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EMERGING TOPICS IN MANAGEMENT STUDIES

IMPRENSA DA UNIVERSIDADE DE COIMBRA
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Presently, Management has witnessed vast advancements, clearly becoming an area of trans and interdisciplinary knowledge. It has widened its scope from traditional business areas – such as marketing, strategy, management control, accounting and finance, taxation or operations – to other spaces, namely deepening bridges with behavioural sciences, engineering, health, or energy, fostering both quantitative models and methods. Management thinking at the Faculty of Economics of the University of Coimbra (FEUC) has followed these trends, enabling students with the essential skills supporting the practice of the profession, both in business and public sector organisations.
This book features topical trends of research in Management studies, in which FEUC professors are involved, together with international peers, evidencing the openness of the Faculty to the world. Numerous of the subjects addressed relate to challenges that organisations are already facing or will have to deal with shortly. Therefore, the book not only presents innovative research questions, but it also delivers a practical perspective. Thus, organisations will certainly find here some support to better manage those issues in practice.

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EMERGING TOPICS IN MANAGEMENT STUDIES

CELEBRATION OF THE 30TH ANNIVERSARY OF THE MANAGEMENT AREA OF STUDIES AT THE FACULTY OF ECONOMICS, UNIVERSITY OF COIMBRA

IMPRENSA DA UNIVERSIDADE DE COIMBRA
COIMBRA UNIVERSITY PRESS

PREFACE

In the current academic world, Management Studies occupy a prominent and seductive place. The Schools of Economics and Management are more or less attractive depending on the quality of the Management courses they offer and according to the dynamics of the relationships they establish with the business world. Communication and contact networks with companies and management hierarchies have become decisive factors in the positioning of schools and in the image they project. Whether autonomous or integrated into the educational institutions from which they rise, the Business or Executive Schools establish these synergies; they garner large amounts in own revenues and reap gains in image from their impact on the community.

These recent events are reflected in any higher course in the scientific area of Business Management and put public and private schools under pressure, caught between their pedagogical objectives and the performativity of the market of teaching and advanced training services where they compete.

In the context of high uncertainty we are experiencing, marked by the sudden effects that the pandemic has had on the economic life of countries and regions and by the violence of the social crisis it has caused, management and economic sciences in general are likely to face, in the short term, new challenges and some questioning. In other historical circumstances of global crisis and a deep depression in economic and business activity, it has never ceased to be so. But it was out of these adverse contexts, in fact, that some cutting-edge contributions to the advancement of management and an inspiring look at the paths of business history, were born.

In 1977, in his most inspiring work, *The Visible Hand: The Managerial Revolution in American Business*, Alfred D. Chandler pulled the company and entrepreneurs out of the "black box" of economic theory and paved the way for unlikely combinations between various subdisciplines of Economics and Management. In the end, it was concluded that the historical cycles of industrial capitalism and successive industrial revolutions were the cause and effect of structural changes in the organisation of companies and businesses, but this "engine of history" was never merely subordinate; it had a life of its own.

Companies and entrepreneurs are complex and dynamic historical constructions whose trail through economic theory is modest, especially in the neoclassical mainstream. Despite the insistent diagnoses of economists and sociologists, it is likely that the categorical announcement of a post-industrial era with no return was an exaggerated prognosis. For this reason, too, and because the frontiers of knowledge of Management today are almost disconcerting and admit several possibilities, it is impossible to think about the future of an Economics faculty without imagining the role of teaching and research in Management.

The book *Emerging topics in Management Studies*, to celebrate the 30th anniversary of the Management area of studies at FEUC, is intended to commemorate a journey, the thirty years of teaching Management at the Faculty of Economics of the University of Coimbra, but, above all, its purpose is to project the future of an area of research, teaching and professional activity, the challenges of which need to be imagined with vision in a collaborative sense.

As highlighted by the coordinators of the volume, Professors Patrícia Pereira da Silva, Susana Jorge, and Patrícia Moura and Sá, in recent decades Management has become a transdisciplinary science that incorporates contributions that would have been unthinkable a few decades ago.

At the Faculty of Economics of the University of Coimbra (FEUC), the current reality of Management teaching and research reflects this trend of openness and follows the transdisciplinary appeal that distinguishes the avant-garde of the discipline in the top international schools and best journals. The seventeen chapters that make up this volume express the diversity of areas of expertise that come together at FEUC and that find curricular expression in the various management courses we offer, from bachelor's degrees to doctorates, including MBA. The texts combine traditional specialties, such as accounting and finance, taxation, strategy and marketing, with themes that are more common in the social and behavioural sciences, and that dialogue with engineering, mathematics, psychology, and scientific methods of management.

Management teaching started at FEUC in the 1989-90 school year. FEUC was created in December 1972 under the "Veiga Simão reform" of higher education, which was intended to promote a controlled social change of a country that had missed the train of time. Management teaching was added to the teaching of Economics, but only when the challenges of European integration and the need to train managers with higher education could no longer be postponed. We owe much to all the teachers and former students of this first Management course and to those who followed them. Several authors of this book, now professors at FEUC, are former students of this time, now long past.

After thirty years of Management teaching and research at FEUC and seven changes to the study plan of the respective Bachelor's Degree, it is time to prepare a bolder reform that is able to join together the various cycles of studies, to process cutting-edge contributions that appear to emerge from the collaborative era that the pandemic has brought to companies and organisations. Benefiting from the support of CeBER (Centre for Business and Economics Research), a research centre created at FEUC in 2016, and the attractiveness of the Management courses we offer – not only for the Bachelor's Degree, but also in the Masters and PhD programmes – we need to plan the future boldly and with more openness to the expectations of companies and the labour market. The synergies between Management and Economics courses and the curricular articulations between Business Management and Scientific Management Methods, which enjoys an important and traditional expression at FEUC, will be secure routes.

Recently, significant progress has been made in the fundamental areas of FEUC's collective life and there has been evidence of renewed resources. From now on, we must seek to strengthen the links between CeBER's research programmes and the doctoral and master's courses in Management and Economics. For this, we need to strengthen some areas of expertise through the recruitment of teaching staff, taking into account the importance of the Management area in attracting students at a school of Economics. This synergy will make it possible to promote visible and sedimentary articulations with FEUC's post-graduate education and to face the coming years with optimism.

The publication of this book was only possible thanks to the commitment of the authors, coordinators and its publisher, the Coimbra University Press, to which we express our gratitude in the person of its Director, Professor Delfim Leão.

Álvaro Garrido
Dean of FEUC
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Chapter 3 – Nationalism *versus* Globalization: public sector accounting, international harmonization and national resistance

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Abstract: The process of harmonization of public sector accounting systems within the European Union (EU) and the development of European Public Sector Accounting Standards (EPSAS) seems to be encountering some national resistance. This is mainly due to the reliance on International Public Sector Accounting Standards (IP-SAS), which are based on their private sector counterparts designed for business accounting. In certain countries, this can conflict with national rules and traditions relating to public sector accounting.

This chapter shows that public sector entities and governments are not averse to accrual accounting *per se*, but there is resistance to accrual-based accounting and reporting as presented in IPSAS. The factors underlying such resistance are inherent in the makeup of the IPSAS themselves, and are aggravated when national traditions are not aligned with the IPSAS culture.

Keywords: public sector accounting; business accounting; traditions; harmonization; conflict; resistance.

1. Introduction

Due to economic globalization, international harmonization of financial reporting standards for the private sector is established and widely accepted as the norm. International Financial Reporting Standards (IFRS) enjoy the support of the accountancy profession, national governments and supranational and international bodies. When it comes to public sector accounting, however, the attempt towards harmonization through the development of International Public Sector Accounting Standards (IPSAS) encounters some national resistance, and some countries persist with national specifics rooted in national traditions and interests. This appears to be affecting the process of harmonization of public sector accounting systems within the European Union (EU) and the development of European Public Sector Accounting Standards (EPSAS). There seems to be a struggle where globalization and IPSAS are pushing and national traditions are resisting. Sometimes, there are some concessions from both sides; yet, at other times, conflicts arise.

National rules and traditions for public sector accounting and reporting (both budgetary and financial) have been on a cash basis.

However, over time, public sector entities of some jurisdictions have introduced some form or other of accruals in order to have a more wholesome view of their performance and financial situation. The objective of accounting and financial reporting has been traditionally related to accountability and transparency, whereas the purpose of assisting decision-making was highlighted with the proximity to business accounting.

This chapter shall show that public sector entities and governments are not averse to accrual accounting *per se*, but there is resistance to accrual accounting and reporting as presented in IPSAS. This resistance is manifested through indirect application of IPSAS, and the adoption of 'bits and pieces' from these standards (ACCA, 2017; OECD/IFAC, 2017). The factors underlying such resistance are inherent in the makeup of the IPSAS themselves, and are exacerbated when national traditions are not aligned with the IPSAS culture. Only recently, has the process of IPSAS production become more open to include the input of several stakeholders. The chapter consolidates some discourse on IPSAS and harmonization, which would prove very useful to consider during the development of EPSAS so that the risk of national resistance is minimized. The relevance of the arguments presented here go beyond the EU context because IPSAS are an international phenomenon.

The chapter is organized as follows. After describing the nature of accounting standards for the private sector, and highlighting the differences between business accounting and public sector accounting, it is explained that, in spite of this, business accounting standards have been taken as reference to start the process of public sector accounting international harmonization and the IPSAS. IPSAS, however, are not at all overall accepted, not even applied as they are, as local adaptations are allowed (ACCA, 2017; OECD/IFAC, 2017). Then, the European context is addressed, describing how harmonization of public sector accounting across EU Member

States is starting via the development of EPSAS, and further challenges in the process. Finally, some examples are offered about national resistance and flexibility to adapt to public sector accounting international harmonization, also alluding to some openness in the IPSAS issuance process. The chapter concludes with some proposals to overcome such resistance.

2. Accounting standards for the private sector

Accrual accounting is often taken as a synonym for business accounting, that is, financial statements according to IFRS. Business accounting, however, is more than just financial reporting. It includes management accounting, which comprises budgeting and reporting against the budget. In the private sector, such management reports are, however, confidential and not publicized. On the other hand, financial reports are published, and this is the underlying reason why harmonization is required, leading to the need for financial reporting standards (Nobes and Parker, 2016). There are countries that have established their own national standards, while others refer to international standards (especially those that do not have a standard setting body). Continental European countries establish their standards in the form of a legislation; while in Anglo Saxon countries, the accounting profession has a leading role in the setting of standards (Jorge et al., 2019a).

IFRS are issued by the International Accounting Standards Board (IASB), which is a private body made up primarily by members of the accountancy profession. Thus, IFRS are more in line with accounting standards developed by Anglo Saxon countries. IFRS have become the established norm for financial reporting in the private sector, especially since the EU has made them compulsory for listed public-interest companies in 2005 (Regulation EC Nº 16060/2002).

Some jurisdictions attempt to brush up their own national standards to make them more compliant with IFRS requirements. The intention is to enable comparability through harmonization of financial reporting, regardless of the size and type of reporting entity. This combination of 'global' and 'local' is called 'glocalization' in marketing, organizational and managerial studies (Brunsson and Jacobsson, 2000). Baskerville and Grossi (2019) explain the advantages of such flexible strategies for standard setters, especially in the public sector scenario. However, IFRS do not deal with management accounting and budgeting, when budgeting takes the leading role in the accountability of public sector entities.

3. Public sector accounting

Public sector accounting is manifest in three areas: (a) Financial Reporting; (b) Budgeting; and (c) Government Finance Statistics (GFS) (Oulasvirta, 2014a).

Public sector accounting was traditionally on a cash basis, but then, accruals started creeping in GFS. Presently, GFS embrace an accrual methodology compliant with standards issued by the World Bank, namely the System of National Accounts (SNA). The International Monetary Fund (IMF) and the EU Commission have their own standards, namely the Government Finance Statistics Manual (GFSM) and the European System of National and Regional Accounts (ESA), respectively. Comparability is very important at this level, and this is achieved through standardization. In the EU context, reporting according to ESA has a very important role to play in maintaining the stability of the Euro-area. ESA reporting is most important for EU Member States, and, unless there are changes in the legislation that bind the EU Member States, shall remain the dominant form of reporting regardless of what happens in public sector financial reporting (Jones and Caruana, 2015b).

Budgeting in the public sector is done at a macro level (to manage the economy as a whole) and at a micro level (to manage individual entities). Budgeting is thus a very important management and control tool. This is also recognized in the private sector. The difference lies in the fact that, in the public sector, budgets are required to be published in order to make the administration of the state accountable. Reichard and van Helden (2016) present various reasons why governments tend to prefer the cash budget. Of course, this does not exclude the preparation of other types of budgets, like a forecast financial performance statement or a projected balance sheet, as is done in the private sector. In fact, some countries do include elements of accruals in their budgets (Jorge, 2019a), by taking into consideration certain commitments; by differentiating loan repayments from other expenditures; and by identifying capital expenditures. Whatever basis of preparation is used, budgeting and reporting against the budget are deemed the epitome of accountability and transparency.

In many countries, the Government Financial Report would traditionally contain actual results compared with budget figures, and an explanation of the fundamental variances. Such a report would be audited and published (Jorge, 2019b). Variance analysis reports are considered good management practice in the private sector, but are kept confidential – they are not audited and published. In the public sector, the divide between financial reporting and management accounting is not as pronounced as it is in the private sector.

In the last decades, many countries have been changing their public sector financial reporting to an accrual basis. This is seen as an innovation and a means of modernization, in spite of the fact that it has disadvantages as well (see for example, Manes Rossi et al., 2016). Financial reporting on an accrual basis refers to the presentation of ex-post data in the form of a Statement of Financial Performance (or Statement of Profit or Loss) and a Statement of Financial Position (or Balance Sheet). A set of accrual-based financial statements also includes a Statement of Cash Flows. The importance of this statement is sometimes overlooked, as the focus is on the balance sheet (Oulasvirta, 2014a). The Statement of Cash Flows is nothing more than an elaborate report of cash movements, which could be comparable to the data in the cash budget. If more emphasis were done on this fact, perhaps the popularity of financial reporting in the public sector would improve. As the situation stands, financial reporting in the public sector is not considered important on a global scale (Tiron-Tudor et al., 2019; Polzer et al., 2019), making any changes to the accounting system appear ceremonial rather than instrumental.

4. Public sector accounting standards

Preparing financial reports on an accrual basis requires guidelines in the form of standards. Jurisdictions that have their own standard setting body established national standards for their public sectors. On a global level, the IPSAS are prepared by the International Public Sector Accounting Standards Board (IPSASB), a private entity, mainly consisting of accounting professionals. The IPSAS are the only set of international financial reporting standards for the public sector that exists in the world. They consist of one standard for financial reporting on a cash basis and 37 standards for financial reporting on an accrual basis (as at March 2020). The IPSASB is committed towards the harmonization of public sector financial reporting at a global level; in the process, it also refers to the IFRS, as prepared for the private sector, and claims that it only deviates from these in order to take into consideration the specific nature of the public sector context.

The IPSASB's struggle for harmonization is hampered by the fact that it has no power to make the IPSAS compulsory (Dabbicco and Steccolini, 2019). In fact, there is no country in the world that has adopted the IPSAS lock, stock, and barrel (Polzer et al., 2019). The IPSAS are referred to and consulted, but are never taken on without any amendments. Switzerland is the country that has adopted the IPSAS with the least amount of changes, but otherwise, IPSAS adoption is done in various degrees (ACCA, 2017). For example, countries with an Anglo Saxon tradition, like Malta, refer directly to IPSAS and then choose what to change in order to make them applicable for the particular context. Incidentally, Malta does not have a national standard setting body. The UK does not refer to IPSAS but prefers to refer directly to IFRS and make changes for the public sector context (Jones and Caruana, 2015a). Continental European countries where the Anglo Saxon ways are rather foreign, for example, Spain and Portugal, did not start by referring to IPSAS or IFRS. First, they designed their national standards and then saw how they could change these to be in line with IPSAS requirements (Jorge et al., 2019a).

International adoption is always done with amendments (Polzer et al., 2019). Such 'glocalization' is advantageous for the standard-setter because it is the only way to expand the market for public sector standards. Furthermore, 'glocal' IPSAS would attempt to ensure that the perceived user needs in public sector financial reporting worldwide are somehow met (Baskerville and Grossi, 2019). Even so, there is no evidence about this. In fact, sometimes adaptation meant only the inclusion of budgetary reporting, which says very little about the usefulness of accrual financial reporting. Having said this, one cannot ignore the fact that, the IPSAS are not subject to the same sort of pressure for comparability as the IFRS are from global capital markets, and thus the IPSASB can afford to be lenient. Allowing 'glocalization' enhances the rate and range of IPSAS uptake (Baskerville and Grossi, 2019).

A point in fact is the emergence of the EPSAS project. Aggestam and Brusca (2016) explain how the EU is creating a 'regional governance' of their public sector accounting in parallel with the globalization of practices endorsed by the IPSAS. Even if derived from IPSAS, EPSAS will adapt the principles in IPSAS to the EU needs, namely towards tighter comparability and standardization (for example, narrowing down the flexibility in the accounting choices allowed in IPSAS), and endorsing fiscal and budgetary integration via approximation to the ESA and the National Accounts.

The regionalism (versus the globalization) in international harmonization somehow reflects the way national economies and institutional arrangements may affect global regulation in public sector accounting. In this process, regional priorities arise and there is a fertile arena for tensions between regional and global standard-setters (e.g., Eurostat and IPSASB) (Aggestam and Brusca, 2016).

5. European harmonization

The financial crisis of 2008-2010, shone a spotlight on the quality of reporting that EU Member States prepare and submit to the EU Commission. According to the legislation that binds the Member States, such reporting is required to be done according to the ESA rules, and thus there is harmonization of such reporting at this level. However, the underlying data that is used in computing a country's deficit and debt (more specifically, that relating to the general government sector, which is a section of the economy as defined in the same standard) is derived from the underlying governmental accounting system (Caruana et al., 2019). Here, the EU Commission found a wide variety of systems, ranging from pure cash basis to various degrees of accrual accounting according to the national standards and national legislative requirements (PwC, 2014).

Claiming that such diverse national reporting was undermining the quality of ESA reporting, the EU Commission began its crusade to have all Member States implement an accrual accounting system for their public sectors – one that would be capable of reporting according to IPSAS. There were some negative reactions to this suggestion, and the EU Commission decided to first carry out a study to assess whether the IPSAS were suitable for EU Member States. The study concluded that the IPSAS, as they stood, were not suitable, but they could serve as an 'undisputable reference' (EC, 2013).

The objections brought forward against the IPSAS included that of governance, because the IPSASB is a private body (Aggestam and Brusca, 2016). The IPSAS requirements clashed with those of ESA reporting, when ESA reporting is so important at EU level. Member States that had their own national accounting standards preferred to use those because they catered for their country's specific context (Manes Rossi et al., 2016). The fact that the IPSAS are based on IFRS, that is, on standards prepared for the private sector and not for the public sector, proved to be another issue. It was pointed out that IFRS (and therefore IPSAS) are prepared for reporting emanating from Anglo Saxon traditions, and that it would be a very difficult change for Continental European countries to undertake because it would require a change in mentality for public sector reporting (Christiaens et al., 2015).

Consequently, the EU Commission decided to set up its own standard setting body – the EPSAS Group working under the Eurostat – and to develop standards that would be suitable for the public sector accounting of the Member States. Thus, the EPSAS project was launched, with a strategy of progressive approach to EPSAS from 2016 onward (Caruana et al., 2019). The EU Commission still intends to refer to IPSAS and to make changes accordingly – so now one has 'glocalization' and 'regional harmonization' at the EU level.

So far, some developments have been achieved, namely:

- Guidance for the first time implementation of accrual accounting (2017);
- Draft EPSAS Conceptual Framework (2018);
- EPSAS issues papers on technical matters, from 2016 to 2019: small and less risky entities; options in IPSASs; taxes; heritage assets; employee benefits (pensions); social benefits; infrastructure assets; segment reporting; military assets; social contributions; national harmonization of chart of accounts; discount rates; intangible assets; grants and other transfers; disclosures; service concession agreements; provisions; notion of control; loans and borrowings; and consolidation of financial statements.

The EPSAS draft conceptual framework (EC, 2018, p.13) states that 'The Commission should adopt EPSAS on the condition that they are conducive to the European public good, conducive to objectives of [General Purpose Financial Reports] GPFRs … and conform to the qualitative characteristics and the application principles taking into consideration the constraints …'. Moreover, for the development of EPSAS, it is underlined that the Commission shall take into consideration: (a) the accounting rules based on internationally accepted accounting standards for the public sector, adopted by the Commission; (b) the accounting standards for the private sector adopted by the Commission; (c) nationally developed and generally accepted accounting principles (GAAP) for the public sector developed by national standard setters which have already invested in the modernisation of their public sector accounting; and (d) the rules of the ESA.

EPSAS must consider particular characteristics of the public sector, namely the central role of budgets and budgetary accounting (rather than the balance sheet) so as to lead to the desired better and comparable data to support the National Accounts (harmonizing with ESA), and to get comparable financial statements for investors (reducing cost of capital for countries). Additionally, the reliability of whatever reports to be considered points to the need of an increased role of auditing and proper audit procedures that secure the required public oversight (Caruana et al., 2019).

Until the EPSAS project matures, the EU Commission is encouraging Member States to implement an accrual accounting system in their public sector – one that would be capable of reporting according to IPSAS – and thus achieving comparability in stages (Dabbicco and Steccolini, 2019).

However, '…there is still a long way to go both before international harmonization within the specific countries, and from a wide adoption – or willingness to adopt – of a common set of international accounting standards' (Brusca et al., 2015, p.248). Even if agreeing on a set of EPSAS, EU Member States have yet to face many challenges. Brusca et al. (2015) highlight some of these challenges:

- Training needs – despite some progress, public managers and politicians still have limited knowledge about accruals and IPSAS (except in the UK, Switzerland and northern countries, such as Denmark, Finland and Sweden);
- Information technology (IT) adoption, especially for those jurisdictions that have a public sector accounting system based on a purely cash basis;

- Different levels of readiness to change to accruals. For example, some more 'mature' countries have already denied the implementation of IPSAS because they do not consider them to be the proper solution for the public sector, and emphasise the importance of the prudence concept and historical cost;
- Lack of political support because most decisions are mainly made on the basis of budgetary (cash) information, and some countries have already 'their own' accruals;
- Very complex legislative frameworks in some countries and binding EU regulations that may conflict with IPSAS;
- Recent reforms in most countries on budgeting, accounting and reporting systems;
- Technical and consulting support from professional expertise; and
- Implementation costs (IT, staff training, consulting, etc.) *versus* budgetary constraints.

Regarding EPSAS themselves, perhaps the major overarching challenge concerns their legitimacy. 'The future EPSAS should not have any legitimacy issues because it would be expected that they are enshrined in EU law', but 'according to the current legislation, the European treaties may have to change in order to make the EPSAS legally binding in this way, and … this would not be an easy journey' (Jorge et al., 2019b, p.144).

However, it 'appears doubtful whether seeking legal legitimacy and imposing EPSAS is the best way to achieve harmonization and ensure accountability by EU governments. Gaining recognition in the larger and more influential Member States would seem to be a more rational way for the EPSAS project to proceed' (Jorge et al., 2019b, p. 144).

Additionally, the benefits of EPSAS have to become apparent and overcome the costs (Jorge et al., 2019b). This may be yet another difficult challenge to overcome, as the expectations regarding EPSAS benefits seem to be negatively affected by countries' mature public sector accrual accounting systems. Furthermore, the diversity of well established accrual regimes, might not lower the effort and expense accompanying EPSAS implementation. Also, perceived low IT systems maturity anticipates high IT costs, again reducing the EPSAS reform expectation (Frintrup et al., 2020).

6. National resistance and flexibility

In spite of all the discourse and effort on harmonization, financial information systems in the public sectors across EU Member States are still divergent (Brusca et al., 2018). Brusca et al. (2015) emphasised a large diversity of situations, namely:

- Countries that have moved or were moving towards IPSAS (Austria, France, Portugal, Spain and Switzerland);
- Countries that were unlikely to follow IPSAS in the near future because they had chosen different approaches and do not believe that IPSAS are the right answer to the information needs (Denmark, Finland, Germany, Sweden and The Netherlands);
- Countries with diversity across regions and government levels, and resistance to change (Belgium and Greece);
- A country going for harmonization but still with cash accounting as the base; it is waiting for EPSAS in order to proceed (Italy); and
- A country not expecting any change in its public sector accounting system, as it already has IPSAS indirectly via IFRS (UK).

This diversity is manifest of a resistance at national level to adopt global standards. The resistance transcends from underlying political, economic and social factors that constitute the diversity of the countries that make up the Union. Countries that have inherited rich traditions, which remain influential over time. Traditions that in some countries are reflected in the Anglo Saxon model (one that accepts the modernisations of its systems more directly, for example, the UK) and, in others, in the Continental model (which tries to conserve national influences, for example, as in France and Italy) (Benito et al., 2007). At a local level, Cohen et al. (2019) found that in countries dominated by a legalistic tradition, there is a mismatch between the legal/regulatory requirements and the accounting information produced from accrual accounting systems, which also contributes towards resistance.

However, the reforms in the public sector accounting systems of certain countries demonstrate that these traditions are not iron cages. For example, since the 1980s, the Spanish public sector accounting system has always been based on the business accounting model, considering the standards that are used in the private sector as a reference point; naturally, with adaptations for the public sector (Jorge et al., 2019a). The Spanish reforms inspired Portugal, and the Portuguese public sector reform followed on similar steps, bringing 'public sector accounting close to business accounting, introducing financial and cost accounting under the accrual basis regime, together with cash-based budgetary accounting' (Jorge et al., 2019a, p. 453). Subsequently, mainly due to external pressures from the Troika following the financial crisis, the functions of the Portuguese standard setter were redesigned to focus on the issue of public sector accounting standards and interpretations, taking IPSAS as the reference. The process always included adaptations to suit the requirements of the user, which in Portugal also includes a standard on budgetary cash-based reporting and another one on management accounting (Jorge et al., 2019a) – two unique standards that have no corresponding standards, neither in IFRS nor in IPSAS.

A counter example is the case of Finland, where deep roots of accounting national traditions, make the country continue to resist public sector accounting international harmonization and IPSAS. 'The tradition of Finnish governmental accounting developed on its own premises' (Oulasvirta, 2014b, p.282). Governmental accounting adopted commercial bookkeeping rules since the late 1990s, following accrual accounting based on historical cost, prudence and the revenue/expense model. 'The domestic and international mimetic and normative pressures were not strong enough to initiate a deinstitutionalization process' (Oulasvirta, 2014b, p.282). Yet, changes are admitted if there are strong EU pressures or other coercive pressures, e.g., from credit markets, or even in the case that other Nordic countries start using IPSAS. For the moment, the Finnish accrual accounting regime is seen by the national standard setter as the best to serve the public sector stakeholders (Oulasvirta, 2014a).

Flexibility in the adaptation process of global standards makes their application more reasonable and leads to a more useful output. Mann and Lorson (2019) describe an interesting German case concerning the State of Hesse. Germany is a strong opponent to accrual accounting reform at the state and federal levels; however, the federal states are free to adopt accrual-based German public sector accounting standards. The State of Hesse was an early adopter and referred to the German private sector accounting standards found in the German Commercial Code, because the German public sector accounting standards were not yet available. The latter were adopted in 2015 by the State of Hesse. Mann and Lorson (2019) found that this move from one set of national accounting standards to another was also done with certain adaptations, which the State of Hesse considered necessary for its particular context. These adaptations were disclosed, and the State of Hesse received an unqualified audit opinion. Mann and Lorson (2019, p. 4) highlight that, even though the German public sector accounting standards were obligatory and binding in order to ensure comparability between the financial reporting of the 16 German Federal states, 'Hesse used its financial sovereignty as a federal state to oppose [SsD] (German public sector accounting standards) adjustments if more informative accounts could be produced in another way'. Future standard setters should appreciate this kind of 'true and fair view override' in order to promote transparency and comparability. 'Comparability requires full compliance and transparent open reporting on non-compliance' (Mann and Lorson, 2019, p. 4).

While the IPSASB is committed to converge with IFRS as much as possible (IPSASB, 2019), a certain degree of flexibility is also observed from its part. Recently, the IPSASB has initiated various studies in order to update the IPSAS, especially on issues that are particular for public sector accounting, for example, heritage, social benefits and non-exchange transactions. The IPSASB launched more than eight public consultations in the past three years, including one on its own strategy and work plan for 2019-2023. As at February 2020, the IPSASB had already issued three exposure drafts for public comment. Such an approach is encouraging as it reflects the willingness of the standard setter to consider the input of stakeholders, which would include current accounting and reporting practices by public sectors of different jurisdictions. Participation in these consultations should be encouraged worldwide, because one can only learn from the best practices and mistakes of others. Furthermore, such consultations should help the IPSASB to decrease its focus on private sector practices, as public sector practices highlight the necessary adaptations of standards designed for the private sector.

7. Conclusion

Some literature highlights that harmonized accrual accounting in the public sector shall not solve any problems, and the adoption of any type of standards – national, global or European – shall not result in more reliable GFS (Jones and Caruana, 2015b; Heald and Hodges, 2015; Sforza and Cimini, 2017). Oulasvirta and Bailey (2016) conclude that harmonized accrual accounting is likely to be only a minor instrument of EU fiscal governance. Having said this, it is generally accepted that increased transparency and accountability of public sectors across the world is highly desirable. Accounting reform towards accrual-based regimes hold this promise. The very process of reviewing the accounting system and updating it with modern tools introduces a level of rigor, which can only have positive effects.

This chapter has shown that, when carrying out accounting reforms, it would not be fruitful to expect a government to adopt a particular set of standards for its public sectors. International standards can prove useful as a guideline, but then, the jurisdictions should be free to adapt them according to their particular social, political and cultural specifics. In the case of IPSAS, these are very useful guidelines for jurisdictions that do not have their own national standard setter (e.g., developing countries) and for countries that do have their own national accounting standards that may need to be updated and modernized. Pressures from external funders may make a case for this adoption (Oulasvirta, 2014b; Jorge et al., 2019a).

In any case, the international standards need to be adapted in order to better serve the context of the users. These adaptations would show what is applicable and what is not. Thus, standard setters should closely follow these adaptations, as they would provide a learning opportunity. In the case of EPSAS, the EU Commission should closely follow what is happening in EU Member States before identifying best practices. It would still be very difficult to identify best practices that would be acceptable by all 27 Member States. The EPSAS should be, therefore, ready to accommodate adaptations, if these are disclosed in order to ensure transparency and, above all, comparability (Mattei et al., 2020).

Another possible solution to make public sector accounting harmonization compatible with the European pluralism and the 'polymorphic mosaic' regarding accrual accounting in EU Member States, could be a combination, as proposed by Manes Rossi et al. (2016). These authors 'are not proposing that the new harmonized accounting system should necessarily replace existing public sector accounting systems. Instead, [they] advocate an alternative, compromise path. EU members should be required to produce harmonized reports, but each country should be free to continue with its national reports and accounting standards if it finds them useful and necessary for national policy-making, decision-making and accountability' (Manes Rossi et al., 2016, p.192). This solution would allow for national specifics. Harmonization should not prevent additional national reports, nor create barriers for governments to disclose to citizens, certain national information to increase trust and legitimize their activities – 'two different systems would coexist, each of them with different objectives' (Manes Rossi et al., 2016, pp.193-194). Thus 'continuing diversity of standards may be a better choice than a single set of global standards' (Oulasvirta, 2014b, p.283).

One cannot expect that the friction between national and global standards can ever be eliminated. In the case of public sector accounting, therefore, another suggestion could be that any form of global accounting standards (or EPSAS) should be at a high conceptual level (like a conceptual framework) laying down the underlying principles that would support harmonization; leaving the jurisdictions free to adapt IPSAS and/or national standards, thus respecting national traditions and sovereignty. After all, harmonization is not a search for uniformity but a process of convergence towards applying similar practices. Harmonization means that different standards may exist in different countries, which standards would not conflict (Caruana, 2016). The objective of harmonization is to move accounting and reporting away from total diversity by making a commitment to find shared solutions, but at the same time recognizing that inherent differences would still exist. Such a solution would seriously compromise the comparability between Member States' financial information (Mattei et al., 2020) that is an imperative request within the EU context. Nevertheless, it can still be considered given that one of the options on the table regarding EPSAS seems to be a binding European Conceptual Framework with recommended, but voluntary EPSAS (EC, 2017).

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