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# Contingency Model of Reforms in Public Sector Accounting

Susana Jorge[1] and Giorgia Mattei[2]
[1]Research Centre in Political Science (CICP) and Faculty of Economics, University of Coimbra, Coimbra, Portugal
[2]Department of Business Studies, Roma Tre University, Rome, Italy

## Synonyms

Contingency approach for governmental accounting innovations; Financial management reform (FMR) process model; Lüder's model

## Definition

The "contingency model" (Lüder 1992, 1994, 2002) explains reforms in governmental accounting and financial management systems, resorting to several factors making part of the contextual conditions of those reforms. Also used in an a posteriori perspective, it essentially posits an a priori setting, where several factors combine more or less favorably to determine the likelihood of reforms to come to happen. In particular, the model allows to frame the more or less favorable combination of contextual conditions within one country, to conduct the so-called traditional governmental accounting system to change toward performance and resource accounting and budgeting.

The main underlying assumption is that specific contextual variables determine the primary user orientation of governmental accounting and reporting, which, in turn, determines the design of the governmental accounting and reporting system. It is not a causal relation though but a conductive one instead, as we will explain later.

The model addresses a comparative-international perspective.

## Introduction

The importance of studying accounting from a comparative-international standpoint has been recognized since a long time ago. Ever since world trade started to develop, corporations across nations started to import and export accounting practices as well, realizing that they could gain more insight into its own accounting system by studying those used by others in different countries (Nobes and Parker 2000).

Accordingly, one reason for comparative-international studies, either in business or governmental accounting, seems to be "learning with each other." Indeed, "it is possible for a country to improve its own accounting by observing how other countries have reacted and are reacting to problems that, especially in industrial nations, may not differ markedly from those of the observer's home country. It is also possible to


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satisfy oneself that, where accounting methods differ, the differences are justified by differences in the economic, legal and social environment and are not merely the accidents of history" (Nobes and Parker 2000: 6–7).

In the actual international context of globalization, it is clear that the central reason for comparative-international business accounting is harmonization. In governmental accounting, this is also a major motive for comparative-international studies, considering that nowadays every country is, to a greater or lesser degree, integrated in one or more supranational communities, which it must be accountable to. This seems to have been the major stimulus for the first *comparative international governmental accounting research* (CIGAR) study developed in the late 1980s by the German University of Administrative Sciences Speyer (*Deutsche Universität für Verwaltungswissenschaften Speyer*), as well as for other cross-country studies that followed. Moreover, the same reason seems to underlie the need to develop theoretical frameworks, which might be commonly used both to explain governmental accounting innovations/reform processes and to explain and describe the governmental accounting systems' contents.

This entry addresses one of the most important theoretical models developed to frame governmental accounting reforms in the last decades – the contingency/FMR model, also known as Lüder's Model. After an introductory section about the origins of the contingency theory, it focuses on explaining how it was adopted to public sector accounting reforms and then detailing the contingency model since its first version up to the most recent one – the financial management reform (FRM) process model. At the end, some concluding remarks are presented.

## The Origins of the Contingency Theory

As it is commonly acknowledged, the evolutionary dynamics of information systems and accounting systems have been analyzed using organizational theories, finding in these theoretical constructs and organizational models to be subjected to quantitative testing.

The organizational studies had also been the point to start the first studies about the contingency theory; in fact in the organizational studies, which started around the 1960s (e.g., Burns and Stalker 1961; Thompson 1967; Lawrence and Lorsch 1967; Tiessen and Waterhouse 1983), the contingency theory supporters had found also their conceptual framework.

This approach was firstly used by the researchers of international business accounting, trying to categorize countries according to a series of criteria. Several authors, such as Nobes (1998) and more recently Zhang (2005), used these criteria to try to explain the reasons for accounting differences between countries; they aimed to describe and compare different systems with each other in an efficient way. There are several advantages to categorize and analyze the differences among countries, namely:

It promotes improved understanding of the complex realities of accounting practices.
It provides useful information for solving some of the important accounting problems that exist in the world – for example, it can help policy makers assess the prospects and problems of international harmonization.
By looking at other countries in the same group, it is possible for a country to anticipate the problems that it is about to face and the solutions that might work.

Using a deductive approach to identify the accounting development, and linking this to economic or business factors, the influential environmental factors are recognized. The examples of this approach could be seen in Mueller (1967), Choi and Mueller (1984), and Nobes' (1985) works.

The same approach can also be used to understand the influence of the environment for the governmental accounting system. Therefore, it is not surprising that Lüder (1992) resorts to the same approach; in fact, some of the aims this author explains in his first paper are the same

previously indicated as advantages of the contingency theory.

## Adapting the Contingency Approach to Governmental Accounting Reforms

The initial contingency model was acknowledged as "a by-product of the Speyer Comparative Governmental Accounting Study focused on the features of (central) government budgeting and accounting systems of half a dozen industrialised countries, their communalities, their peculiarities and pending reform endeavours" (Lüder 2002: 2).

Therefore, the essence of the contingency model is a comparative-international analysis (Lüder 1989) aiming at classifying the several countries' governmental accounting systems according to internal and external criteria, emphasizing the differences and similarities, in order to learn about the different frameworks, but mainly to provide some insights for harmonization strategies. In reality, the author started his comparative analysis in order to find distinct patterns of the several governmental accounting systems studied and to explain the reasons for the differences between those patterns. For the classification, the internal criteria were accounting entities for governmental type activities, the measurement concept of accounting, the reporting entity, consolidation approaches, and the summary financial statements provided; the external criteria were contextual variables such as the distribution of political power, the legal system, and the professional influence on governmental accounting (Lüder 1989).

As Lüder (1992) himself affirmed, the structure of his model is similar to other models of organizational contingency theory, extended, however, by behavioral components (Khandwalla 1977; Kieser and Kubicek 1983; Schreyögg and Steinmann 1985).

For the comparative analysis, Professor Lüder and his team followed a methodology that embraced personal in-depth interviews with government officials in the respective countries, supplementary discussion with independent government accounting experts, and analysis of accounting documents (Lüder 1989). An interview guide was used for conducting the field studies. This interview guide focused on governmental accounting and financial reporting, covering both institutional framework (professionalism and independence, private sector influence, functional integration, and centralization) and policy questions (objectives of the system, accounting recognition criteria and measurement rules, financial reporting practices and contents, and the dissemination of financial information). Some aspects related to budgeting and auditing were also considered.

> The observed differences in practices and procedures as well as in the direction, the state and the pace of reform discussions, and the implementation of reforms required an explanation. (Lüder 2002: 2)

The experience from the empirical research suggested that the observed differences were, at least partly, due to differences in the national political-administrative settings. This seemed to confirm the hypothesis initially stated (Lüder 1989): the primary user orientation of governmental accounting and reporting determines the design of the governmental accounting and reporting system; in turn, this is determined by specific contextual variables – this is however a conductive relationship, not a causal one.

In the last phase of the study, due to what happened at the beginning of the 1990s, a conceptual framework for the development of governmental accounting and financial reporting was to be elaborated.

Although in the interim summary report (Lüder 1989) some accounting and financial reporting theoretical issues were discussed and clarified and country accounting systems had been classified according to those aspects, this approach was not continued, since no further explanations were developed for the "why" of different governmental accounting system contents/designs. What was emphasized instead was the contextual approach of the reform process, i.e., the "why" of changes in governmental accounting systems toward more informative ones, which had led to several interesting discussions over the last decades.

Because the internal approach for characterizing and explaining governmental accounting systems has not been picked up by others, Lüder (2002: 17) additionally recognizes that "is still not available (. . .) a common framework for describing a governmental accounting system in sufficient detail that would allow cross-country comparisons on the basis of country studies carried out by different researchers." What exists is a contingency model that "(. . .) attempts to specify the features of the political-administrative environment prevailing in a country and to identify their likely influences particularly on the outcome of governmental accounting reform processes" (Lüder 2002: 2).

Accordingly, it seems that in the Speyer research project development, Professor Lüder came out to redirect his research toward a better understanding of the context of governmental accounting rather than to the accounting system itself. This is why the main conclusions are related to a relationship between national context characteristics and the orientation of the governmental accounting system users (only part of the initial hypothesis). What was expected was an explanation for a relationship between the contextual variables and the contents of the governmental accounting systems. In the end, this was more or less conscientiously neglected, to give place for a framework that although of an extreme importance, only allows analyzing, explaining, and somehow predicting the consequences of a certain context and behavior (later emphasized in the model) in the governmental accounting changing process. Moreover, it is also assumed that this process is toward a more informative accounting system, so it must be innovative in the sense that the outcome must show improvements comparatively to the previous situation.

## The (First) Contingency Model of Governmental Accounting Innovations

The model initially elaborated by Lüder (1989) had a double purpose: on the one hand, it intended to serve as a framework for empirical investigations in governmental accounting reforms, creating a comparison basis for research carried out by different researchers; on the other hand, it wanted to explain the influence of the context on a special reform or accounting innovation, thus triggering research in confirming, refuting, and/or amending it.

In order to accomplish this second purpose, the model specifies the social-political-administrative environment prevailing in a country and its impact on governmental accounting innovations. In this way, it was expected to contribute to explain why those innovations took place in some countries and not in others. The proposed model should explain the transition from traditional government accounting into a more informative system, seeking to integrate ideas from the literature, along with empirical observations collected (via interviews and documental analysis) about the governmental accounting systems of a group of countries, focusing particularly the central government.

The countries initially involved were the USA (federal and state governments), Canada (provincial and federal governments), and a group of European countries (Germany, Sweden, France, Denmark, and the UK). The European Community government was also considered. These were selected considering three criteria: the legal system, the constitution-based organization of government, and the state of governmental accounting and reporting. The sample included both civil/roman law and common law countries, unitary countries as well as federations, and countries following more traditional governmental accounting approaches together with others adopting more innovative frameworks.

After that model was defined, the countries were compared along the various dimensions included in the model, on the basis of the empirical observations made in the empirical phase of the comparative-international study in 1987–1988.

The initial version of the contingency model (Fig. 1) can be summarized as follows: "The Contingency Model is fundamentally an economic model. It posits an information market with users and producers of governmental financial information. The attitudes and behaviours of users and

producers alike are shaped by their respective environments. If the conditions are ripe – as occasioned by some stimuli (such as financial scandals or government financial crises) – the interactions between demand and supply could spark governmental accounting innovations" (Chan et al. 1996: 3–4).

As displayed in Fig. 1, there are four modules in this version of the model:

1. *Stimuli of a reform process* – events that occur at the initial stage of the innovation process, which individually or combined reveal a need for better accounting information from the users' side and increase the producers' readiness to supply such information. Accordingly, the stimuli change both the users' expectations and the producers' behavior (intervening variables).
2. *Characteristics of a country social structure* – structural variables external to the government, which influence the basic attitudes of information users and thus change their expectations toward the governmental accounting system.
3. *Characteristics of a country politico-administrative system* – internal structural variables, which influence the basic attitudes of information producers and thus their behavior, in particular their willingness to make changes in the accounting system. Information producers' behavior is also affected by the information users' expectation of change.
4. *Existing implementation barriers* – all environmental factors that could inhibit the implementation process of a reform.

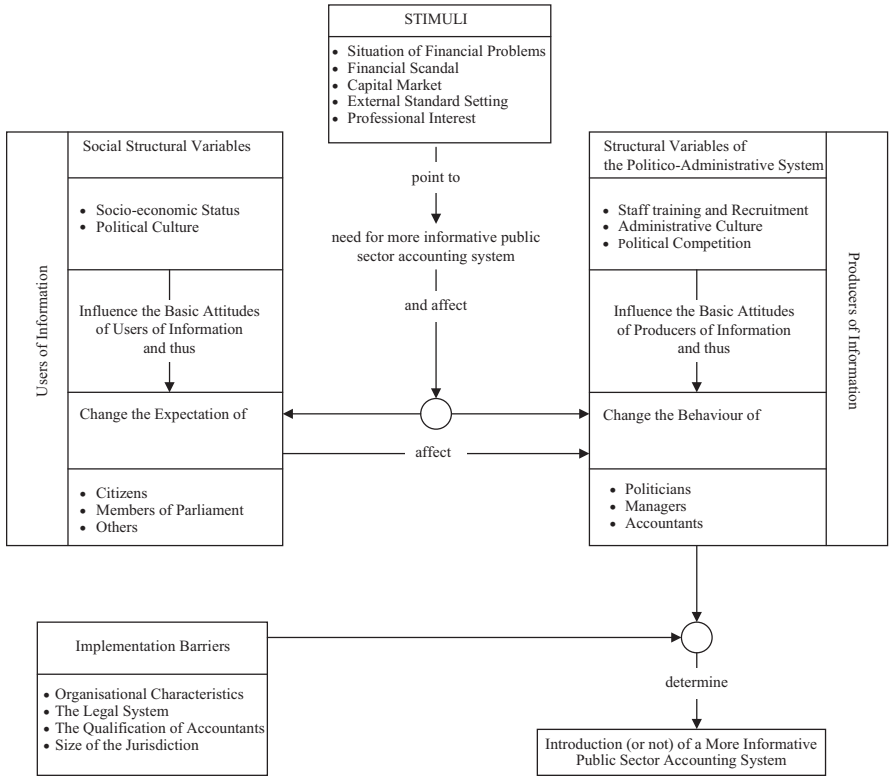
The first three types of contextual variables are supposed to influence the two categories of intervening variables: the change expectations of information users and the change behavior of information producers. The intervening variables together with the fourth category of contextual variables, the implementation barriers, directly affect the outcome of the innovation process which is a conceptually different accounting system (dependent variable) (Lüder 1994: 3).

The environmental factors affecting one country's governmental accounting reforms may be described by a combination of the various manifestations of the model institutional modules. For simplicity reasons, Lüder (1992) assumes that each module exhibits just two different manifestations: favorable and unfavorable to governmental accounting reforms. This assumption allowed deriving 16 (two manifestations; four modules) different patterns of environmental conditions, which are differently favorable to the implementation of a more informative governmental accounting and financial reporting system. A more informative system performs two functions: it supplies comprehensive and reliable information on public finance, and it provides a basis for improved financial control of government activities (Lüder 1992). However, even if the information producers are willing to change, the innovation process might not happen due to the implementation barriers.

This model considered as the beginning of the "first generation of contingency models" explains the transition from traditional governmental accounting into a more informative one. Like in the versions that followed, this transition is assumed to be an innovation process.

On the basis of this first model, some critical issues have raised; one of the most important could be that the contingency model had a speculative nature, since it assumed several hypotheses to explain a rather complex reality, some of them very difficult to prove. Although some plausibility tests might be admitted, the use of an "informed speculation" methodology jeopardizes the model reliability. Indeed, a specific configuration of the contextual variables in the model may be conducive to an innovation process in the governmental accounting system, but the existence of such configuration is neither a necessary nor a sufficient condition for an innovation (Lüder 1994).

In the face of those issues, Lüder himself admitted abundant opportunities for improvements to be done to the initial model. Additionally, because the model is drawn on case studies, more insights from new case studies may lead to changes in the model design and/or components. Therefore, with new experiences from Italy,




**Contingency Model of Reforms in Public Sector Accounting, Fig. 1** Contingency model of public sector accounting innovations – detailed model (Lüder 1992: 111)

Spain, and Japan, Lüder (1994) introduced new features into the contingency model, though its basic structure was maintained. The revised model started the "second generation of contingency models."

## The Revised Contingency Model

The revision of the initial contingency model was an "almost natural" consequence of the first version, after further discussions and additional empirical evidence. Indeed, methodological and material improvements were expected to be explored from the first approach, considering the shortcomings acknowledged.

Figure 2 sets out this new version (Lüder 1994), displaying the components of the modules, the relationships between them, and their effects on the results of the governmental accounting innovation process, considering a critical review with suggestions for restructuring done by Lüder himself. This new version posits basically the same as the previous one, in spite of the modifications that were done.

Comparatively to the initial model (Fig. 1), some main differences can be pointed out (Lüder 1994):

1. *Broad behavioral variables were introduced, as intervening variables between the contextual and the dependent ones*.

   Although these behavioral variables were considered in the initial model, its intervening role was not so clear once they were included in the contextual variable modules. Because the behavioral variables are those that affect directly the innovation process, being like "instruments" used by the contextual ones,

the introduction of separated clusters allowed further emphasis on its important function.

In this revised model, all the clusters were positioned vertically, so the effects point down directly to the result of the innovation process (Jaruga and Nowak 1996). This modification of the initial model structure was also, to a certain extent, an attempt to surpass the problem of too much focus on the contextual variables.

2. *The contextual variables were also clarified, considering both the mode of influencing the innovation process and the temporal stability.*

   A different classification for the contextual variables was presented: temporarily present (relatively unstable environmental characteristics, stimuli), indirect relatively stable (relatively stable environmental characteristics that affect the innovation process via behavioral variables, structural variables), and direct relatively stable (relatively stable environmental characteristics that directly affect the innovation process, implementation barriers).

3. *The roles of political and administrative actors were differentiated*.

   The structural variables of the politico-administrative were separated into two components: the political structural variables and the administrative structural variables.

   This seemed to be more adequate, considering the importance of the political actors (members of parliament and members of government) in initiating and sustaining an innovation process. Moreover, a separate cluster for political variables allowed considering the particular situation of political actors – both producers (with respect to general public) and users (with respect to bureaucracy) of information – while social actors are only users and administrative actors are only producers (with respect to politicians and general public) of accounting information.

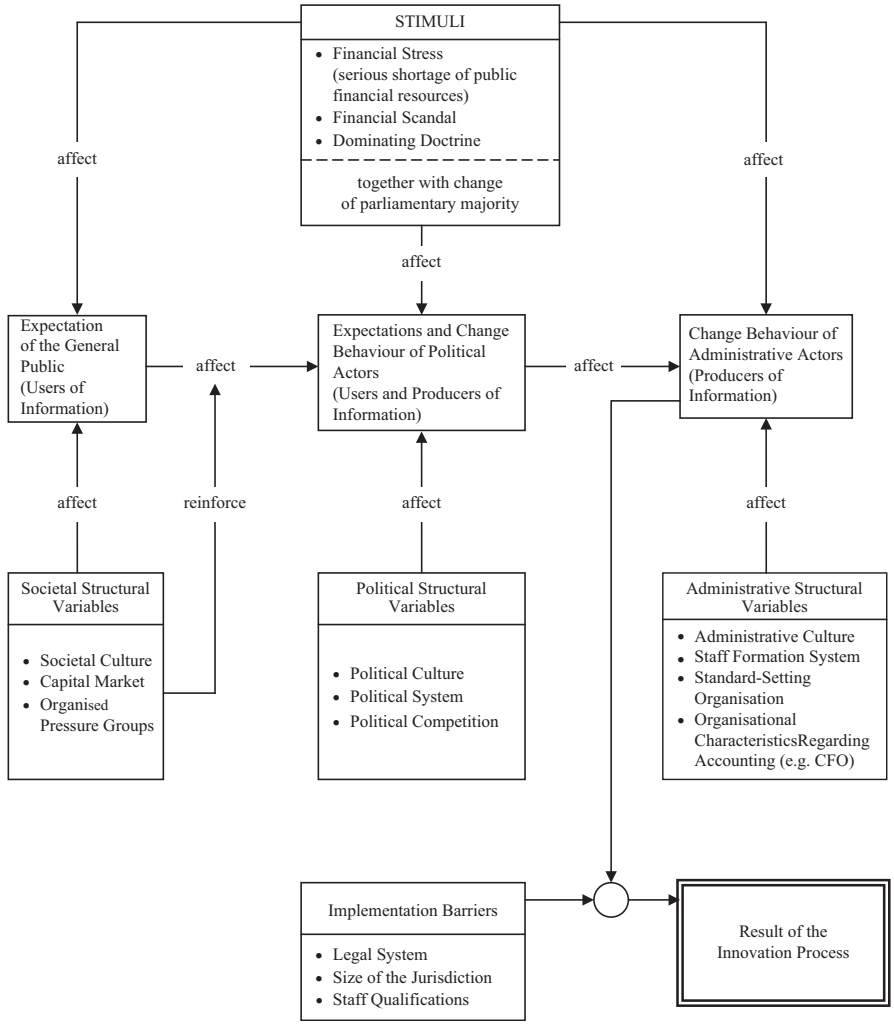
4. *Some of the module components were reclassified, others were omitted, and new ones were added*:

   *Capital market*, before considered as stimulus, was reclassified as part of the social structure. This was done taking into consideration bond rating agencies in particular, which are users (general public) of governmental accounting information.

   *External standard setting*, instead of being a stimulus, was better considered as an intrinsic part of the administrative structure. Accordingly, the establishment of "standard setting organizations" was explicitly identified as having an impact on the behavior of administrative actors (Chan et al. 1996).

   *Professional interest* was transformed in "organized pressure groups," moving accordingly from being an external stimulus to becoming part of the social structure. This was done because it was considered that accounting professionals could be interpreted as a possible pressure group with interest in public sector accounting and reporting information. Their interest affects and eventually reinforces the general public demand for more comprehensive and more reliable financial information. Indeed, "the expectations of the general public in regard to the government's financial structure disclosure and financial management need reinforcement by powerful pressure groups (e.g., professional accountants' organisations, business corporations' associations, labour unions, tax payers' associations, etc.) to affect the change behaviour of political and administrative actors" (Lüder 1994: 7). Moreover, Lüder (1994) considered that the function of these pressure groups in governmental accounting innovations is making certain issues (such as administrative efficiency and effectiveness and governmental accounting and financial reporting) to become a political matter.

   *Organizational characteristics*, considered before as implementation barriers, became instead part of the administrative structure. It was recognized that government characteristics regarding accounting, such as the distribution of responsibilities for the development of the accounting system (strengthening of financial functions), are a




**Contingency Model of Reforms in Public Sector Accounting, Fig. 2** Revised contingency model of public sector accounting innovations (Lüder 1994: 9)

factor that directly influences the change behavior of administrative actors.

*Socioeconomic status* was omitted from the model because no evidence was found for its influence on the expectations of the public regarding governmental financial disclosure and financial management. In the author's opinion, it did not seem to be plausible to assume such a direct influence, given that the empirical validity of such hypothesis was substantially questioned.

The existence of a *dominating doctrine* was added to the conceivable and observable stimuli. Lüder (1994: 7) explains that "a dominant doctrine can either further the effect of other stimuli on the innovation process or even function as a stimulus on its own."

Additionally, it was recognized that a dominating doctrine "together with change of the parliamentary majority" could affect the attitudes and behavior of political actors. Such a political change may be a factor also furthering governmental accounting innovations. "In short, politics affect governmental accounting" (Chan et al. 1996: 6).

The dominating doctrine as a possible stimulus, allowed, among other things, distinguishing two main variants of the contingency model (Lüder 2002): the accountabilism-driven and the manage rialism-driven. Subsequently, two approaches of the observable innovation processes were derived.

The main purpose of the "accountabilism-driven" process is an improvement of governmental external reporting toward more transparency. In fact, Lüder (1994: 10) considered that this kind of process could be "triggered by some type of financial scandal that results in a demand for more transparent, comprehensive and reliable financial information to be released by the government." Accordingly, in this variant of the model, users are primary important actors in the governmental accounting reform process.

The "managerialism-driven" approach aims in first place at contributing to more efficient, effective, and economic public sector management. Therefore, it is "primarily concerned with reforming governmental internal (managerial) accounting, but improvements in financial accounting and reporting sometimes is a by-product of the innovation process" Lüder (1994: 10).

Thanks to some studies, one can affirm that such an approach, where producers of governmental accounting information play the primary role, is mainly stimulated by fiscal stress and can be either an isolated reform (e.g., as happened in Spain) or part of a comprehensive administrative reform (e.g., as in the UK, Australia, and New Zealand).

Many country studies and cross-country comparisons, including the less developed countries (LDC), followed this version of the contingency model, not only by recommendation of Professor Lüder but as a result of a certain enthusiasm of researchers for having been available, for the first time, a comparative framework with such potentialities.

While testing this model – particularly the revised version – some modifications and extensions were unavoidably made to its structure and variables contents, mainly as a consequence of critical applications of the framework to individual country studies. Some authors also used different theoretical approaches to complement the contingency one. These studies additionally highlighted the need for some modifications, creating an important incentive to take up again the model on hand and revise it. An extensive revision of these studies on the application of the contingency model can be found in Jorge (2003).

## The Financial Management Reform Process Model

The reasons already explained led Professor Lüder to revise his model; in fact, in 2002 he presented the financial management reform (FMR) model – a completely modified version of the 1994 revised contingency model. He explained that this model was developed not only adopting some of the former modifications and extensions but also adding new ideas, brought about by discussions and other authors' critics. Besides, continuing the tendency of the model being drawn on case studies, new contributions from a research visit to Australia were taken into account (Lüder 2002).

This new model (Fig. 3), still framed by a contingency approach, addressed the financial management reform process in a country, which involves "stimuli" and "institutional arrangements," two clusters of contextual variables; "reform drivers," "political reform promoters," and "stakeholders," three clusters of behavioral variables; and "reform concept" and "implementation strategy," two groups of instrumental variables.

Compared to the contingency (revised) model, the differences worthy to mention are:

1. *The model formal structure is radically changed* – although the FMR Model still displays a relation between contextual variables and the outcome of a reform process in

governmental accounting, the modules were completely rearranged, and new ones were added:

The contextual variables are now just included in the clusters "stimuli" and "institutional arrangements."

The behavioral variables, which in the previous version were considered as intervening (instrumental) variables between the contextual and the dependent ones, are now presented as behavioral clusters sensu stricto, correcting the emphasis of context over behavior.

New instrumental variables are considered, with the addition of the "reform concept" and "implementation strategy" clusters.

2. *The actors in the reform process are specified*, aiming to shed some light into the understanding of the processes that generate and implement governmental accounting innovations.
3. *There are changes in the clusters' components and in the links between them* (Lüder 2002):
   I. *Stimuli* (contextual variables) – while they had remained by majority unchanged, the "fiscal or economic crisis," usually underlying a "fiscal stress," replaced the latter. "Requirements derived from administrative reform" were added to make clear that governmental accounting reform can well be embedded in a larger reform of the public sector, and particularly in the case of developing countries, "endeavors to improve international reputation" are also supposed to be a relevant stimulus for governmental accounting reform. The "stimuli" are considered to have a direct *impact* only on the politicians responsible for starting the reform.
   II. *Institutional arrangements* (contextual variables) – this cluster contains most of the components previously included in the (structural) societal, political, and administrative variables, as well as in the implementation barriers. Although the categories are rather broad, Lüder (2002) presents some additional remarks:

"Legal systems" might be generally classified into civil law and common law systems – different legal systems may be linked to different types of governance (more or less flexible). The legal system also embraces the electoral system and the flexibility of the budget law.

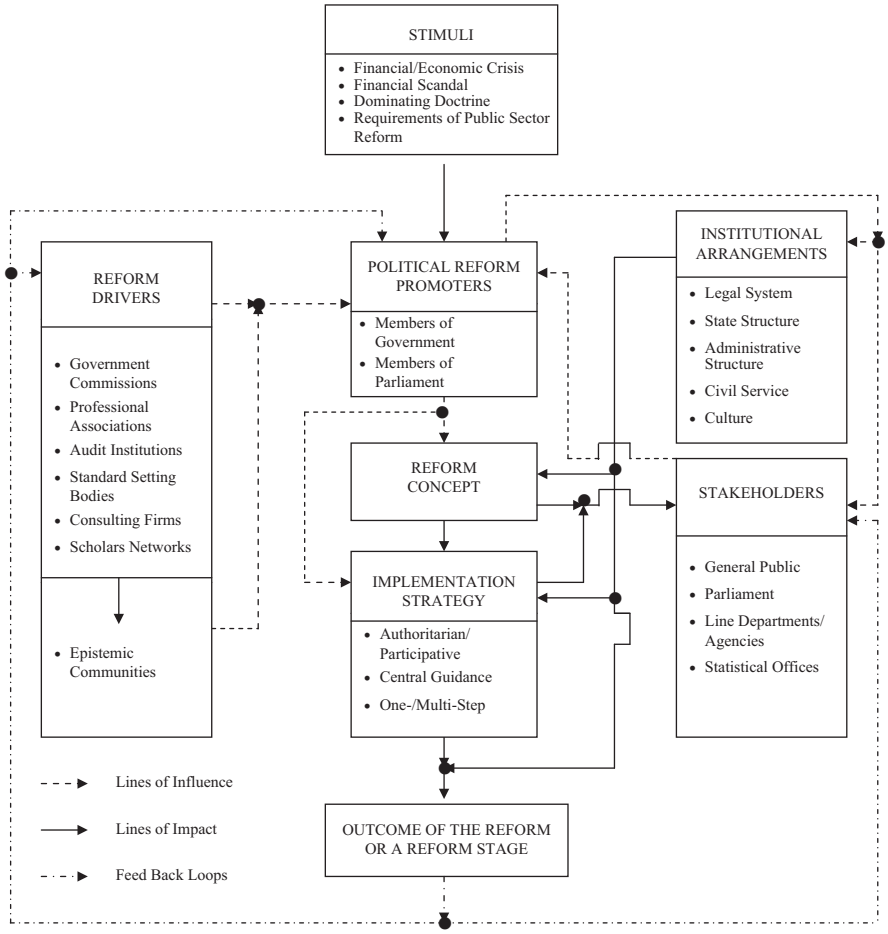
"State structure" refers to such categories as "unitary/federal," "cooperative federalism/competitive federalism," "one-chamber/two-chamber parliament," and the division of power between the electorate, the (executive branch of) government, and the directed elected bodies and officials.

"Administrative structure" mainly refers to organizational characteristics of the administrations and the division of powers between organizational units such as "centralized/decentralized," "concentration/fragmentation of financial management functions," "existence of central organizational units at the different administrative levels" that are able to promote the reform in their area, and "formal power position of the heads of central units and the heads of line units."

"Civil service" refers to the qualification of accountancy staff, but more generally to all other civil servants, which have a significant impact in the way governmental accounting reform is implemented, in the duration and in the cost of that implementation.

"Culture" refers to the national social, political, and administrative culture, which can be specifically characterized as "risk taking/risk averse," "individualism/collectivism," the "degree of openness" of political and administrative processes, and their "responsiveness" to the needs and demands of the general public.

Thus, the "institutional arrangements" are *influenced* directly by the "political reform promoters'" behavior and indirectly (via those) by the "reform drivers'" and the "stakeholders'" behavior. On the other hand, they have a direct *impact* on the "reform concept" and on the




**Contingency Model of Reforms in Public Sector Accounting, Fig. 3** Financial management reform process model (Lüder 2002)

"implementation strategy," which reinforces the direct force on the "outcome of the reform."

4. *Reform drivers* (behavioral variables) – "These are recognized institutions and professionals in the reform field that promote the reform through oral and written publications aimed at making governmental accounting reform a political issue and influencing political decision makers in a specific way" (Lüder 2002: 10).

Accordingly, they suggest motives and ideas for political actors to engage in the reform. Subsequently, their behavior influences all the reform process while *influencing* the "political reform promoters."

To strengthen their influence on the reform process, "reform drivers" might assume the form of groups of experts – "epistemic communities" (Laughlin and Pallot 1998), sharing views on the main reform characteristics.

5. *Political reform promoters* (behavioral variables) – these are the politicians, usually members of government, who initiate a reform and have the power to enforce it: the minister of finance and the prime minister play a key role.

Hence, the "political reform promoters'" behavior directly influences not only the "reform concept" and the reform

"implementation strategy" but the "institutional arrangements" and the "stakeholders" as well.

Usually, the views of the "reform drivers" and the "political reform promoters" regarding the innovation process are coincident.

6. *Stakeholders* (behavioral variables) – these are people and institutions positively or negatively affected by the reforms (e.g., the general public, the parliament, the administration, the statistical offices, etc.).

   Although "stakeholders'" behavior might be *influenced* by "political reform promoters" and might also *influence* them, these actors' views concerning the reform normally differ. Some "stakeholders" welcome the reform, expecting it to be in their interest; others, on the other hand, may oppose it, since they expect rather negative effects.

   Usually, it can be asserted that stakeholders' attitudes toward the reform depend on the reform concept and the implementation strategy, on their chances to affect both, and that they are susceptible to political reform promoters' influence.

   For the reform process to be successful, "political reform promoters" must lead opposing "stakeholders," especially those with key positions and powers within the process, to take at least a neutral position.
7. *Reform concept* (instrumental variables) – innovations in order to allow the governmental accounting system to provide information us eful for ensuring financial accountability and s ound financial management, conceptually not merely procedural changes. Innovative concepts underlie the innovation process. It has a direct *impact* on the "implementation s trategy."
8. *Implementation strategy* (instrumental variables) – the manner used to implement the reform can affect the outcome of the reform itself. The strategy includes components related to the way the reform is implemented (e.g., more authoritative or more participative), which directly affect its probability of failure or success (outcome).
9. *Lines of influence*, *impact*, *and feedback loops are identified* – complementing and clarifying the links between the variables considered in the previous version ("affect," "reinforce," and "impact"). In particular, the *feedback loops* (consequences on the real world) allow tying behavior and attitudes of key actors in the innovation process to its results, taking into consideration the possibility of a multistage reform process.

Depending on the size of a still existing gap between the outcome of the reform and the reform concept, the feedback either brings the process to an end or induces a subsequent reform loop with or without prior modification of the reform concept. (Lüder 2002: 14)

The main virtues of this "new contingency model" might be summarized as follows:

(a) With this model, many problems that arose in the previous ones are surpassed, namely:

*Insufficient explanatory power*: the previous models did not aim to explain the whole reform process including all relevant factors. In the opposite, the FMR model includes reform approach variables, and some specific environment configurations conducive to the implementation of specific reform concepts are considered. This new construction of the model improved its explanatory power, given that it becomes a representation closer to the reality of governmental accounting reform processes that have been happening in many countries.

*Emphasis on context over behavior*: even though it had not been enough, the specification of the actors involved in the governmental accounting reform process, as well as their behavior, allows the FMR model to step forward in

understanding which attitudinal and behavioral variables are relevant to governmental accounting innovations.

*The unclear notion of innovation*: innovations in governmental accounting are broadly considered to be conceptual changes of the accounting system, in order to make it better, i.e., more informative.

Acknowledging this problem, before presenting the last version of his model, Lüder (2002) suggested a distinction to be made between an innovative concept underlying a reform process and the outcome of the process. In the FMR model, a "reform concept" as a cluster of instrumental variables is clearly separated from the "outcome of the reform or a reform stage."

Accordingly, it might be said that though maybe not sufficient, an attempt is made to clarify what one believes to be the most critical and controversial issue in governmental accounting reform: the reform concept itself.

(b) The new model considers some suggestions for modifications and extensions derived from other authors' researches, such as:

*The process of innovation*, suggested by Pallot (1995):

Because in the previous model there was a great lack of specificity of the relevant behavioral variables, and also the innovation concept was still very "cloudy," little was known about how particular innovations are generated and implemented. Because the contingency model was not very explicit about the decision processes through which innovations were developed, a need arose for a more systematic analysis on the processes of generating and implementing governmental accounting innovations, considering that they may affect the failure or success of the whole reform process.

The FMR model tries to fill this gap, considering a cluster of instrumental variables concerning the "implementation strategy," which embraces process variables, while the decision process underlying the reform is still not considered. This was done where a module aimed at characterizing the innovation decision process complements the contingency approach.

*Consequences in the real world*, suggested by Jaruga and Nowak (1996):

Following this suggestion, in FMR model, lines representing the "consequences on the real world" were introduced, so as to reflect the fact that the outputs of a governmental accounting reform have indeed consequences disseminated to the environment – firstly affecting the behavior of the actors involved in the reform and later even the contextual variables.

Through the feedback loops, the FMR model adds this suggestion, while the consequences are considered to be only on the reform actors' behavior. Therefore, as explained, the model, now more dynamic, allows not only tying behavior and attitudes of key actors in the innovation process to its results but also considering a governmental accounting reform process involving several stages, which is very useful since this has been the case in some countries (e.g., Poland and Portugal). It must, however, be reminded that the rational expectations about the consequences of accounting reforms might affect their success or failure.

*Epistemic communities,* suggested by Laughlin and Pallot (1998):

As mentioned, the FMR model considers that these communities of experts might have an important role not only in initiating a governmental accounting reform process but also in influencing its direction and outcome.

Accordingly, considering that forming "epistemic communities" might be a possible grouping behavior of "reform drivers," reinforcing its influence on the innovation process, the FMR model considers one that seems to be a progressively more important reform driver in industrialized countries.

## Conclusion

The most recent version of the contingency model – the FMR model – is viewed as an important comparative governmental accounting theory, already providing some explanation for the "why" of governmental accounting changing toward more informative resource accounting and budgeting systems. Yet, it essentially addresses the effects of the governmental accounting context on the conduciveness to reform processes, not the accounting systems itself (reform content). Therefore, it is an explanation for the "why" of governmental accounting reform process toward a more informative accrual accounting and budgeting system.

Furthermore, it endures some other particular problems, which might affect the model applicability:

"Black boxes:" while additional variables increased the model explanatory power, they lack further explanation – for some variables (e.g., behavioral variables clusters, reform concept, and innovation process), although known as affecting the governmental accounting reform process, one does not know exactly how they do it, to what extent, or what they are precisely.

Complexity and speculation: the complexity of multi-causal relationships between the variables in the model makes it very difficult, if not impossible, to test statistically, though plausibility tests might be used. Consequently it is empirical that validity might be jeopardized, as it still contains speculative features.

Nevertheless, the role that the contingency model has played in the still short history of CIGAR is invaluable. Regardless of future contributions that might be important for research in comparative governmental accounting, Professor Lüder's contributions will always be considered as a major part of the basic theoretical framework for comparative-international research in the public sector accounting setting.

## Cross-References

- Accrual Accounting
- Accrual Budget
- Cash Accounting
- Financial Reporting
- Harmonization
- Innovation
- Public Financial Management Reform in Less Developed Countries: An International Perspective
- Public Sector Accounting

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