schools have been disguised by the use of fictional names. Kakapo is a decile 2 school with some 1200 students located in a suburb of a large metropolitan city. Kea is a rural-based decile 4 school with a roll of approximately 1000 students. Takahe and Tui are suburban schools located in a large

³ School-based management is a generic term characterising a school in a system of education where there has been significant and consistent decentralisation, to the school-level, of authority to make decisions related to the allocation of resources. The policy label for SBM in NZ has been '*Tomorrow's Schools*' (Department of Education, 1988).

metropolitan city with student rolls of 1400 and 1200, respectively. Takahe is a decile 8 school and Tui a decile 10 school.

The research method was analytical in nature and drew on the experiences of key actors at participating secondary schools. The empirical gathering process involved open-ended interviews and discussions with a number of different individuals within each school; these were usually the principal, business manager, head of department, BoTs' finance sub-committee chairperson, and BoTs' staff (teacher) representative. A range of data collection methods were employed, and included school annual reports, budgetary documents, BoTs' financial policies and guidelines. However, semi-structured interviews were the prime source of information. A total of 20 participants were interviewed and data collected over a 12-month period.

King (1994) suggested that qualitative interviewing was ideally suited to examining topics in which different levels of meaning need to be explored. Further, he maintained that qualitative interviews were useful in studying organisational and group identities in organisations such as schools. The questions in the interview schedule were developed following a review of the literature and were used to provide a structure for the interviews without limiting the opportunity for the respondents to report their views. The interviews were taped, transcribed with secretarial assistance, and returned to the participants for their comments and amendments. This constructed 'understanding' of how SBFM had been operationalised at each school site was presented to the key actors and an invitation extended for them to confirm and refine the 'understandings'. The next section reports the empirical evidence drawn from these sources of information.

4. SCHOOL-BASED FINANCIAL MANAGEMENT

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

4.1. MANAGEMENT AND ORGANISATIONAL CHANGE

The broad picture emerging from the descriptions and interpretations is one of new forms of internal management control structures and processes, and managerial structures and processes that are operating more and more vertically. The formal recognition of schools as the basic unit of education administration, the creation of school BoTs to govern, principals charged with responsibility for day-to-day school management, and the creation of internal responsibility centres, have seen the emergence of this vertical structure. This can be contrasted with the pre-1989 structure of the education system and, in particular, school

administration where a flatter administration structure existed and the school was recognised as a cost centre functioning under the direct administration of the Department of Education.

The control structures and processes in which the 'new' accounting is implicated disturbed traditional values and functions at schools. A significant consequence of operating vertically is that while some teaching professionals saw their power being shackled, the people who took on management positions could actually gain in power and importance. The centrality of the budget in each school organisation and the requirement for annual external reporting have contributed to the ascendancy of accounting and management expertise at the expense of educational professionals. Increased visibility has been given to the role of the school bursar/business manager who is intimately involved in the budgetary process and annual reporting. In general, the power of people involved in administration seemed to increase because of greater emphasis on overall resource concerns and a focus on economic rationality compared with individual educational needs. Increasingly, principals and senior management are seen as 'the management' and other staff as 'the workers' (Bowe *et al.*, 1992).

For principals, the structural reform has a significant impact on their functional roles. A new breed of principal is apparent with weakened links to the professional educational project, but with increased managerial skills. With their changing roles, principals feel more and more divorced from the education front and that provides a point of tension:

It's a real dichotomy at the moment between professional leader, curriculum leader and CEO The whole managerial thing gets away from the leadership thing, the leadership in terms of the direction of the school and particularly the curriculum; the time taken doing the other things takes me away from the role [of professional leader], which I find frustrating (Kea Principal).

Boards of Trustees rely heavily on their principals, who are seen as the experts and the persons best equipped to advise them of the financial needs of each area of their school organisation. As summarised by the principal of Kea:

Of all the people in the school, I have the best overview of the operation of the school. Department heads tend to be too focused on their departments. The BoT Finance Committee [is] not intimately knowledgeable about the operation of the school ... therefore, I have the central role in the definition of the budget ... and the finance committee is guided by me in much of the decision-making.

This view is reinforced by the Kakapo BoT Finance Chairperson:

They run the school. They should know where the money is needed most and, obviously, they come up with a suggested budget.

People at the school-organisation level and within schools are obliged to change their operational modes and make some efforts, real or symbolic, to monitor and reduce

expenditure, and to introduce other management control mechanisms linked, *inter alia*, to accounting. The traditional accountability of professionals was along professional lines, and for teaching professionals, being called to answer for spending is something different.

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

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

Notably, the respondents are in favour of the change. None of them wanted to revert to how things used to be, if only because doing so would have meant another change in direction and more change to the way work was done. Nevertheless, some frustration, strife and exasperation (lack of funding was a common concern) are present and the situation is exacerbated by new responsibilities for additional aspects of schools' operations that continue to be imposed from the central agencies (e.g., property management and cyclical maintenance). These responsibilities are imposed by groups who are for the most part only loosely linked to the school site or to the teaching task.

The move towards SBM and SBFM is seen by the participants as enabling their respective schools to be more responsive to their stakeholders' educational needs. The establishment of BoTs and the officially espoused assertion of school charters developed in consultation with their local community are seen as a means of empowering the local community in the education process. This empowerment is extended through the devolved budget whereby BoTs determine how best to allocate the financial resources. They therefore have notional control over their school's destiny.

4.2. BUDGETING AND BUDGETARY CONTROL

Whereas in the pre-reform period schools depended on the Department of Education for their cash needs, that changed as a result of the 1989 reform. The bulk funding of each school's operating grant and the teachers' salaries grant, means that each BoT becomes responsible

for their own cash grants and for managing cash. The BoTs are empowered, within the constraints of national education guidelines, national curricula and their school charter, to establish their own financial priorities that allows them to be more responsive to *local community priorities* (Kakapo BoT Finance Committee Chairperson), and *provided more opportunity to choose where and how we spend some of that money* (Kea BoT Finance Committee Chairperson) without the need to *make a claim for every cent* (Kea BoT Staff Representative). The flexibility afforded to BoTs in the allocation of their schools' budget has the potentiality to enable BoTs to prioritise their local educational needs and, in a competitive educational provider environment, to differentiate themselves from other schools.

The reform creates the discourse for better cash management and for schools to operate within grants. This, in turn, gives rise to a need to manage spending. Boards of Trustees are expected to have their income and expenditures properly planned and controlled. This privileges the role of the budget, but only insofar as the delivery of educational services is largely contingent on the availability of financial resources. In the normative mode, BoTs are required to ensure that the budgets are directly linked to the requirements stated in their school's charter. Therefore, in preparing the school budget, it is to be expected that each BoT would identify its objectives for both current and future years (generally within a 3–5 year period) and the total funds required for achieving each objective. Indeed, and as noted by the Principal of Kea:

We have a strategic plan and an action plan. [The] action plan is for one year in which departments, and others, specify where they are heading. [However, as a school we also] think about projects for which we want money set aside – these are projects that are important to the strategic direction of the school.

However, and although the school charter is developed in consultation with the local community and other stakeholder groups, it is apparent that in the budgeting process little cognisance is taken of the charter.

Notably, principals controlled the budgetary process and the myth of BoTs as decision makers is maintained by the routine nature of their approval process. One principal (Kakapo) intimated that a reason for his sole determination of the budgetary needs of the school is a lack of trust in responsibility centre managers to prepare responsible budget proposals. From past experience, there had been wide-spread occurrences of budget holders over-inflating their budget proposals in anticipation of receiving a lesser amount.

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

Two of the four schools (Kea and Tui) reported a history of recurring accrual-based operating deficits (see Table 1, below). A third school, Kakapo, reported a declining annual surplus. Deriving a financial deficit did not, of itself, greatly concern the management of each school. One Kea participant suggested: *it didn't concern us greatly in the sense that we had a cash operating surplus and we had purchased substantial amounts of new equipment. We didn't feel we were significantly running the school down.* The Principal reinforced this view stating that: *our cash flows for the year and our operations had been very good, and we'd been fairly conservative.* In any event, a further Kea participant suggested that, historically, running an operating deficit was not uncommon amongst schools with a political intent to *let the government know they are not getting enough money.*

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

Table 1: Summarised Financial Performances (1997–1999)

School	Reported Surplus / (Deficit)			Reported Net Cash Inflows / (Outflows) from Operating Activities		
	Budgeted \$	Actual \$	Variance \$	Budgeted \$	Actual \$	Variance \$
<i>Kakapo</i>						
1997	22114	275270	253156	22114	500393	478279
1998	2798	178483	175685	(28316)	483806	512122
1999	16542	42427	25885	20297	327240	306943
<i>Kea</i>						
1997	n/a	993	n/a	n/a	n/a	n/a
1998	(120798)	(119014)	1784	n/a	n/a	n/a
1999	(100370)	(52850)	47520	144459	196501	52042
<i>Tui</i>						
1997	(73901)	(4187)	69714	123099	144434	21335
1998	(136419)	(27672)	108747	(419)	84457	84876
1999	(106047)	(83996)	22051	20743	296354	275611
<i>Takahe</i>						
1997	(195995)	251503	447498	41260	469007	427747
1998	12338	523824	511486	400305	909974	509669
1999	(128431)	148532	276963	233569	891535	657966

It seemed that the participating schools are more comfortable with budgets on a cash-to-be-spent basis rather than accruals. This is especially evident in two schools. Kakapo budgeted for a modest cash-based accounting surplus of \$16,000, but did not include depreciation expense in its reported budget. Actual depreciation expense for the period amounted to \$198,000. Although Tui budgeted for an accrual-based accounting deficit of \$106,000, the magnitude of the budgeted deficit is approximate to the amount of budgeted depreciation expense. This would tend to suggest that the items giving rise to the reported deficits are non-cash items (for example, depreciation), accrued expenses or one-off type transactions (e.g., loss on sale).

A comparative analysis between the projected budget, reported budget and reported actual financial performance highlights significant differences in the period under review. There is variance between revenue and expenses budgeted for at the beginning of the financial year and the reported budget disclosed in the annual reports. Further, the reported budget is often some way removed from the actual figures. Both of these findings are illustrated in Table 2.

Table 2: Takahe Budget Variances (1998)

Revenue / Expenditure	Budget ① \$	Budget ② \$	Actual ③ \$	Variance (③ – ①) \$	% of Variance to Actual
Revenues					
Government Grants	3,359,220	5,418,551	5,814,056	2,454,836	42.2
Investment	0	60,000	121,319	121,319	100.0
Local Funds	*651,000	711,000	2,136,242	*1,185,966	64.5
Expenditure					
Learning Resources	2,913,069	5,018,409	6,083,343	(3,170,274)	52.1
Administration	325,600	323,964	404,752	(79,152)	19.5
Property	2,356,019	405,386	446,850	1,909,169	427.2
Local Funds		41,487	299,276		
Depreciation	387,967	387,967	313,572	74,395	23.7
Other	0	0	0		
Surplus/ (Deficit)	(1,972,435)	12,338	523,824	2,496,259	

① Budget at commencement of year (projected budget)

② Budget reported in annual report

③ Actual reported financial performance

* Net

The schools' reports offered no explanation for these occurrences, or commented on their future implications. Arguably, and importantly, such fluidity between the projected budget and reported budget undermines the ability to hold budget holders to account⁴. That is, against which set of budgeted figures are budget holders held to account? Presumably, budget holders are held to account against the projected budget with some favourable consideration given to budget overruns occurring during the year, particularly when sources of revenue, such as government grants, become more readily determinable as the year progresses.

The consequences of such variances are largely downplayed by the key actors in the financial management processes of the participating schools. For example, the Takahe BoT Finance Chairperson noted her concern over budgeting practice, particularly when a sizeable projected deficit is reported as a budgeted deficit (refer Table 2; also see Table 1 which shows a recurring substantial difference between reported budget and actual performance):

I'm still trying to clear up why we tend to [do this]; is that a fault of the budgeting system? And it does bother me a little bit because you're not clever doing this. It means there is something wrong with your budgeting.

⁴ Budget holders at both the micro and macro levels of the school organisation, and would include departmental budget holders and the principal as chief executive officer.

In his response to any perceived concerns over the determination of Takahe's budget, the principal put less emphasis on the notion of the budget as an accountability device:

[the budget] is a guideline for spending, not a controlled bean-counting device, so I mean, there are so many variables that you give it your best shot. I think to be fair ... I probably rely on the fact that there are unders and overs in the curriculum.... But we don't get paranoid about it.

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

The budget holders find that by keeping within budget they are less prone to retrospective, outside interference in the way they operate their responsibility centres. This is a necessary condition to ensure support and legitimacy as a budget holder, because questions of a managerial nature tend to be asked from above on an exception basis (i.e. when something is wrong according to the official 'data'). These questions tend to be about overspending, rather than about quality and effective delivery of the curriculum.

Nevertheless, in all cases, the centre budgets and the answers to budget variances are aggregated and form the basis of the monthly reports that went to the BoT. The responsibility centre managers at two of the schools (Kea and Takahe) are formally invited to meet with their respective BoT on a periodic basis to discuss any issues or concerns. It is suggested that these meetings are also intended for the managers to report on their own performance *vis-a-vis* providing a statement of service performance.

The internal devolution of budgets in this way has wider implications for processes and interactions up and down the school organisation. In particular, general ledgers are brought to the fore of the financial management system. In the new model of devolved financial management, the basic form of the general ledgers is coverage of the entire school institution, divided into responsibility centres and subdivided into classes of expenditure. The accuracy and timeliness of the general ledgers are widely criticised by the responsibility centre managers. Most of the blame is put on accounting systems being centralised and geared up to report in retrospect to BoTs on the overall picture of total spending compared with the budget for the year-to-date. Often the budget reports are not available to the responsibility centre managers until the latter part of the month following the period being reported on. As a direct result of the dissatisfaction and exasperation associated with central data systems, the

trend among responsibility centre managers is towards establishing their own local systems. These are used to keep track of orders and spending in more detail. Paradoxically, the adversity engendered through people being held answerable by central accounting system data provides them with incentives to see that these are properly maintained. There were previously no incentives, because errors in the spending allocation to departments had not mattered.

5. DISCUSSION

The issues presented here represent one element of the reorientation of education administration in NZ and are drawn from interview data. The transformation of the education system resulting from the 1989 administrative reform stemmed from broader reforms in the economy and in the public sector. The measures introduced were to change the education system to match the extrinsic demands made on education by the economic and political systems and structures, and by society at large (Becher & Kogan, 1992, p.13). The new accounting ideas, and the processes and structures they gave rise to, were related to macro-concerns about national resource allocation, and efficiency and effectiveness in spending. The BoTs and principals were urged to adopt a more systematic and rational approach to planning, resource allocation and decision-making. Accounting techniques were particularly attractive in this respect because they offered the possibility of extending the spheres of economy and efficiency, as well as individual organisational discretion and choice, while also helping to ensure that actions were taken in accordance with broader fiscal objectives of government.

The findings of the study highlight a significant disparity between the official rhetoric for accounting-led change and the way in which SBFM has been operationalised at the school-level. The veneer of business sector structures and processes has given the schools an outward appearance of having adopted a more formal management control and accountability (i.e. SBFM) than what has previously existed. However, and notably, the data also demonstrate that systems of rational financial management, incorporating accounting technologies and processes, have not permeated into the participating schools.

Despite the normative intent that school objectives would be linked to the school charter and that the financial resources required to achieve each objective would be identified, the budget-setting process is loosely coupled to the school charter. Indeed, budgetary decisions are primarily concerned with providing for the current year financial needs, with little regard for the need to make provision for future expenditure requirements. Basic principles, rather than formalised and prioritised objectives, appear to drive the financial planning process.

For many schools, financial planning tends to focus on the more immediate concern of financial survival (i.e. maintaining a balanced budget or minimising deficits) rather than output

budgeting for future needs. This is indicative of the budgeting process being undertaken within the “private sphere” (Broadbent *et al.*, 1994, p.261), whereby budgeting is akin to housekeeping duties that are completed, yet are rarely commented on unless something went wrong. The incremental approach allows principals, as the primary budget setters, to focus on the smoothing and maintenance of existing education activities, rather than seeking constantly to question and define what is being done. Further, by principals maintaining the status quo, there is reduced opportunity by external agencies, the BoTs and professionals within schools, to change the underlying values of schools.

If an organisation is to implement more comprehensive forms of budgeting, it needs to debate its objectives and priorities much more explicitly than in an incremental budgetary process (see, for example: Broadbent, Laughlin & Willig-Atherton, 1994; Edwards, Ezzamel, Robson & Taylor, 1996). There is little evidence in the operational mode of strategic planning and associated financial budgeting. For the four schools, the major portion of school expenditure is subject to incremental budgeting. Further, and despite the establishment of responsibility centre budget holders, budgets are predominately set from above without meaningful participation or consultation. BoTs tend to adopt a passive rather than a proactive decision-making role.

Despite the official claims that more efficient and effective decision-making would occur under devolved responsibility for financial management, the incremental bias in budgeting reduced the likelihood that SBM will lead to planned use of resources to achieve local needs. For example, for the four schools investigated, salary costs represent some 63% to 82% of the annual budget. Together with the unavoidable necessity to pay bills such as heating, lighting, rates, and audit fees, the impact of this budgetary decision is that the actual level of the budget available to resource school priorities is minimal and there is, therefore, an element of routine about allocating the budget as opposed to the decision-making intended by the reforms. Arguably, the four schools would suggest that there is no opportunity to budget for non-compulsory education services (i.e. over and above their responsibilities in terms of the national curriculum and national educational guidelines) given that all four schools initially set a deficit budget for the year under review.

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

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

Much of the administrative workload devolved from the educational bureaucracy has been absorbed by BoTs⁵, principals and senior management (see also, Laughlin, Broadbent & Willig-Atherton, 1994). School-based management has not directly impacted on the teaching process. That is, there is a loose-coupling (Glassman, 1973) between the management and teaching staff so that teaching professionals remain largely unaffected by the disturbance. Although the reform introduced a new way of managing, it did not touch the core of the education system. The day-to-day teaching function is largely insulated from changes to the management function. Although the SBFM reform was not resisted in its entirety, the absorption process has seen a mode of response that has incorporated internal, “private” (Broadbent *et al.*, 1994) resistance strategies that provide some level of compliance and leads to change within the schools, which can be described as in the ‘first order’ (Laughlin, 1991). In general, the resultant internal systems of financial management and management control appear to be rhetorical and largely symbolic in their function.

From the theoretical insights of institutional theory and, specifically, organisational response to legitimacy and change, such differences between practice and a rational-technical model of financial management are not unexpected. If, in the operational mode, the utilisation of accounting-based technologies and practices is to satisfy external demands, then the adoption of rational-technical accounting technologies and practices in the internal decision-making process need not occur, unless these are specifically required and enforced. Indications from the participants suggest that no concerns are expressed from the external auditors or Ministry of Education regarding systems and processes of financial management. This seems to suggest that the new official structures reflect the myths of their socio-political environments instead of the official demands made for systems of rational management in practice. Such practices are suggestive of an attempt by the schools to satisfy the need for external legitimacy rather than to give effect to rational SBFM practices.

Theoretically, by incorporating externally legitimated formal structures, such as SBFM (and despite the inherent limitations of such practices — as outlined in this paper), the schools may be protected from having their ‘reasoning’ questioned. That is, provided the schools are seen to maintain sound budgets and budgetary control (symbolic or otherwise), the less likely the ‘reasoning’ behind specific financial resource allocations could be questioned. However, and as suggested by Meyer and Rowan (1977, p.352), such a commitment may also be a sign of “sagacious conformity”, whereby the schools ceremonially reflect the institutional environment in their structure, functions and procedures. This may also be evident, as in the case of the four schools, where the largely symbolic overtures made by school management to the

⁵ It is important to note that membership of a Boards of Trustees comprises elected representatives of the local community (primarily parents) and is largely an unpaid position (a meeting allowance may be claimed, but must come out of a school’s operational grant). A criticism of the BoT structure is the (often) lack of ‘expertise’ (managerial and educational) available, resulting on increased reliance on the principal and other school professions for advice and direction.

rhetoric of improved financial efficiency and accountability, and for systems of rational management, are 'acceptable' to the government.

From an institutional theory perspective, the distinction between appearance and reality is a theoretically important dichotomy (Scott, 1983) because the appearance, rather than the fact of conformity, is often presumed to be sufficient for the attainment of legitimacy. Thus, while the discourse incorporated themes of 'rational' financial management technologies and processes, and are therefore indicators of conformity to the demands of the normative mode, these mechanisms, it is argued, are largely concealment tactics and could be regarded as providing a façade that disguises non-conformity with the normative mode demand for systems of rational management.

Although accounting has played a part in the move to school-based management, there is some doubt about whether it is very significant, other than "for purposes of external legitimisation" (Markus & Pfeffer, 1983, p.209). Nevertheless, some accounting is implicated in the structures and processes that challenged the status quo from the late 1980s but, perhaps, only because it reports the flow of financial resources that affects all aspects of school operations. It is to be expected that after some 10 years into the education administration reform the accounting and management systems would have had sufficient time to embed themselves, and to demonstrate a more rational approach to financial management.

6. CONCLUSION

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

The findings of the case study reveal instances where the normative modes of rational management have not been forthcoming and operational modes of practices identified as largely symbolic. Accounting technologies and processes came to play a role associated with the softer rationalities of economic efficiency and accountability, different rationalities from the Government's perspective of economic efficiency.

It is apparent that the aspects that brought about accounting's involvement at the school site have more to do with what was happening generally in the NZ public sector (e.g., accrual accounting, financial reporting, and devolved management) and less to do with education *per se*. While many people at the school level were not unreceptive to these ideas, their predominant concerns were with the micro-level of the individual school and its activities. That

is, a key concern of school management was the provision of education to students. Senior management largely protected the activities of teaching staff from the influences and demands of the SBFM reform, allowing teaching staff to get on with teaching.

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

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Devolved school-based financial management in New Zealand : observations on the conformity patterns of school organisations to change

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