MANAGEMENT ACCOUNTING AND CONTROL SYSTEMS IN THE CONTEXT OF PUBLIC SECTOR REFORMS: A CASE STUDY OF A GOVERNMENT DEPARTMENT IN PAPUA NEW GUINEA

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By

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Abstract

This thesis provides an empirical understanding of how management accounting and control systems (MACSs) are designed and implemented in the context of public sector reforms in a developing country by using a case study of the Department of Finance (DoF) in Papua New Guinea (PNG).

The DoF is one of the largest and most powerful central agencies in the PNG public sector. Over the years, it has undergone a number of structural reforms under the influence of external parties—mainly international aid agencies. During these periods, the DoF has adopted a significant number of private sector style MACS tools under the influence of the international financial institutions of the World Bank and the International Monetary Fund (IMF), and supported by the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID).

The DoF case study attempts to obtain an in-depth understanding of the private sector style MACS that have been designed and implemented in the DoF since the new public management (NPM) public sector reforms began in 1995. The period 1995–2006 is the focus of the study; two significant pieces of legislation stood as foundation pillars and triggered the public sector reforms in PNG.

The first trigger was the enactment of the new Organic Law on Provincial and Local-level Governments (OLPLLG). The introduction of this legislation introduced the first private sector style management control systems tools such as good governance, accountability, transparency, an enhanced service delivery mechanism and the private sector culture of good organisational performances in the DoF. Accountability is a cornerstone of good public governance and management because it requires those who hold and exercise public authority to be held accountable under the OLPLLGs and the Public Finances (Management) Act (PFMA). Although accountability regimes vary in important respects under these legislations, they collectively encompass the process in which customers or citizens hold their managers and public servants in the DoF accountable for their behaviours and performances in the design and implementation of
private sector style MACS in the DoF. It should be noted that an old Organic Law existed that embodied traditional public sector management that was not focused on transparency and accountability. Empirical evidence suggests that the old OLPLLGG was considered a foreign piece of legislation that was a replication of the Commonwealth of Australia and its federated states and local government councils. The old Organic Law embedded characteristics of a weak financial management and governance regime due to an incapacitated public sector. The new Organic Law was considered a significant piece of legislation that was meant to overcome the inherent difficulties of the former law and its associated management control systems (MCSs) with the introduction of a private sector culture of good financial management practices and work ethics.

The second trigger that led to public sector reforms in PNG was the amendment to the PFMA of 1996. The financial management reforms that culminated from the amendments to the PFMA are considered significant pillars of the public sector reforms in PNG. As the administering agency of the PFMA, the role and overarching influence of the DoF has triggered consequences for the entire government under these financial management reforms. The amendment to the PFMA also warranted NPM style public sector management and led to the adoption of a significant number of private sector style MACS in its design and implementation of these techniques in the DoF. Many of these MACS were directly influenced by external aid agencies in their actual design and implementation.

However, this study has an exploratory nature, with a specific focus on successes and failures in the design and implementation of MACS tools. Where failures have been encountered, the study attempts to uncover the difficulties encountered in implementing these MACS tools in their daily practices and it provides a road map regarding how the MACS tools were modified to suit their local environment as a means of overcoming these inherent difficulties. The qualitative methodological paradigm has been adopted through a subjective and interpretative case study of the DoF. In qualitative case study research, multiple sources of data have been used to explore the context of the case study, such as archival records, interviews, and direct observations. The study took a total of five months from 1st June 2011 to 31st July 2011 and from 1 November 2011 to 28 February 2012. Historical government documents relating to the public sector reforms from 1995-2006 were collected and analyzed. Semi structured interviews
entailed 40 in-depth interviews at various levels of management in the DoF were conducted as an appropriate method to inherently capture human interactions. Direct observations were also used to explore the behaviours of managers in the DoF and the interpretive schemes used to communicate and understand each other in their daily routine practices in the DoF. The data collected suggest that external influences have brought to bear the difficulties encountered in the design and implementation of MACS in the DoF. This study therefore reinforces the findings of researchers in other developing countries, who have claimed that where external influences are exerted on organisations, MACS have limited success or have failed in these organisations.
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DEDICATION

This thesis is dedicated to my Late parents, my Father, Kambanei Yefumi and Mother Wavinjo Hembiniaka Yefumi

and

my Father-in-law, Bonnie Yuandu and Mother-in-law, Late Nani Yuandu
Who passed away during my Doctoral study.
Acknowledgements

This author is indebted to several people for their support throughout my doctoral journey. Without them, my thesis would not have been possible. I want to express my most sincere gratitude from the bottom of my heart to my supervisor, Professor Monir Mir, who was a continuous source of inspiration during my doctoral studies and who provided timely, constructive and straightforward feedback, as well as sound encouragement. Professor Monir, I owe it to you.

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I am also thankful to Mr Gabriel Yer, the Secretary for the DoF, for granting me access to the department and making all of the information available for the data collection segment of my doctoral studies. I also acknowledge his personal assistant Mr Wally Hiambohin, who was my contact for allowing me to have access to the Secretary. I also want to thank the deputy secretaries, first assistant secretaries, assistant secretaries and all of the staff of the DoF for participating in the interviews and providing essential data for this study, and for their continual support during the period of my field work. I also want to thank Ms Nino Saruva and Mr Jacob Yafai for their extra time and effort in responding to my enquiries during the period of my research. My special appreciation also goes to Mr Andrew Kumbakor and Bart Philemon, who were my inspiration as ministers in successive governments during my tenure in office.
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I want to register my deepest appreciation and gratitude to my caring and supportive family. To my wife, Nicole Nichola Kambanei, who is the rock of my life, and my children, Diane, Lydia, Hannah and Aaron Celab Kambanei, thank you for providing me with moral and spiritual support during my work on the thesis. My very special thanks goes to my javanien, Hannah Kambanei, for assisting me where I needed help the most. To my other extended family members who stood with me in this journey, thank you all.

However, I will always remain indebted to my God Jehovah for the many struggles and challenges of life I have endured over the years of my early education, my career and during the period of my studies. As I was thrown out of my own education system in the country, to be able to complete my undergraduate studies, my masters, my professional qualifications, and finally, my doctoral studies in Australia, is a testimony of God’s provisions and guidance: ‘TO GOD BE THE GLORY FOR GREAT THINGS HE HAS DONE’.

Finally, but not the least, my late parents deserve a special mention for all that they have given me, and for making my career possible. My father passed away when I was undertaking my master’s program at the University of Canberra and my mother followed two years later. To the both of you in ‘Glory’, thank you so much for your investments in the life of my family. I do not forget my father-in-law, Bonnie Yuwandu, and my mother-in-law, Nani Yuandu, who passed away during my doctoral studies.

My parents wished for me to complete my thesis. Hence, I dedicate this thesis to my late parents, Kambanei and Wavinjo Yefumi.
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<td>ABG</td>
<td>Autonomous Bougainville Government</td>
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<td>COA</td>
<td>Chart of Accounts</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFO</td>
<td>Area Finance Office</td>
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<td>APS</td>
<td>Australian Public Service</td>
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<td>BMS</td>
<td>Bureau of Management Services</td>
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<td>Budgets Steering Committee</td>
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<td>Balance Scorecard</td>
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<td>CACC</td>
<td>Central Agencies Coordinating Committee</td>
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<td>CABS</td>
<td>Cash Based Accounting &amp; Budgeting Systems</td>
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<td>CAS</td>
<td>Country Assistance Program</td>
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<td>CBA</td>
<td>Cost Benefit Analysis</td>
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<td>CBD</td>
<td>Central Business District</td>
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<td>CBPLLGL</td>
<td>Capacity Building Project for Local Government Leaders</td>
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<td>CSDB</td>
<td>Compliance and System Development Branch</td>
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<td>DPM</td>
<td>Department of Personal Management</td>
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<td>DF&amp;T</td>
<td>Department of Finances &amp; Treasury</td>
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<td>Department of Personnel Management</td>
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<td>Department of Public Works and Services</td>
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<td>District Treasurer</td>
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<td>District Treasury Office</td>
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<td>DSIP</td>
<td>District Services Improvement Program</td>
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<td>Development Strategic Plan</td>
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<td>District Treasury Rollout Program</td>
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<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<td>Enterprise Resource Planning System</td>
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<tr>
<td>FAS</td>
<td>First Assistant Secretary</td>
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<td>Financial Controller</td>
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<td>Finance Instructions</td>
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<td>Financial Management Improvement Program</td>
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<td>Financial Management Manual</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>Implementation Agencies</td>
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<td>ICMA</td>
<td>Institute of Chartered Management Accountants</td>
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<td>ICT</td>
<td>Information &amp; Communication Technology</td>
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<td>IFMIS</td>
<td>Integrated Financial Management Informational Systems</td>
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<td>IFMS</td>
<td>Integrated Financial Management Systems</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>ILPOC</td>
<td>Integrated Local Purchase Order and Commitment</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JDP &amp; BPC</td>
<td>Joint District Planning &amp; Budgets Priority Committees</td>
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<td>KPI</td>
<td>Key Performance Indicators</td>
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<td>Performance Indicators</td>
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<td>LDC</td>
<td>Less Developed Countries</td>
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<td>LLGA</td>
<td>Local-level Government Assembly</td>
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<td>LLGs</td>
<td>Local Level Governments</td>
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<td>JDPBPC</td>
<td>Joint District Planning and Budgets Priority</td>
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<td>MA</td>
<td>Management Accounting</td>
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<td>Management Control System</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>MTFMS</td>
<td>Medium Term Financial Management Strategy</td>
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<td>MTDP</td>
<td>Medium Term Development Plan</td>
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<td>MTFS</td>
<td>Medium Term Fiscal Strategy</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>MNC</td>
<td>Multinational National Corporations</td>
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<td>MNG</td>
<td>Multinational and International Corporations</td>
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<td>MOA</td>
<td>Memorandum of Agreement</td>
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<td>NPC</td>
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<td>National Executive Council</td>
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<td>National Economic and Fiscal Commission</td>
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<td>NGO</td>
<td>Non-Government Organization</td>
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<td>NPM</td>
<td>New Public Management</td>
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<td>OIDA</td>
<td>Office of International Development Assistance</td>
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<td>OLPLLG</td>
<td>Organic Law Provincial &amp; Local-level Government</td>
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<td>PBS</td>
<td>Program Budgeting System</td>
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<td>Public Debt Committee</td>
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<td>Public Expenditure Rationalization Review</td>
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<td>PGAS</td>
<td>Provincial Government Accounting System</td>
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<td>PNG</td>
<td>Papua New Guinea</td>
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<td>PNGDAD</td>
<td>Papua New Guinea Development Assistance Database</td>
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<td>PNGDSP</td>
<td>Papua New Guinea Development Strategic Plan</td>
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<td>PNGGEM</td>
<td>Papua New Guinea Government Economic Model</td>
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<td>PPBS</td>
<td>Planning Programming Budgeting Systems</td>
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<td>Parliamentary Plans and Estimates Committee</td>
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<td>Provincial Treasury &amp; District Treasury</td>
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<td>Provincial Treasurer</td>
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<td>Provincial Treasury Office</td>
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<tr>
<td>ROCE</td>
<td>Return On Capital Employed</td>
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<td>Return on Equity</td>
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<td>Return On Investments</td>
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<td>RONA</td>
<td>Return On Net Assets</td>
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<td>RPM</td>
<td>Receiver of Public Money</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>SAP</td>
<td>Structural Adjustment Program</td>
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<td>SQP</td>
<td>Strongim Govman Program</td>
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<td>SOE</td>
<td>Systems of State Owned Enterprises</td>
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<td>ST</td>
<td>Structuration theory</td>
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<td>Treasury Management System</td>
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<td>TQM</td>
<td>Total Quality Management</td>
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<td>WPA</td>
<td>Waigani Public Account</td>
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Chapter 1: Overview of the Thesis

1.1 Introduction

Public sector reforms have been a continuous process, but it was not until the early 1990s that the reform initiative reached an acute stage where it had to respond to the “cry” for less costly, less expensive governments to achieve greater efficiency and provide increased responsiveness. Since then, new public management (NPM) public sector reforms have emerged as a common phenomenon around the world. They have been undertaken by many countries to improve public sector performance by introducing business-like practices (Hood, 1991, 1995). Advanced and developing economies have witnessed a metamorphosis in such public sector reforms as the governments of these countries grapple with rapid social, economic and technological change, as well as the effects of globalisation. While globalisation is one of the reasons for the underlying government sector reforms around the world, fiscal stress and poor economic performance are perhaps the impetuses that have given rise to public sector reforms in many of these countries (Jones & Kettl, 2003; Mir & Rahaman, 2006, 2007; Ouda, 2008; Barton, 2009; Pekkarinnen, 2011; Bracci & Llewellyn, 2012; Alam & Holloway, 2012).

However, while driving this public sector reform movement, the view has been that the public sector has been built on the wrong principles and needs reinvention and institutional renewal (Jones & Kettl, 2003). The strategies adopted include public spending cuts, selling public assets, contracting out many public services once provided by the government, developing performance measurement systems, output- and outcome-based budgeting systems, and accrual accounting (Radnor & McGuire, 2004; Hoque & Adams, 2008; Jarvinen, 2009). The reforms have produced many promises, such as a smaller, less interventionist and more decentralised government; improved public sector efficiency and effectiveness; greater public sector responsiveness and accountability to citizens; increased choice between the public and private providers of public services; an entrepreneurial-type public sector culture that is more willing and able to work with businesses; and better economic performance (Guthrie et al., 1999).
However, academic observers, researchers and public managers have wondered how many of these promises will produce genuine results and how long the results will last (Mayston, 1993; Barton, 2009). Some private sector style MACS have already established themselves—for example, financial management and accounting reforms have already proven successful to a certain extent (Thompson, 2001; Christensen, 2002, 2003; Davis, 2010). However, Barton (2009), who studied the implementation of accrual accounting in the Commonwealth of Australia, has warned not to heap praise on the implementation of MACS tools until they have proven their endurance over time (Mayston, 1993).

Nevertheless, management accounting practitioners, researchers and academics have made a significant effort to understand the role of accounting in these sweeping reforms compared to the traditional public sector reforms that are occurring in almost every country in the world (Barton, 2009; Hoque & Adams, 2008; Mir & Rahaman, 2006). It is important to identify the main motives for such reforms; in most instances, it will be for reasons of economic performance. However, Mir and Rahaman (2006) have reaffirmed the need for efficiency, effectiveness and economy, which they suggest centre on the operational and financial management processes of public sector entities (Tomkins, 1987; Broadbent & Guthrie, 1992; Sarker, 2006; Pallot, 1992; Guthrie, 1993; Thompson, 2001; Jones & Kettl, 2003; Parker & Guthrie, 1993; Barton, 2006; Guthrie & Humphrey, 1996; Ouda, 2008). While many of these authors have highlighted prior studies to show the absence of management resistance and significant improvements to the financial management processes of particular public sector agencies (e.g. Jacobs, 1997, 1998; Mir & Rahaman, 2003a, 2003b), the majority have noted significant financial management difficulties provoked by public sector reforms (see Pallot, 1992; Puxty, 1997; Cooper & Arnold, 1999; Lawrence, 1999; Llewellyn & Northcott, 2005; Lowe, 2000; Barton, 2006, 2009).

Moreover, Barton (2009) and Mir and Rahaman (2006) argue that one of the key elements in the financial management reform process is the use of the management accounting practices of private sector entities for purposes of planning and decision making in a public sector environment, which has been referred to as NPM. NPM has been the subject of numerous studies in the accounting literature (Hood, 1995; Lapsley, 1999; Chau et al., 2007). However, having discussed public sector reforms and the
relevance of accounting in the reform process to date, it is important to understand that this study pertains to MACS in the context of the public sector reforms.

This thesis seeks to explore MACS and gain an empirical understanding of how MACS are considered part of the social and political context in which they operate as a result of public sector reforms by using a case study of the Department of Finance (DoF) in Papua New Guinea (PNG). The thesis explores the design and implementation of MACS and their effects on organisations as a result of management accounting reforms. It draws on the theory of institutional isomorphism and its embeddedness (stability) rather than change. The thesis also draws on structuration theory to explain the structure of the reforms, how MACS provide managers with a means of understanding their organisations’ activities, and how it allows them to communicate meaningfully about those activities. A qualitative methodological paradigm is the approach taken in this thesis to explore the phenomena in the DoF in PNG.

1.2 Structure of the Thesis

The thesis is presented in eight chapters, as outlined below.

Chapter 1 introduces the study by discussing the nature of the research and the importance of the design and implementation of private sector MACS in the public sector. It explains the rationale behind governments around the world deciding to adopt business-like practices under NPM. The chapter defines MACS in organisations and what they entail from an organisational perspective. The chapter then proceeds by outlining the structure of the thesis and providing a brief outline of each of the chapters.

Chapter 2 outlines the context of the study. The chapter is divided into two parts: the first part presents the background of the study and the second part presents the rationale of the study. The background includes a description of public sector reforms that have emerged in recent times from a global perspective, followed by the public sector reforms in Australia and New Zealand. The chapter then discusses the public sector financial management reforms that have occurred globally as a result of the public sector reforms. This is followed by a discussion of the public sector financial
management reforms and the importance of adopting private sector MACS in the public sector. The chapter further discusses the public sector reforms in PNG and the associated financial management reforms. Finally, the chapter provides the objectives of the study, as well as the research question.

Chapter 3 provides a review of literature on MACS from five perspectives. A literature review is used to recognise and integrate what others have said and done in the field (Cooper, 1989). The chapter reviews the literature regarding public sector reforms since the 1990s from a global perspective. Next, the chapter reviews the literature concerning Australian and New Zealand public sector reforms, followed by public sector financial management reforms and the use of private sector MACS in the public sector. The chapter then reviews the literature from developing countries. Finally, it reviews the literature from the PNG public sector reforms and the associated financial management reforms. The findings in the literature review indicate that despite the growing interest in management accounting research around the world, and more so in developing countries, there is a dearth of in-depth studies regarding MACS in the PNG context, and it is hoped that this thesis will contribute to the literature in that sense. Lastly, the chapter discusses the research gap and the justification for the study.

Chapter 4 outlines the research methodology, methods and the theoretical framework used in the thesis. The chapter argues that methodological choices are inevitable in any research endeavour, and it is important for researchers to clarify up front their methodological orientation. The qualitative methodological paradigm is the suitable approach used in this thesis to answer the research questions; it takes a more subjective and interpretive paradigm to understand the reality of the world from a subjective experience (Burrell & Morgan, 1997; Irvine & Gaffikin, 2006). The chapter outlines the exploratory case study method that forms the principal tool for empirical evidence gathering, analysing, interpreting and theorising in this study. It also discusses the specific evidence collection procedures that were employed to accomplish an empirical understanding of the DoF MACS. These include in-depth interviews, observations and archival document analysis. The thesis draws on the theory of institutional isomorphism and its embeddedness (stability) rather than change in the DoF. The thesis also draws on structuration theory to explain the structure of the reforms, how MACS provide
managers with a means of understanding their organisations’ activities and how it allows them to communicate meaningfully about those activities.

Chapter 5 is the start of the analytical chapters. It begins by introducing the DoF as the research organisation site of this case study. The chapter provides a background of the DoF as a multifunctional organisation, and it discusses the structural reforms in the DoF as a result of the introduction of NPM type public sector reforms in 1995. The chapter introduces two major triggers that led to the overall public sector reforms in the DoF. The first trigger is the enactment of the OLPLLG, which adopted private sector management control tools such as good governance, accountability, transparency and administrative decentralisation. The chapter specifically introduces downsizing and retrenchments in the DoF, the contracting out of services, the district services improvement program (DSIP), performance contracts, and institutional and capacity issues in managerial reforms. The second trigger is the amendment to the PFMA 1996. The chapter then introduces the financial management reforms that followed, with the design and implementation of the various private sector style MACS in the DoF.

Chapter 6 is the main analytical chapter. It analyses, evaluates and theorises the design and implementation of the private sector style MACS tools introduced in the DoF as a consequence of the reforms, as discussed in Chapter 5. The chapter begins by analysing, theorising and evaluating the various administrative type management control system tools embodied in the OLPLLGs, including downsizing and retrenchments, the contracting out of services, the DSIP, performance contracts, and institutional and capacity issues in managerial reforms. The chapter then analyses, evaluates and theorises the private sector style management accounting triggered by the PFMA. These private sector style tools are: strategic planning and budgeting systems, accounting reforms and the appointment of financial controllers (FCs), audit committee, competitive tendering and contracting systems, customer orientations, decentralisation of financial management functions, and the financial management improvement program.

Chapter 7 is the final chapter of the thesis and concludes the study. The chapter presents reflections, key findings of the research, contributions to the research, the theoretical
background used in the study, policy implications, and recommendations for future research.

In conclusion, the DoF has designed and implemented a significant number of private sector style MACS tools as part of the public sector reforms in PNG. The findings from empirical evidence suggest that the private sector style MACS that have been imposed by external aid agencies have failed in the DoF, while MACS that have been modified to meet local circumstances have been successful. These findings reinforce similar findings in other developing countries (e.g. Mir & Rahaman, 2006; Hopper et al., 2009; Uddin & Hopper, 2001, 2003; Rahaman & Lawrence, 2001a, 2001b; Rahaman et al., 2004; Uddin & Tsamenyi, 2005; Wickramasinghe & Hopper, 2005; Hoque, 1994, 1997; Jacobs & Kemp, 2002; Chatterjee & Mir, 2008; Soobaroyen & Poorundersing, 2008; Hopper et al., 2009).
Chapter 2: Context, Background and Rationale of the Study

2.1 Introduction

The purpose of this chapter is to discuss the context, background and rationale of the study regarding public sector reforms and their associated public sector financial management reforms. Under public sector financial management reforms, business-like concepts have been introduced into the public sector to improve public sector performances, which is referred to as private sector style MACS in the context of this study. The first section of this chapter introduces the context of the research. The second section discusses public sector reforms globally. The third section discusses public sector reforms in Australia and New Zealand respectively. The fourth section discusses public sector financial management reforms and the importance of adopting MACS. The fifth and sixth sections discuss public sector reforms and public sector financial management reforms in PNG respectively. Lastly, the research objectives and questions are presented, followed by the conclusion.

2.2 Context of the Research

Over the past three decades, the performance of governments has been criticised around the world and from all points of the political spectrum (Lawrence et al., 1994; Jones & Kettle, 2003; Hoque, 2008; Hoque & Adams, 2011; Irvine, 2011). Critics have alleged that governments are inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public needs and failing in the provision of services deserved by its citizens (e.g. Barzelay & Armajani, 1992; Osborne & Gaebler, 1993; James & Johnson, 1999; Barton, 2006, 2009; Hoque & Adams, 2011). Fiscal stress has also plugged many governments in both advanced and emerging economies, and it has increased the cry for less costly and less expensive governments to achieve greater efficiency and provide increased responsiveness to citizens’ needs.

As this research stems from an interest in MACS in the context of public sector reforms, this section discusses MACS in that respect. According to Verbeeten (2007), there have
been recent efforts to ‘reinvent the government’ and improve the performance of public sector organisations (also known as NPM, which seeks to bring private sector management practices and market discipline to the public sector) (Chau et al., 2007). NPM has focused on performance management practices (Hood, 1995, 1991), which include specifying which goals to achieve, and measuring and evaluating performance (Heinrich, 2002; Ittner & Larcker, 2001; Otley, 1999; Kravchuk & Schack, 1996; Brickley et al., 1995; Rahman et al., 2004; Barton, 2006, 2009; Hoque & Adams, 2008; Bracci & Llewellyn, 2012; Alam & Martin, 2000).

MACS have played a significant role in many public sector organisations around the world. Ouda (2008) argues that a considerable number of studies have been conducted by various authors to model government accounting and control systems and accounting innovations of different jurisdictions (Luder, 1992, 1994, 2001; Jaruga & Nowak, 1996; Godfrey et al., 2001; Christensen, 2002; Ouda, 2001, 2004, 2005). Pollit and Bouckaert (2000) have attempted to model government accounting controls in the context of the overall public sector reforms. Fryer et al. (2009) point out that in order to change the public’s view, governments have brought in legislation, changed the language that was used to described the public sector and introduced concepts such as ‘value for money’, ‘performance measurement’, ‘setting performance targets’ and ‘NPM’. These concepts created the birth of NPM (Hood, 1991, 1995).

2.3 Public Sector Reforms from a Global Perspective

Public sector reforms have been a continuous process, but it was not until the early 1990s that the reform initiative reached an acute stage where it had to respond to the demand for less costly, less expensive governments to achieve greater efficiency. Since then, public sector reforms have emerged as a common phenomenon around the world. They have been undertaken by many countries to improve public sector performance by introducing business-like practices (Hood, 1991, 1995). Advanced economies such as the United Kingdom (UK), the Netherlands, Sweden, Finland, Canada and the United States (US) have witnessed a metamorphosis in public sector reforms, as the governments of these countries grapple with rapid social, economic and technological change, as well as the effects of globalisation. While globalisation is one of the reasons
underlying government sector reforms around the world, poor economic performance is perhaps the impetus that gave rise to these reforms in many countries (Ouda, 2001, 2004, 2005, 2008). Australia and New Zealand public sector reforms will be discussed in the next subsection of this chapter.

A number of high-profile members of the business community, as well as financial institutions, the media, management consultants, donors, academic scholars and the public in these countries have pressured politicians and public managers to reform, as have many supranational organisations in the developed and developing world, including the World Bank, the Organisation for Economic Co-operation and Development (OECD), the European Union and the International Monetary Fund (IMF) (OECD, 1993, 1997; PUMA, 1999). Accompanying the demand for change has been the support for the application of market-based private sector MACS in many not-for-profit organisations and the public sector in particular (Hood, 1991, 1995; Irvine, 1999, 2011; Hoque & Adams, 2011). This adoption has been vigorously supported by many public sector managers who have links to, or experiences in, the private sector or who have undertaken studies in academic institutions offering programs in public management (Pusey, 1991; Jones & Kettle, 2003; Hoque & Adams, 2011; Irvine, 2011). In both practice and study, these methods and practices are referred to as NPM, which is therefore an international phenomenon (e.g. Hood, 1995, 2000; Olsen & Peters, 1996).

However, driving the managerial reform has been the notion that public sector organisations around the world have been built on the wrong principles; they need reinvention and institutional renewal (Barzelay & Armajani, 1992; Osborne & Gaebler, 1993; Jones & Thompson, 1999). From a global perspective, the strategies used in the reforms include public spending cuts, selling off public assets, contracting out many public services previously provided by governments, developing performance measurement systems, output- and outcome-based budgeting systems, and accrual accounting systems (Guthrie et al., 1999).

The reforms produced many promises, including smaller, less interventionist and more decentralised governments; improved public sector efficiency and effectiveness; greater public service responsiveness and accountability to citizens; increased choice between public and private providers of public services; an ‘entrepreneurial’ public sector that is
more willing and able to work with businesses; and better economic performance (Jones & Kettl, 2003). While the reforms covered all aspects of the public sector, the rate of reforms varied across organisations within the public sector (Leishman et al., 1995).

Researchers suggest that these developments are not limited to just one jurisdiction, but reflect changes that are occurring in public sector organisations worldwide (Guthrie & English, 1997; Christensen & Yoshimi, 2001; Holzer & Yang, 2004; Irvine, 2005, 2011). Different countries also have different views of NPM concepts. For example, in some countries, superiors used performance measurement to deal with non-performing officers through the process of restructuring, which creates redundancy in the public service. Redundancies were a way of removing those who were not performing to meet organisational goals (Sevic, 2005).

The emphasis of NPM reforms suggests good governance, increased transparency and public accountability, as significant private sector concepts were replicated in the public sector to enhance public sector efficiency and performance. The basic assumption of adopting many of these business-like models from the private sector suggests it to be the ‘perfect’ sector without any problems. However, the problems of achieving both accountability and efficiency in the private sector suggests that rather than the private sector being an unambiguous model for the public sector to emulate and achieve accountability and efficiency, the private sector has its own problems that must be avoided as far as possible in any reform of the public sector (Mayston, 1993). Mayston forewarns that simply transplanting business-like models into the public sector may impose substantial costs with few benefits. The next section discusses public sector reforms in the New Zealand and Australian contexts respectively.

2.4 Public Sector Reforms in New Zealand and Australia

The preceding sections reviewed public sector reforms from a global perspective. This section of the review focuses on New Zealand and Australian public sector reforms because, by vicinity, these countries are ideally located in the region in which many developing countries mimicked their reform initiatives and practices, usually under the influence of international financial institutions. PNG in particular, which is the central
focus of this study, has inherited or otherwise copied most of its reform initiatives from the Australian Commonwealth administration as its former colonial master. As Perera (1989) states, management accounting reforms in developing countries have been inherited from developed countries rather than unfolding in their local circumstances. Therefore, this section will first focus on New Zealand’s public sector reforms before proceeding with public sector reforms from the Australian perspective.

New Zealand’s public sector reforms resulted from a notable decline in the performance of its economy compared with other OECD countries. The main reason for this decline was that the productivity of capital and labour was growing very slowly compared to the OECD average. The economic policies of New Zealand’s government at that time have been characterised as having ‘a heavy reliance on particular forms of intervention in the economy…that did not achieve their objectives and frustrated the achievement of higher living standards’ (The Treasury, 1984, p. 106).

In fact, many reasons were given for the poor use of resources, low productivity and low growth at that time, including the inefficient and equitable tax system, distortion of the price system, effects of tariffs and controls, poor productivity and low innovation, and an efficient labour market. As a result of this situation, the government-owned enterprises, which controlled a large portion of the economy, suffered from poor management, low productivity and very poor investment decisions. Realising that the nation had a gloomy future, the government quickly embarked on a massive public sector reform program aimed at introducing a more market-oriented economy (The Treasury, 1984; Alam, 1997; Ouda, 2008).

New Zealand’s public sector reforms undertook a number of reform initiatives ranging from the commercialisation of government enterprises to privatisation and reforming the core of the public sector. The latter reform is perhaps the emphasis of this study. The reforms were intended to replicate, as closely as possible, the types of incentive structures for performances that might be found in the private sector, while taking into account the distinctive nature of public services. However, the comprehensive nature of public sector reforms entailed the following features: separating commercial from non-commercial activities and constituting state-owned enterprises (SOEs) to carry out commercial-oriented activities; the privatisation of SOEs in commercially competitive
markets; strengthening the line of ministerial and executive accountability and designing budget and financial management services to improve the measurement of government sector performances (Alam, 1997; Bale & Dale, 1998; Schick, 1998; Ouda, 2008).

However, most scholars have focused their research on Australian and New Zealand reforms because they were considered the vanguard of the NPM. Their strategies and tactics heavily influenced the broader scholarly debate, as well as the practice, in many countries. It has been argued that any understanding of NPM must begin in these two countries first because they appeared as forerunners in the NPM reforms. Although New Zealand was a late starter in the reform process, it became a renowned leader in the NPM because it began with a ‘big bang’ and took a holistic approach rather than implementing its reforms in a stage-by-stage process (Bash, 1996; Ellwood & Newberry, 2007; Alam et al., 1994; Jones & Kettle, 2003).

The ‘big bang’ meant that the reform tackled all parts of the public sector and all subsystems (e.g. personnel, budgeting, accounting, reporting). The intent was to ensure that all systems were strategically aligned and that they provided a consistent set of incentive signals. Indeed, it was only by tackling all aspects of the public sector reforms that significant gains were achieved. However, poor economic performance was the impetus that gave rise to New Zealand’s reform program when compared to other OECD countries (Scott et al., 1997; Ouda, 2008).

The strategies and tactics used in the financial management reforms heavily influenced the broader scholarly debate and practice in many other countries. Financial management reforms have proven to be successful, and their principles have been well established in these countries. Further, the notion is that public organisations should be better managed, more responsive and be held more accountable for results in a business-like manner (Boston et al., 1996; Jones & Schedler, 1997; Guthrie & Parker, 1998; Pallot, 1998; Hoque, 2008, 2010, 2011, 2012; Hoque & Adams, 2011; Hoque & Moll, 2001).

The financial management reforms-The Amendment to the Public Finance Act 1989 is by far and large the most significant aspect of the public sector reforms in New Zealand.
The overall aim of the financial management reforms was to achieve better value for money through public spending. The amendment to the *Public Finance Act 1989* is considered the most important pillar or cornerstone of the public service reforms. The amendment laid out the requirements for the Chief Executive Officers (CEOs) of various public sector organisations within the New Zealand public sector to comply with (*Public Finance Act, 1996*).

For example, most New Zealand museums, like many other public institutions, relied substantially on funding from the central government and were subjected to accounting reforms. Over the years, museums had accounted and reported on a cash basis, and the content and value of collections and the aims and outcomes of exhibitions had been curatorial matters that were largely outside the scope of accounting. Under the reforms, these public institutions had to be converted into commercial entities by applying business-like practices such as the adoption of accrual accounting. For the first time, administrators were attempting to make these matters transparent to the public and subject to a formalised financial accountability regime. Further, as a result of the new accounting regime, museums required improvements in relation to their performance. The effect of the new measures meant that they had to implement the accrual basis of accounting, framed at external reporting requirements (*Thompson, 2001*).

There is a similar situation with hospitals under the health sector reforms, where reforms of accounting systems and systems of accountability in the New Zealand health sector created clashes in interest between medical and business priorities, and the changes have been abrupt. Under the financial management reforms, the *Health Services and Disability Act* of that year, Crown Health Enterprise was established as a commercial enterprise with no social responsibility other than to operate as a ‘successful business’ entity. Lawrence et al. (1997) state that this represented a dramatic redefinition of the roles and functions of hospitals in New Zealand, where institutional arrangements and the new funding mechanism introduced by the government were intended to affect the systems of accountability in hospitals, and new commercial orientation brought the need for better technical accounting systems into the operations of hospitals (*Lawrence et al., 1997; Alam et al., 1994*).
Another feature of the amendment to the Act is the clarification of the notion of performance. Under this provision, there is a clear distinction between the output and outcome, a distinction between the owners and purchaser’s interest of the government in the department, the crown department distinction and the distinction of policy advice as an output from other departmental outputs. The second aspect of the amendment relates to shifting from input- to output-based budgeting systems. Third, the amendment allowed for a change from the cash basis of accounting to an accrual accounting system (Public Finance Act, 1996; Ouda, 2001, 2004, 2005, 2008; Luder, 1992, 1994, 2001).

The NPM reform in Australia commenced in the early 1990s as a result of public sector organisations becoming more aware as their technological, political, social and cultural environments became complex and uncertain, and the scale and intricacies of change in public sector organisations increased. This has created the need for a strategy-oriented performance measurement and reporting system. A performance measurement system is a significant business-like concept that promotes organisational effectiveness in the context of NPM. Therefore, it is necessary to understand how government agencies assess and report their organisational performance (Hoque & Adams, 2008).

However, other NPM reforms undertaken by the Australian public sector cover areas such as the commercialisation/corporatisation of trading operations, the increased use of competitive tendering and contracting, organisational change (including reviews of roles and functions to enhance operational efficiency and accountability), greater emphasis on strategic and corporate planning, workplace reform and enterprise bargaining, and the implementation of the National Competition Policy (Guthrie, 1999; Guthrie et al., 1999; Hoque & Moll, 2001; Hoque & Adams, 2008).

Financial management reforms in Australia began at the state level rather than the Commonwealth level. At this stage, the discussion is only focused on the Commonwealth level, although states such as New South Wales (NSW) have led the public sector reforms. In this respect, and for the sake of argument, Christensen (2002, 2003), who studied the adoption of accrual accounting in the NSW public service in detail, highlighted the introduction of accrual accounting systems by the then newly elected Premier Greiner in 1988 as part of his election pledge to ensure his government’s policy to enhance efficiency in his government’s operation by becoming

The adoption of accrual accounting and budgeting systems has been central to the Commonwealth’s public sector reforms in recent years as part of its financial management reforms. The reforms required a significant amount of work in rebuilding a change of the management culture, and was heralded with a lot of praise due to improvements in efficiency, resource management, effectiveness in policy delivery, enhanced transparency of information and accountability to Parliament and the public (Barton, 2000, 2003, 2005, 2006, 2009; Hoque & Adams, 2008). However, while significant improvements have been made in these areas, many concerns remain (Barton, 2009; Barrett, 2004). At this stage, this study does not intend to discuss these concerns or their merits and demerits, but to highlight in general the financial management reforms adopted as a result of the public sector reforms.

The financial management reforms in the Australian Commonwealth began in 1984 with the commencement of the government’s Financial Management Improvement Program (FMIP) by the DoF. Under this program, significant changes were made to facilitate the adoption of accrual accounting systems. The program received overwhelming support from its stakeholders (Barrett, 2004; Barton, 2003) because it was considered a significant tool for enhancing operating efficiency, the management of non-cash assets and liabilities, and performance measurement and accountability. Following the adoption of accrual accounting, the departmental financial statements were prepared and a draft set of consolidated statements was presented to Parliament in 1995. As soon as the accrual accounting system was implemented, the next significant task was to remodel and reform departmental operations according to business principles and practices. Departmental activities were reorganised along business lines so they became business-like organisations. Each departmental operation was converted from a ‘cost centre’ into a ‘profit centre’ in the delivery of government services (Barton, 2000, 2003, 2005, 2006, 2009; Hoque & Adams, 2008).

Two subsequent reforms followed the adoption of accrual accounting. The first was the abolishment of the cash basis of accounting and budgeting systems (CABS), and with it,
the direct recording of cash transactions and the requirement that all transactions pass through the Consolidated Revenue Fund. Thus, cash budgets were no longer presented in Parliament. Second, two accrual budgeting systems were introduced under the reforms. One contained the professional accounting standards budget while the second contained the General Finance Statistics (GFS) budget based on IMF requirements (Barton, 2000, 2003, 2005, 2006, 2009). The outcome of these financial statements can show different results. The following sections discuss the public sector financial management reforms from a global perspective.

2.5 Global Public Sector Financial Management Reforms

Section 2.3 discussed public sector reforms from a global perspective, which laid the building blocks for the public sector financial management reforms in the early 1990s. Therefore, strong public financial management (PFM) systems are essential to improve service delivery and reduce poverty in developing countries. An effective PFM system maximises financial efficiency, improves transparency and accountability, and contribute to long-term economic success (Pretorius & Pretorius, 2009). The activities of a strong PFM system range from preparation and fulfilment of the budget cycle, budget oversight and control, taxation and debt management, procurement, resource allocation, accounting, auditing and reporting requirements.

Public sector financial management can be defined as the ‘downstream activities of budget execution, control, accounting, accounting, reporting, monitoring and evaluation (Allen et al., 2004). An alternative definition describes PFM as the ‘taxing, spending and debt management of government, which influences resource allocation and income distribution. The spending portion covers the budget cycle, including budget cycle, including budget preparation, internal controls, accounting, internal and external audit, procurement, and monitoring and reporting arrangements’ (Rosen, 2002).

In governments across the world, in both developed and developing countries, public sector financial management systems are being transformed more fundamentally than in previous decades. These changes are responding to a number of deficiencies in government accounting and financial management systems. For example, with changes
in society, there are calls for new accountability requirements, with the expectations of the public seeking a more transparent and open government. Much of the pressure is for increased accountability and transparency from the external stakeholders wanting to know if their public resources are being properly used and what is been achieve with them. A common catch-cry is for more ‘responsive’ public service. It is almost axiomatic that accrual accounting is a very significant tool that is able to produce better quality information for decision-makers and accountability mechanisms (Barrett, 2004; Hoque & Adams 2008).

Similarly, the public is placing more importance on good governance within the public sector. They are concerned about government programs being well managed and meeting their objectives, and they want greater openness and transparency. There is a desire to hold Parliament, the government and public officials directly accountable for results, leading to demands for sound public sector governance frameworks not only to be established, but also to function properly. Having a sound financial management and reporting system is perhaps the most important aspect of the government’s financial management reforms. These reforms, which are undertaken by governments around the world, are undoubtedly the biggest contributor to achieving greater transparency, accountability, fiscal responsibility and hence improved governance.

Management accounting practitioners, researchers and academics have made a significant effort to understand the role of accounting in the sweeping reforms in nearly every country in the world (Barton, 2009; Hoque & Adams, 2008; Mir & Rahaman, 2006; Lawrence & Doolin, 1997; Ouda, 2008). These researchers suggest that reforms are usually implemented for a purpose. Empirical investigations have indicated that the main motives for such reforms include the need for efficiency, effectiveness and economy, which have centred on the operational and financial management processes of public sector entities (Tomkins, 1987; Broadbent & Guthrie, 1992; Alam, 1997; Alam & Lawrence, 1999; Sarker, 2006; Pallot, 1992; Guthrie, 1993; Thompson, 2001; Jones & Kettl, 2003; Parker & Guthrie, 1993; Barton, 2006; Guthrie & Humphrey, 1996; Ouda, 2008).

While many of these authors have highlighted the absence of management resistance and significant improvements to the financial management process of particular public
sector agencies (e.g. Alam, 1997; Jacobs, 1997, 1998; Alam & Lawrence, 1999; Mir & Rahaman, 2003a, 2003b), the majority have noted significant financial management difficulties provoked by public sector reforms (Pallot, 1992; Puxty, 1997; Cooper & Arnold, 1999; Lawrence, 1999; Llewellyn & Northcott, 2005; Lowe, 2000; Barton, 2000, 2003, 2005, 2006, 2009). One of the key elements in the financial management reform process is the use of the management accounting practices of private sector entities for the purpose of planning and decision making in a public sector environment, which has been referred to as NPM.

A significant aspect brought about by new public sector financial management is related to changing the public’s perceptions and views about governments’ performances. To do so requires various (federal, state and provincial) governments to bring forth legislations to change the language used to describe the public sector and introduce concepts such as ‘value for money’, ‘performance measurement’, ‘setting performance targets’, ‘NPM’ ‘and performance-based reward systems’. These concepts created NPM (Hood, 1991, 1995; Mwita, 2000; Fryer et al., 2009). To ‘reinvent the government’ is to improve performance in public sector organisations through NPM (Verbeeten, 2007).

NPM seeks to create private sector management practices and market disciplines such as specifying which goals to achieve and measuring and evaluating performances (Chau et al., 2007; Hood, 1995, 1991; Heinrich, 2002; Ittner & Larcker, 2001; Otley, 1999; Kravchuk & Schack, 1996; Brickley et al., 1995; Rahman et al., 2004; Barton, 2006, 2009; Hoque & Adams, 2008; Bracci & Llewellyn, 2012; Alam & Martin, 2000). The next section discusses public sector financial management reforms and the importance of MACS.

2.6 Public Sector Financial Management Reforms and the Importance of MACS

As this research stems from an interest in public sector reforms and the associated public sector financial management reforms and the adoption of MACS, this section discusses these aspects and the importance of MACS in these organisations. It is evident that financial management reforms that have taken place both from the global and
Australian and New Zealand perspectives point to the fact that governments around the world are dissatisfied with the current trends of development in relation to addressing the needs of their citizens.

With globalisation as one of the reasons for public sector reforms, economic performance is perhaps the fundamental reason for many of the public sector financial management reforms in many countries. With these financial management reforms, business-like concepts are introduced into the public sector as part of NPM to improve efficiency, performance, accountability and good governance. While these reforms have been heralded with praise for their improvements, critics and observers have wondered how many of these promised benefits can actually be delivered—particularly in the developing and developed world (Schick, 1998; Barton, 2000, 2003).

Public sector financial management reforms are an integral part of public sector reforms; thus, the role of accounting as financial management information and reporting system must be seen as a social phenomenon embedded in broader institutional settings (Guthrie et al., 2003). In the context of this study, ‘public sector financial management reforms’ can also be viewed or considered ‘MACS’, ‘management accounting reforms (MA)’ or ‘management control systems (MCS)’. These terms are used in this thesis as though they are synonymous (Chenhall, 2003).

For the purpose of this study, the definition of MCS has been adopted from Merchant and Van der Stede (2012), who state that ‘management control includes all the devices or systems managers use to ensure the behaviors and decisions of employees are consistent with the organization’s objectives and strategies. The systems themselves are commonly referred to as the MCS’. This broad definition includes encouraging innovative ideas and enabling or sometimes compelling employees to act in the organisation’s best interest. The definition also distinguishes that some management controls are proactive instead of reactive (Merchant & Van der Stede, 2012).

Macintosh and Quattrone (2010) define MACS as the:

*entire spectrum of control mechanisms used to motivate, monitor, measure, and sanction the actions of managers and employees in organizations and to coordinate these with the other components that make organizations what they are; machines, information and communication technologies and the like. So,
to understand the workings of management accounting systems fully it is necessary to see them in relation to the entire array of control mechanisms used by the organizations.

However, other authors prefer to use ‘MACS’ interchangeably and refer to it under different definitions such as ‘planning and control systems’, which are sometimes referred to as ‘management control systems’ or ‘control systems’ (Macintosh, 1994; Otley, 1999; Flamholtz et al., 1985; Chenhall, 2003; Simons, 1995; Chenhall, 2003). Simons (1995) states that management control systems are ‘the formal based routines and procedures managers use to maintain or alter patterns in organizational activities’. This study will address MACS from a broader sense to signal the important role that strategic planning and budgeting plays in the entire control process in the public sector.

To date, a significant amount of management accounting and control research has been conducted in many developed countries to underscore the importance of MACS in both for-profit and not-for-profit organisations (e.g. Mahama, 2006; Andon et al., 2005; Mir & Rahaman, 2006; Merchant & Van der Stede, 2012). MACS research has been undertaken in the context of not-for-profit organisations (Irvine, 1998, 2005, 2009, 2011; Jansen, 2004; Lawrence & Doolin, 1997; Chan et al., 1996; Heinrich, 2002; Bracci & Llewellyn, 2012), and other studies have been conducted in developing countries (Wickramasinghe, 1996; Tsamenyi et al., 2007; Uddin & Hopper, 2001, 2003). However, despite the proven outcomes of these studies, MACS still play a critical and significant role in all of these organisations.

Financial management reforms have introduced a significant number of business-like MACS into the public sector. The first such practice relates to accrual accounting and budgeting systems, which aim to make the public sector more efficient and its processes more transparent. While many improvements have been achieved by the reforms, some observers argue that significant concerns remain, suggesting that government departments and agencies have had to operate as business entities, which in many cases they are not. Other features of the reforms are associated with output-based management and budgeting, the devolution of financial decision making coupled with increased accountability, and the introduction of capital charge and decentralised authority to buy and sell assets (Brash, 1996; Scott et al., 1997; Brady, 2008).
Thus, financial management reforms are important for organisational success for profit and not-for-profit organisations. Therefore, it is important for designers to design MACS properly so that they influence employees’ behaviours to be congruent with the organisations’ goals and objectives. Negative behaviours are then avoided, which increases the probability of organisations meeting their objectives. Behavioural emphasis is significant in management accounting because managers must ensure that employees behave appropriately and that they do not engage in behaviour that is to the detriment of the organisation (Langfield-Smith et al., 2009, 2012; Merchant & Van der Stede, 2012).

However, for employees to behave in a congruent manner, it is imperative that the organisations’ objectives are unambiguous. The strategies that are put in place to meet objectives are very important because they define how organisations should use their resources to meet their objectives. From a management control perspective, it is about controlling or influencing the behaviours of employees so they behave in a desired way (Langfield-Smith et al., 2009, 2012; Merchant & Van der Stede, 2012).

MACS have been focused predominately on accounting controls and oriented towards monitoring short-term activities (e.g. budget goals) (Rotch, 1993; Otlet et al., 1995; Langfield-Smith, 1997; Otley, 2001). However, a key problem with management accounting tools such as budgets is that they generally concentrate only on short-term financial measures and do not allow managers to sufficiently assess organisational performance in the context of broader strategic and competitive factors, which are better indicators of long-term performance and success (Roberts, 1990; Nixon & Burns, 2005; Langfield-Smith et al., 2012). This approach may have been influenced by early definitions of management control, which did not explicitly emphasise monitoring the attainment of strategic goals as part of the control system (Otley et al., 1995; Langfield-Smith, 1997).

Anthony and Young (2003) state that MACS focus on the implementation of strategies and the attainment of organisations’ goals; they attempt to ensure that organisations design effective programs and implement them effectively. There are far-reaching consequences for organisations that do not implement effective management control systems, such as a non-performing and ineffective public sector or a business or market
failure in the private sector (Boland & Fowler, 2000). This signifies the importance of MACS in contemporary organisations.

For example, the success of multinational corporations such as DuPont, General Motors, Sears, Deutsche Bank and Bethlehem Steel recognises the importance of MACS as an integral part of their development and success (Macintosh & Quattrone, 2010). In contrast, large institutional household names and multinational corporations that have seen their hitherto unthinkable demise, such as Enron, Anderson, Baring and Leman Brothers, are organisations whose MACS may have been considered too great a burden, and less importance was placed on their effective implementation, resulting in the organisations’ collapse. Many of these organisations would not be able to compete in the present business environment (Macintosh & Quattrone, 2010; Merchant & Van der Stede, 2012).

Therefore, MACS still play an important role in many organisations because they help managers to make decisions regarding their daily operations, and they provide good strategic direction for the organisations. MACS guide the behaviours of managers and employees to achieve the organisations’ goals (Ouchi, 1979; Flamholtz, 1983; Anthony & Govindarajan, 2007; Merchant & Van der Stede, 2012). MACS encompass both financial and non-financial information as their performance indicators. The financial dimension focuses on the monetary ‘bottom line’, including net income and return on equity (Merchant & Van der Stede, 2012). Non-financial information encompasses product quality, customer satisfaction, market share and employee morale (Anthony et al., 1992; Anthony & Govindarajan, 2007; Merchant & Van der Stede, 2012).

As Macintosh and Quattrone (2010) state:

it is not too great an exaggeration to say that MACS are so important and ubiquitous today that, if accountants and information people wrapped up their systems and took them home, the whole process of producing society’s material goods and services, along with the governance of the social order, would grind to a standstill.

This demonstrates the importance of MACS in organisations. Ignorance of MACS may lead to organisational failure if not properly implemented, resulting in serious financial
repercussions, which may lead to large financial losses and reputational damage for organisations that may have built their reputations over decades.

The NPM reforms of the 1990s, which were intended to promote more accountable and responsive governments through the adoption of market practices, accelerated the use of performance management that endeavoured to use management accounting control information to hold managers accountable for program results (Hood, 1991; Mwita, 2000; Heinrich, 2008). Jones and Kettle (2003) state that in both practice and study, NPM is an international phenomenon (e.g. Hood, 1995, 2000; Olsen & Peters, 1996; Jones & Schedler, 1997; Borins, 1997; Gray & Jenkins, 1995; Kettle, 2000a).

These NPM concepts can be viewed from a MACS perspective because they constitute an integral part of an organisation. Management accounting control systems must be seen from a broader context, and they refer to the mechanisms used to motivate, monitor, measure and sanction the actions of managers and employees in organisations (Macintosh, 1994; Macintosh & Quattrone, 2010). They coordinate with other components that make organisations what they are, such as machines and information and communication technology, to achieve the organisations’ goals.

A crucial element of the MACS tool in the public sector is performance measurement. This involves assigning numbers to objects, and it is a critical element of results control systems (Van Helen, 2005; Merchant et al., 2003; Heinrich, 2002). Merchant et al. (2003) state that the object of importance is the performance of an employee (or group of employees) in a specific time period. Lemieux-Charles et al. (2003) argue that performance measurement is monitoring that shows where change is required, which will in turn produce the desired behaviour and improve performance. Performance measurement is about the past, and it extrapolates data using historical management accounting and control information to provide MAC information for future decision making in archiving organisations’ objectives (Lebas, 1995; Radnor & Barnes, 2007; Fryer et al., 2009).

Setting performance targets or indicators is another important element in MACS (Anthony & Govindarajan, 2007). The terms ‘MACS’ and ‘results control’ are used interchangeably. Merchant et al. (2003) argue that in a result control system, targets
should be specified for every performance dimension that is measured. They describe that performance targets affect behaviours in two ways. First, they improve motivation by providing conscious goals for employees. Second, performance targets allow employees to interpret their own performances. The authors argue that employees will not respond to feedback if they are not in a position to interpret their own performance or the application of the controllability principle. Interpretation involves comparing actual performance with predetermined performance targets (Anthony & Govindarajan, 2007; Merchant & Van der Stede, 2012). The next sections discuss public sector reforms and public sector financial management reforms in PNG respectively.

### 2.7 Public Sector Reforms in PNG

Like many other developing countries, PNG has had its share of public sector reforms, which commenced as early as 1979—just four years after independence—and it has been a continuous process since then. The public service left behind by the Australian Commonwealth administration at independence was considered unsuitable and too cumbersome for PNG’s development context. The first Chief Minister of PNG in 1974, and subsequent Prime Minister in 1975, Michael Somare, stated that ‘the public service systems inherited from Colonial Administration have been unsuitable for self-governing and eventually independent Papua New Guinea’ (Somare, 1974, p. 4). He noted that PNG’s public service was an alien apparatus designed for an alien purpose because it had inappropriate modern technology and was too expensive. Reforms were undoubtedly needed, but incrementally, to avoid undue disruption (Somare, 1974; Ballard, 1981).

The first public sector reforms commenced in 1979 when the Government, through the National Planning Committee (NPC), appointed the Governor of the Bank of PNG to look into the administrative problems faced by PNG’s public service (ToRobert, 1979). The report recommended the assistance of the World Bank and the IMF. Thus, under the auspices of the World Bank and the IMF, the first Structural Adjustment Program (SAP) commenced in the 1980s. The SAP was adopted due to the economic difficulties faced by PNG, which ranged from balance of payments shortfalls to excessive budgetary deficit financing after the closure of the Bougainville copper mine. Although
SAP was not a NPM reform program, it laid the foundations of the NPM reform that ensued in the later part of PNG’s public sector reforms.

While the preceding sections provided the background to public sector reforms as a contextual framework, this study is more concerned with NPM practices brought about by public sector reforms. The significant reforms that have taken place in PNG as a result of NPM practices include the reform to provincial and local government levels (1995), financial management reforms (1996), private sector wage liberalisation as a prelude to privatisation (1998), investment deregulation (1990), trade policy reform (1990), tax and tariff reforms (1999), financial sector reforms (2001), forestry reform (2000), and political party and electoral reforms (2001).

The corporatisation and privatisation of the commercial activities of the PNG government are some of the significant NPM reforms undertaken in PNG, although there are sensitive areas of the reforms because they evoke a strong sense of nationalism and the fact that politicians have used public enterprises as cash cows and as enterprises to which political cronies can be appointed to head such enterprises. In this context, this study is not associated with such reforms (corporatisation and privatisation); rather, it focuses on the public sector financial management reforms of the mainstream public service of PNG.

However, it is important to emphasise that PNG, like most other developing and transitional countries, have an additional factor driving NPM-type reforms and has been donor advocacy and lending conditions of international financial institutions, notably the IMF and the World Bank, with the adoption of a more pro-market and pro-private sector stance in structural adjustment programs, and the spread of global markets, especially those related to financial integrations and liberation and the resultant competition are forcing the public sector in most countries to reshape itself to keep pace with the emerging global economy and modern information technology (Hood, 1995; Jaruga & Nowak, 1996; Larbi, 2003; Jones & Kettle, 2003; Ouda, 2001, 2003). The next section deals with the financial management reforms in the core of PNG’s public service.
2.7.1 Public Sector Financial Management Reforms in PNG

The central focus of the study in this context is the financial management reforms that occurred from 1995 to 2006 with the introduction of the OLPLLGs and the amendment to the Public Finances (Management) Act 1996. The financial management reforms that followed these periods were regarded as ‘consolidation’ periods, with few new initiatives undertaken by the government as part of the reforms. Empirical evidence supports the view that these legislative reforms were supported by the World Bank, the IMF, the Asian Development Bank (ADB) and AusAID.

As mentioned previously, two significant pieces of legislation stood as pillars of the financial management reforms in PNG: the OLPLL of 1995 and the Amendment to the Public Finances (Management) Act 1996. A key reform adopted during this period was the replacement of the old Organic Law on Provincial Governments (OLPG), which was instituted in 1976, with the new OLPLL in 1995. The OLPLL laid down the new financial management arrangements at the decentralised levels with regards to the business-like concepts of good governance principles, transparency and accountability, strategic planning and budgeting systems, and a performance-oriented culture, as evidenced in the private sector.

The amendment to the PFMA 1996, although subsidiary to the Organic Law, was a supreme piece of legislation that became the cornerstone of the public financial management reforms in PNG. Under this piece of legislation, a significant number of amendments were made that took on board private sector concepts. These concepts included the establishment of public sector audit committees, the separation of financial statements of statutory bodies, local government councils, provincial and national governments to increase transparency and public accountability, the delegation of financial authority, and performance-based accountability systems for departmental heads. These are fundamental principles that govern the success of private sector organisations (PFMA, 1996).

This meant that departmental heads were required to ensure that they maintained all of the appropriate controls, including strategic planning, budgeting, accounting, and internal and external audit and reporting requirements. The amendments to the PFMA
represented the most significant changes to employees’ behaviour in the execution of their duties in relation to transparency, good governance and public accountability. The intended outcome of these legislations was to introduce business-like concepts into PNG’s public sector management (PFMA, 1996).

Furthermore, PFM is also critical for improving the quality of public service outcomes. It affects how funding is used to address national and local priorities, the availability of resources for investment and the cost-effectiveness of public services. In addition, it is likely that the public will have greater trust in public sector organisations if there is strong financial management, stewardship, accountability and transparency in the use of public funds. Therefore, it is important for the government of PNG to ‘get it right’, as it affects a broad range of areas, including aggregate financial management fiscal sustainability, resource mobilisation and allocation, operational management performance, value for money and budget management, governance transparency and accountability, fiduciary risk management controls, compliance and oversight.

In addition, effective public financial management is important for decision making. Accurate financial information is often used as the mechanism to support decisions and ensure effective resource allocation. Good financial management is responsible not only for protecting, developing and using resources, pushing and maintaining economic growth, and increasing income, but also for effectively and efficiently managing all natural resources (Parry, 2010; PNG Financial Management Manual, 2006).

Furthermore, the government also introduced the FMIP in 2002. FMIP is one of the most ambitious strengthening programs the government has embarked on in recent years and covers financial management reform on the national, provincial and local government levels. FMIP’s contribution to the overall state of public governance, especially in strengthening financial management through the restoration of the capacity, systems and process of public finance management and the integrity and the credibility of budget institutions, cannot be emphasis enough (FMIP, 2003).

FMIP is co-funded by the government of PNG, the ADB, AusAID and the United Nations Development Program. A robust financial management system is the first frontline defence against financial mismanagement, waste, graft and theft. If the current
financial management is improved and the integrity of the government’s budget institution is restored and enhanced, this will significantly complement the role of the audit and accountability institutions of the government (FMIP, 2003). The next section discusses the research objectives and questions.

2.8 Research Objectives and Questions

In the context of public sector reforms in PNG and financial management reforms, the following objectives have been formulated. The objectives for undertaking this study are as follows:

- explore the accounting and accountability framework regarding the implementation of business-like or private sector style MACS in the context of public sector reforms in PNG
- explore the management accounting discourses used by various actors in the implementation of MACS
- explore the current practices and difficulties to date in effectively implementing management accounting control systems in the DoF and at decentralised levels of government.

2.8.1 Research questions

The research objectives can be restated in the following research questions:

1. How were the various private sector style MACS designed and implemented in the DoF?
2. Were these MACS able to provide the intended results in the DoF?
3. How did the DoF overcome difficulties in the implementation of MACS?

These research questions will be explored in the DoF in an in-depth case study. The next section summarises and concludes this chapter.
2.9 Summary and Conclusion

In summary, criticism has emerged around the world regarding governments being inefficient, ineffective, too large and too costly, with the major costs of government resources being consumed by a minority at the expense of the country’s populace. As a result of such criticisms, market practices have emerged in which public sectors have started adopting market disciplines under what is now known as NPM. NPM reforms were intended to promote more accountable and responsive governments through the adoption of private sector practices. The accelerated use of performance management systems endeavours to use management accounting information to hold managers accountable for programs’ results (Hood, 1991; Heinrich, 2008).

Public financial management reforms were a significant component of public sector reforms around the world. Under the financial management reforms, private sector tools have been adopted, which are referred to as MACS in the context of this study. Such practices include the adoption of accrual accounting and budgeting systems, the introduction of a capital charge and a decentralised author to buy and sell assets, output-(result-)based management and budgeting, the devolution of financial decision making coupled with increased decision accountability, and converting departments into business-like entities (Barton, 2000, 2003, 2005, 2006, 2009). Public sector reforms in PNG were accompanied by financial management reforms. Two significant pieces of legislation that stood as cornerstones of the reforms were the OLPLLG and the PFMA of 1996. Under these legislations, a significant number of private sector tools were adopted as part of the MACS in the DoF in PNG.
Chapter 3: Literature Review and Research Gap

3.1 Introduction

This chapter is divided into a number of sections. First, the chapter reviews the literature on public sector reforms since the 1990s from a global perspective. Second, the review focuses on literature relating to public sector reforms in Australia and New Zealand. Third, the chapter reviews the literature on public sector financial management reforms and the use of private sector MACS in the public sector. Fourth, the chapter reviews the literature on public sector reforms in the context of developing countries. Fifth, the chapter reviews the literature on public sector reforms in PNG, followed by financial management reforms. Finally, the review point to the research gap in the literature and concludes the chapter.

3.2 Public Sector Reforms Since the Early 1990s

In Chapter 2, the context and institutional factors of change was discussed. Globalisation was discussed as one of those factors for public sector reforms worldwide. Depending on how globalisation is viewed, the general theme of the argument in this thesis, suggests that pressures for change or reforms arises due to number of reasons not only in developed economies but the developing economies as well, such as: economic and fiscal pressures on governments, public attitudes and increasing criticisms of the effectiveness and inefficiencies of delivering public services, the proliferation of management ideas associated with pro-market and pro-private sector generated, packaged and marketed by international management consultants, who often act as advisors on reforms to governments around the world (Hood, 1995; Jaruga & Nowak, 1996; Larbi, 2003; Jones & Kettle, 2003; Ouda, 2001, 2003). This section reviews the literature on NPM reforms that have emerged throughout the Western world since the early 1990s, excluding Australia and New Zealand, which are discussed separately in the next section of the review.
Over the past three decades, criticisms about government’ performances have emerged around the world, from all points of the political spectrum (Lawrence, et al., 1994; Jones & Kettle, 2003; Hoque, 2008; Hoque & Adams, 2011; Irvine, 2011). Critics have alleged that governments are inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public needs and failing in the provision of services required by their citizens (Barzelay & Armajani, 1992; Osborne & Gaebler, 1993; James & Johnson, 1999; Barton, 2006, 2009; Hoque & Adams, 2011). A number of other studies have investigated NPM reforms from different perspectives (Humphrey et al., 1993; Broadbent & Laughlin, 1998; Boland & Fowler, 2000; Propper & Wilson, 2003).

In an assessment of the current state of comparative international governmental accounting research (CIGAR) in Germany in terms of contributions and critical issues, Chan et al.’s (1996) findings showed that the continued expansion and refinement of the contingency model of governmental accounting innovations has served CIGAR well by giving researchers a common frame of reference. They suggested that additional research should be undertaken to identify the attributes of governmental accounting systems, specifying innovations, tracing the processes of generating and implementing innovation, and identifying the consequences of innovations as part of the NPM reform agenda.

Pettersen (2001) gained more insight into the link between management accounting reforms and organisational learning and change in the hospital sector. When the Norwegian government made radical changes to the funding systems across Norway hospitals, and especially the payments systems, the clinical staff had to make major changes. The paper revealed that there was more ambiguity at the organisational level when it came to controlling hospital activity and costs under the new model-per-case funding system.

Jackson and Lapsley (2003) studied the diffusion of accounting practices in the new ‘managerial’ public sector. A major feature of this change was the displacement of old-style public administration by NPM, which focused on results and measurements, in which accounting has a central role. The study used a survey of accountants in the public sector to determine the extent to which the changing public sector was
accompanied by changes in accounting practices, and it explored the process by which such changes were effected.

Radnor and McGurie (2004) examined performance management in the UK public sector to determine whether it was fact or fiction. The paper analysed studies on public sector performance management and the findings and recommendations of the Public Services Productivity Panel, which was established by the government to determine whether performance management in the public sector was fact or fiction. Their findings established that productivity and performance levels in public sector organisations would rise if developing performance measurement systems was based on the private sector.

Nyland and Pettersen (2004) examined the control gap and the role of budgets, accounting information and decisions in the Norwegian hospital setting. Since the NPM reforms in Norway, the authors have not only examined the NPM practice, but also the performance audit schemes and more explicit demands from the hospital owner (state) to implement evaluation programs to assess efficiency and effectiveness. Their findings showed the use of accounting information, which is central to these reforms, as well as accountability and responsibility.

Lapsley and Wright (2004) undertook a study in the diffusion of management accounting innovations in the UK public sector. However, their study had a somewhat different focus under the new public sector, especially in the dissemination and adoption of management accounting practices. Their results and findings revealed that the government has a significant influence in the diffusion, dissemination and adoption of management accounting practices in the UK public sector. Their findings highlighted the need for further research into this area, as little has been conducted on the diffusion of management accounting practices in the public sector and the influence of governments in such circumstances.

Skalen (2004) studied NPM reforms and the construction of organisational identities in Sweden. The underlying and fundamental aim of NPM is to transform public organisations into business-like identities. Skalen analysed the construction of organisational identities as an effect of NPM initiatives from a sense-making
perspective. The study drew on data from two and a half years of study in a Swedish hospital. Skalen’s findings revealed that NPM reforms created heterogeneous, conflicting and fluid organisational identities rather than uniform and stable business identities similar to the private sector.

McAdam et al. (2005) studied performance management in the UK public sector and addressed multiple stakeholder complexity. They explored the issues involved in developing and applying performance management approaches within a large UK public sector department using multiple stakeholder perspectives. They used a qualitative approach in their data gathering, using questionnaires, semi-structured interviews and focus groups. They discovered that although staff had an understanding of the new systems, they were not properly implemented in the organisation, suggesting that the business objectives were not aligned with the motivating factors within the organisation. The authors pointed out that private sector practices are bound to fail if not managed properly throughout the year, and they are then in danger of becoming an annual practice.

Scheers et al. (2005) studied NPM reforms in the context of the results-oriented financial management system in the UK public sector. Initially, these reforms concentrated on promoting greater efficiency in public expenditure according to the way in which the public sector was organised. Increasingly, the emphasis shifted to ensuring that value for money was achieved by promoting high-level performance in the public sector. The findings established that the emphasis has shifted from an input focus to an output, and increasingly outcome, focus.

Christensen and Skaerbaek (2006) conducted a comparative study of reporting practices in Australia and Denmark. For the purpose of this review, only the Denmark experience is reviewed because the Australian experience will be discussed in the next section. This study explained why public sector performance reporting that emphasises external accountability may be different from the officially stated position. The findings revealed that performance reporting systems in Denmark’s public sector have a number of overflows that reformers use as opportunities for cost-cutting activities, which was not the intended outcome of the performance reporting system. They further revealed that
accountability purposes ended up being mostly reduced to the disclosure of traditional input and output measures and some insignificant stories to cover up public scrutiny.

Verbeeten (2008) undertook a study to investigate whether performance management practices affected performance in public sector organisations in the Netherlands. The findings showed that there should be a clear and measurable goal that is positively associated with quantity and quality performance. In addition, the use of incentives was positively associated with quantity performance and not related to quality performance. Verbeeten further established that the effects of performance management practices in public sector organisations are affected by institutional factors. The results therefore suggest that the behavioural effects of performance management practices are as important as the economic effects in public sector organisations.

Jones (2008) conducted a study in the UK to examine the internal controls, accountability and corporate governance as significant NPM reform tools. The study examined modern internal controls compared with those used in medieval England. The results demonstrated that most internal controls found today were present in medieval England. Stewardship personal accountability is a core element of good internal control. Other authors have examined good governance, transparency and public accountability as significant NPM reform tools in the public sector (Collier, 2008; Tsamenyi et al., 2007; Doost & Fishman, 2004; Brennan & Solomon, 2008; Uddin & Choudhury, 2008; Sikka, 2008; Stein, 2008).

Fryer et al. (2009) conducted a study in the UK to assess the state of performance management systems within the public sector and suggest paths for further research. Their findings revealed that the expected improvements in performance, accountability, transparency, quality of service and value for money have not yet materialised in the public sector. Their findings revealed three classes of problems with performance management in the public sector: technical, systems and involvement. Their research findings further highlighted that externally influenced or imposed restructurings and reorganisations restrict the successful implementation of performance management systems in the public sector, and they called for more in-depth research in these areas.
Jarvinen (2009) examined the shifting focus of NPM agendas and management accountants’ occupational identities in Finland. The paper examined how the occupational identity of management accountants working in the public sector is influenced by the change in MACS as well as the underlying management agenda. Jarvinen’s interviews showed that the NPM agenda in Finland’s public health care has shifted from one that emphasises private sector accounting and control methods to one that emphasises accountability, visibility and comparability. This change in agenda has materialised in the implementation of NPM reforms. Jarvinen’s research further showed that health care management accountants who rely on private sector ideas for constructing their occupational identity may resist the shift as managerial discourse.

Ohemeng (2010) examined the dangers of internationalisation and ‘one-size-fits-all’ in the new public sector management in Ontario, Canada, and in Ghana. He used the lessons from performance management policies to explain the failure in the public management of a wholesale policy transfer from well-developed to developing economies. He used organisational surveys and interviews in both jurisdictions to conclude his findings. However, the findings showed that the context in which public sector reform policies are implemented is important. The environment is an essential element in the success of policy implementation. It is important to consider factors such as culture, institutional dynamism and the role of external actors in the development and implementation of reform policies.

Ter Bogt et al. (2010) examined the current NPM research, highlighting that NPM has advanced the introduction of economic rationality in the public sector and the use of ‘business-like’ styles and instructions. Whether NPM has had positive effects on the functioning of the public sector and on the quality and extent of the services experienced by its citizens remains controversial (Lapsley, 2008, 2009; Seddon, 2008). Their findings revealed mixed reactions to the introduction of NPM practices to the public sector too soon.

Pekkarinnen et al. (2011) conducted a study in Finland to examine the ongoing dynamics of NPM reforms through an embedding process of a municipal enterprise in the field of social and health services. Their findings uncovered pressures affecting niche-level innovations and manifestation as clashes and controversies between old and
new ways of thinking. The results also found that these clashes can be the platform for new innovations if facilitated well.

Bracci and Llewellyn (2012) undertook a longitudinal case study of public sector reforms in Italy and examined social service public organisations. Their study revealed two groups of service providers in Italy: those who resisted change and preferred the traditional mode of social care (‘Territoriali’), and those who accepted change and allowed for the outsourcing of activities and standard residential and home-based services (‘Residenziali’). Their findings confirmed the business-oriented discourse spoken that brought confusion among the former group.

Many other researchers have undertaken a substantial amount of work on NPM reforms around the world, but for logistical reasons, it is impossible to extensively cover each of these research areas in the literature review. However, some researchers worthy of mention are Humphrey et al. (1993), Kettl (1997), Broadbent and Laughlin (1997), Scott et al. (1997), Alam (1997), Kloot (1999), Brignall and Modell (2000), Bangura (2000), Pettersen (2001), Heinrich (2002), Larbi (1999, 2003), Jones and Kettl (2003), Propper and Wilson (2003), Jansen (2004), Nyland and Petterse (2004), Radnor and McGuire (2004), Ahmad et al. (2005), Verbeeten (2008), Michels and Meijer (2008) and Ohemeng (2009).

In summary, the introduction of business-like concepts is an important component in the NPM reform movement that has been sweeping many Western countries during the past decade. This trend of NPM reforms is likely to continue during the years to come, when governments in these countries recognise the importance of such reforms. However, the successes and failures of these reforms have also varied as Western countries begin to implement such practices. Empirical evidence has produced mixed reactions to NPM reforms around the world. The next section reviews the literature relating to Australian and New Zealand public sector reforms.
3.3 Public Sector Reforms in Australia and New Zealand

The preceding sections reviewed public sector reforms from a global perspective. This section of the review centres on the Australian and New Zealand public sector reforms. These countries are ideally located within the region where many developing countries mimicked their reform initiatives and practices, usually under the influence of international financial institutions.

PNG in particular, which is the central focus of this study, inherited or otherwise copied most of its reform initiatives from the Australian Commonwealth administration as its former colonial master. In addition to mimicking the Australian reform practices, Australia is by far the largest bilateral donor to PNG, financing a large component of its development expenditures. With such a large contribution to PNG’s national budget it can be reasonably argued that AusAID has had a lot of influence on the public sector reforms in PNG. As one of the elegant responded concerning Australia’s tied aid to PNG. “Australian aid continues to play a significant part of the government’s budgetary process, how we direct these funds to the government’s priority areas is important so that Australians taxpayers get value for money for their tax dollars while Papua New Guineans receive the benefits from their closest friend and neighbour”. Therefore, this section of the review will first focus on Australian public sector reforms before proceeding with public sector reforms from the New Zealand perspective.

Rahaman and Lawrence (2001) attempted to explicate the negotiated order perspective as a social theory to better understand accounting in its organisational context. Their paper presented the theoretical constructs of the negotiated order perspective by using a case study of Volta River Authority (VRA) to illustrate how the perspective helps in appreciating accounting practice within organisations and society. Their study showed criticisms of accounting researchers for the little they know of the functioning of accounting in an organisational context.

Mir and Rahaman (2002, 2003, 2011) explored the ‘new knowledge creation’ as a result of introducing business-like concepts into the public sector, where public sector entities are constantly engaged in organisational learning processes. Their exploration used the
NSW State Mail Service and how this organisation underwent ‘new knowledge creation’ processes as part of a commercialisation initiative. Their findings revealed that newly introduced commercial technologies played a significant role in the process of creating and transferring knowledge within the organisation.

Mir and Rahaman (2006, 2007) examined accounting and public sector reforms in a continuous evolving government department in Australia. The purpose of their study was to explore the role of accounting in the reform process in the Department of Public Works and Services in NSW. The Department of Public Works and Services has always been publicly funded through the annual appropriation by the NSW Parliament. Their findings revealed a unique history in which the reforms completely transformed a government department from being heavily dependent on public funds through the annual budgetary process to a business-like commercial entity operating in a competitive environment.

However, while their study has proved to be a transformation success of private sector practices, they failed to argue the environmental factors that brought about the success. For example, Department of Public Works, New South Wales is located in the heart of the Central Business District (CBD) in Sydney, where there is an enormous amount of business activities happening. Therefore, the Department of Public Works is bound to be very competitive in such a business environment. It is highly unlikely to find such a competitive public serve department performing in such a manner in any developing countries around the world.

Hoque and Adams (2008) undertook a study of government departments in Australia to measure public sector performances. Their findings revealed a number of facts. First, departments involved in the study were involved in cost efficiency and quality measures. Second, the most common performance measures related to community expectations and legislative requirements. Third, sustainability, environmental and social responsibilities were the least used performance measures. Fourth, performance measures enhanced program efficiency and program effectiveness, and the entities were proven to be better off. Fifth, NPM has been engaged in accrual budgeting.
Hoque (2008) conducted exploratory research to report on the performance measurement and reporting practices of four government departments in Australia. He used context and content analysis in his study and found that the designs of performance measurement systems were central to government departments’ strategic planning and management frameworks. The content analysis also showed that a recently introduced reform regarding the ‘managing for outcomes’ framework and performance measurement system was working in the public sector.

Alam and Nandan (2010) explored the nature of context-specific issues and challenges facing small accounting practices (SAP) in Australia and rural centres. These forms face a continuously changing environment that requires strategic responses from SAP owners. The findings revealed that SAPs adopt innovative strategies and structures, and that they are very resilient and dynamic in responding to changes in their contextual environment.

Irvine (2011) examined the process of change in an Australian not-for-profit organisation changing from a cash-based to accrual-based accounting system. The study compared the image portrayed by adopting accrual accounting to the technical realities of the new system. Irvine used interviews, documents and meetings to interpret the data using institutional theory. Her findings revealed that the decision to change was made at the top level of the organisation. The implementation of the new system was poorly conceived, inadequately resourced and hampered by an authoritarian structure that ignored the training needs of its staff. As a result, the accounting system was halfway between cash-based and accrual-based. The study provided conclusive evidence of a mixed reaction to private sector concepts.

Holloway and Alam (2012) investigated key performance indicators (KPIs) in Western Australia’s public mental health system. They undertook a selective case study and used semi-structured interviews with mental health administrators to offer insights into the intricacies and difficulties involved in the performance system. Their findings highlighted that effective performance measurement and reporting can be internally problematic when there is a fragmented network system. The next ensuing paragraphs examine NPM reforms from New Zealand’s standpoint.
Alam et al. (1994) and Alam and Lawrence (1999) undertook studies on financial management reforms in the New Zealand Health Sector, where directors of Crown Health Enterprise (CHE) were appointed. Their jobs were to run hospitals and related health services in New Zealand as successful businesses. The studies revealed that under the new provisions of the *Health and Disability Services Act 1993*, managers of health institutions are now expected to earn a return on assets employed and to pay dividends to their shareholding ministers under the new business-like models.

Lawrence and Doolin (1997) conducted a case study of the New Zealand health sector to see how the interpretive schemes had changed among clinicians since introducing system contradictions to effect change in the public sector. Their findings uncovered how the clinicians had started using new terms in their public discussions. Interestingly, their findings uncovered two groups of doctors: ‘woolly jumpers’ and ‘the suits’. The former are still committed to old public service ethics, while the latter have embraced new business-like philosophies, and their public discourses are business-oriented.

Jacobs (1997) examined the decentralisation debate and accounting controls in the New Zealand NPM reforms. His study was based on earlier research undertaken by Miah and Mia (1996), which suggested that increased decentralisation in New Zealand government departments was associated with a higher use of accounting control systems, which is associated with increased performance. Jacobs disputed their findings on the basis that their study was flawed because they ignored the policy debate and the forms of decentralisation that occurred in New Zealand. Jacobs’ findings concluded that these are some of the problems of importing literature and research models from the private sector into the public sector as part of the reforms.

Schick (1998) studied New Zealand’s reforms from the perspective of how developing countries might want to copy such reform practices. His study examined the structure and operation of government departments and agencies. The model of reform has attracted international attention because it promises significant gains in operational efficiency. With the level of sophistication, Schick’s findings suggested that such reforms should not be mimicked by developing countries because it is too risky to apply the New Zealand model. His advice to developing countries was to first strengthen rule-
based government and pave the way for robust markets before considering reforms on an incremental basis.

Alam and Lawrence (2000) examined the disability support services in a liberalised economy using New Zealand as a case study. The case study was specific to the disabled and the researchers’ evidence was obtained from observations of the assessment process. Empirical data were used for both the assessors and the clients. The aim was to explore whether the government’s aims were achieved under its NPM reforms. The findings highlighted that assessments are now fairer under the reforms and that they provide greater dignity and choice for clients. The study recommended further research because there is still room for improvement in this area.

Thompson (2001) studied the effect of New Zealand’s public sector accounting reforms on the performance control of museums. His study showed that over the years, before the reforms, museums had accounted and reported on a cash basis, and the content and value of collections and the aims and outcomes of exhibitions had been curatorial matters, so they were largely outside the scope of accounting. Under the reforms, Thompson’s findings showed that public institutions must be converted into commercial entities by applying business-like practices such as adoption accrual accounting. Further, for the first time, there was evidence that administrators were attempting to make these matters transparent to the public and subject to a formalised financial accountability regime. In addition, the consequences for museums of the new accounting regime required improvements in regards to their performance.

Ellwood and Newberry (2007) undertook a comparative study of NPM reforms in both the UK and New Zealand public sectors regarding the implementation of public sector accrual accounting and institutionalising neo-liberal principles. Their findings showed that in both jurisdictions, the adoption of accrual accounting reduced the role of governments to be involved in only the procurement of services and to be the enforcer of rules set by others. This argument supports the view of privatisation and neo-liberal principles.

Belinda (2008) conducted a study of SOEs in New Zealand (see Alam & Wells, 1999, 2000, 2001) to determine the potential for making profits under NPM reforms. She
conducted an external examination involving financial data for 2001–2005 for the SOE sector, and an internal investigation involving interviews with senior executives. Her findings demonstrated the potential for SOEs as profitable government instruments with clear support for financial returns under NPM.

Alam and Lawrence (1994, 1997, 2000, 2009) explored the implications of empowerment practices within the disability support service of New Zealand as part of its NPM reforms. They conducted qualitative and interpretive fieldwork seeking live experiences, and their findings revealed that such empowerment can be problematic because it may be perceived as a manipulative strategy in disability support services. Furthermore, other researchers have also undertaken similar research regarding New Zealand’s public sector reforms and its related financial management reforms (Brash, 1996; Jacobs, 1997; Ballot, 1998; Bale & Dale, 1998).

In summary, public sector reforms in Australia and New Zealand have provided the benchmarks by which reforms around the world have been judged. Although Australia and New Zealand have been the forerunners in the reforms, the mimicking of their reform practices has varied in developed and developing countries. The successes and failures of each reform program have also varied from country to country and by jurisdiction, with very little uniformity of the practical application and results of these techniques (Hood, 1995; March & Olsen, 1995). PNG has copied most or all of its NPM reform initiatives from Australia because of its former colonial administrative status. Most of these reform initiatives are imposed because of the dependency syndrome, like many other developing countries. The next section reviews the literature relating to public sector financial management reforms.

3.4 Public Sector Financial Management Reforms

This section of the review will discuss financial management reforms and the use of private sector MACS adopted in the public sector. The definition of MACS was defined in Chapter 2 of this study, and part of the preceding literature review discussed financial management reforms. The literature reviewed thus far related to NPM public sector reforms. Public financial management reviews are closely linked with NPM reforms,
and the literature on public sector financial management reforms warrants a separate
discussion, as the research questions of this thesis are related to financial management
reforms. Therefore, this section of the review will discuss public sector financial
management reforms in developed countries, including Australia and New Zealand.

However, it is important to make an important distinction between public sector
accounting and public sector financial management which may create some ambiguity.
Public sector accounting refers to the maintenance of the government’s assets,
liabilities, capital, income and expenditures. In accounting, the public sector consists of
government departments, statutory bodies, semi-governmental organisations, and not-
for-profit organisations funded through the government’s annual budget processes or
through parliamentary appropriations. Public financial management on the other hand,
refers to a range of activities from preparation and fulfilment of the budget cycle,
budget oversight and control, taxation and debt management and procurement, to
resource allocation and income distribution.

These factors are referred to as MACS which are common in many public sector
organisations. However, what is significant in public sector accounting and public
financial management is the improvement in performance measurement systems of
public sector organisations through the design and implementation of market disciplines
and private sector style concepts of MACS. However, these are not limited to
techniques such as accrual accounting, performance based planning and budgeting
systems, public accountability, good governance and transparency adopted in public
sector organisations. These are some of the common features that bind private and
public sector organisations although private sector also has inherent limitations that
must be avoided as far as possible in the reform program (Mayston, 1993).

What is considered different from the current study is that PNG as a developing country
has not adopted the reforms with a holistic intent like many advanced countries. For
example, New Zealand and Australia due to their sophistication and complex
capabilities have tended to adopt such practices for broader economic and social
reforms. Furthermore, MACS, or management accounting research, is an area of
research in PNG where no academics, professionals, or researchers have research into,
thus making this thesis a significant contribution to fill the gap in understanding this
experience. Thus, this is an original contribution to the discipline of management accounting research.

Bellamy and Kluvers (1995) undertook a study of Australian local governments implementing outcome budgeting systems as part of their financial management reform programs. Their study revealed a general move towards improving levels of efficiency and effectiveness by using private sector MACS techniques such as cost/benefits analysis and performance indicators in their programs’ budgeting systems. However, the study revealed problems in developing appropriate performance indicators and suggested that further studies address such difficulties.

Brownbridge and Kirkpatrick (2000) conducted a survey of financial management regulations in developing countries and examined how the reforms were meant to strengthen their financial management systems. Their survey examined the progress made in implementing the reforms by analysing the weaknesses in their prudential systems and discussing policy options for further research. Their findings revealed that many developing countries are yet to build robust financial management systems because many lack skilled manpower and an impartial bureaucracy, and they have environments that are characterised by weak accounting and legal frameworks, as well as constant political interference.

Potter (2001) studied financial accounting reforms in the Australian public sector and the adoption of commercial accounting information for not-for-profit organisations, especially for public sector organisations, including the recognition of culture, heritage and scientific collections as assets by public sector cultural organisations. The findings revealed that the regulations were inappropriately applied to the public sector’s traditional accounting concept for the purposes of accountability and performance, notwithstanding that the primary objectives of the public sector are not financial as such.

Robinson (2002) examined the impact of financial control in the Australian government’s budgeting systems as a result of adopting private sector MACS. With the arrival of an accrual accounting and performance budgeting system known as ‘accrual output budgeting’, there have been significant changes in the central control
mechanism. Robinson suggested that rather than the government being concerned about financial control (public expenditure at the aggregate level), it should also be concerned about the benefits to the community. In addition to providing efficiency and effectiveness, there must be a clear mechanism in place for public accountability in the resources allocated to departmental use and the results that they produce with those resources.

Barrett (2004) examined financial management reforms in Australia, which began in the 1980s with the introduction of accrual accounting and budgeting systems aimed at making the public sector more efficient and its processes more transparent. He suggested that while significant improvements have been achieved by the reforms, there is still much to be done. He claimed that in order to apply business-like MACS, government agencies must be converted to business entities. His study further revealed that while the adoption of an accrual-based regime in the public sector overall has been positive by enhancing efficiency, effectiveness, accountability and allowing the better costing programs and services provided, enabling systems must be tailored to suit the environment. The findings highlighted that in the financial reporting aspects, more work is needed; therefore, the adoption of private sector MACS tools in the public sector has received mixed reactions.

Diamond and Khemani (2006) studied how financial management information systems (FMISs) in developing countries have encouraged developing countries to reform their operations. Their study highlighted public expenditure associated with project funding to be computerised by introducing government FMISs. Their findings revealed universal failure to implement and sustain FMISs in developing countries. Further research was suggested to identify key factors to explain why FMIS projects have been problematic.

Paulsson (2006) examined financial management reforms in Sweden, in which accrual accounting was initially introduced as part of the NPM reform at the local government level and gradually moved to the central government following official and public pressure. The study found that at first sight, accrual accounting was less useful in public sector organisations. However, a more detailed empirical analysis concluded that accrual accounting does not provide a full picture of the use of accrual accounting.
information in the central government of Sweden. The arguments presented suggest that while accrual accounting may be useful to a large extent, it is difficult to link it to the budget process of the Swedish government. Likewise, there are large variations in the use of accrual accounting information. This suggests a mixed reaction as to whether the adoption of accrual accounting was an appropriate tool to implement or whether cash basis should be maintained for the purpose of reporting to Parliament.

Ouda (2008) examined a generic model of New Zealand’s financial management reforms, in which he pointed out that the Public Finance Act was a significant piece of legislation that defined the operating requirements of the government under NPM reforms. The overall aim of the financial management reforms was to achieve better value for public spending. Among other changes to the Public Finance Act, two significant changes were pointed out in Ouda’s study, which are relevant to the context of this study: the shift from an input- to an output-based budgeting system, and changing from a cash to an accrual accounting system.

Barton (2009) examined the use and abuse of accounting in the public sector financial management reform program in Australia and pointed out that although accrual accounting was introduced to promote greater efficiency, effectiveness and accountability, the resulting effects have been mixed. He pointed out that the benefits of adopting accrual accounting have been offset by adopting and misusing business-like models and terminating the former cash basis of accounting. He further pointed out that marketisation reforms appear to be driven more by the objective of reducing the size of the government than enhancing the efficiency of government operations.

Pretorius and Pretorius (2009) evaluated the public financial management reforms among OECD countries and the economic impetus that gave rise to many public sector reforms in these countries. These countries were concerned about the management of the public sector. This led to the development of a new public management model that emphasises managerial accountability and was accompanied by financial management measures, which is referred to as new public financial management (NPFM). The study showed that the precise direction and speed of these NPFM reforms were driven by each country’s political and social heritage.
Barton (2009) examined the adoption of accrual accounting and budgeting systems that were central to financial management reforms in Australia. His study revealed that the adoption of private sector MACS was heralded with much praise and promised improvements in the efficiency of resources management, enhanced transparency of information, and accountability to Parliament, especially by official enquiries, public officials and the accounting profession. His findings revealed that academics are more critical and have a view that is contrary to the view held by the former, contending that although the reforms as a whole enabled significant improvements in resource management, accountability and fiscal performance, academics thought that some reforms were inappropriate and created problems. These problems have only been resolved in the past five years or so. Therefore, private sector MACS cannot be heralded with too much praise yet because the private sector concepts are not immune to problems.

Perry (2010) explored how public financial management can be improved and capacity can be strengthened in developing countries and emerging economies. He explored common issues and lessons learned from case studies in Botswana, Pakistan, Vietnam, Zambia and Zimbabwe. His findings appeared to be consistent in all of these countries, where the financial management reforms must address the key areas of prudent financial management systems. His study found that if there is strong financial management, stewardship, accountability and transparency regarding the use of public resources, the public will have confidence in these governments.

Many researchers have made a significant effort to understand the role of accounting in sweeping reforms to the traditional public sector reforms that are occurring in almost every country around the world (Irvine, 1999, 2005, 2011; Hopwood & Tomkins, 1985; Guthrie, 1994; Llewellyn, 1998; Lapsley, 1999; Lawrence, 1999; Cameron, 2004; Llewellyn & Northcott, 2005; Mir & Rahaman, 2007; Hoque & Adams, 2011). All of these authors have argued that the main motives for these reforms relate to the need for efficiency and effectiveness in many public sector organisations in relation to their operational and the financial management processes. Their arguments have been echoed by many authors in earlier studies undertaken in the subject area (Tomkins, 1987; Broadbent & Guthrie, 1992; Pallot, 1992; Guthrie, 1993; Parker & Guthrie, 1993;
In their financial management reforms, the financial management processes of many public sector organisations have seen significant improvements in the public sector through the appropriate supporting legislative reforms (e.g. Luder, 1992, 1994, 2001; Jaruga & Nowak, 1996; Godfrey et al., 2001; Christensen, 2002; Ouda, 2001, 2004, 2005, 2008). In contrast, Mir and Rahaman (2007) argued that studies have provided evidence of improvements in financial management processes in the public sector even in the absence of legislative framework and management resistance (e.g. Mir & Rahaman, 2003a, 2003b). Moreover, prior research has indicated that significant financial management difficulties are provoked by public sector reforms (Pallot, 1992; Puxty, 1997; Olowo-Okere & Tomkins, 1998; Cooper & Arnold, 1999; Lawrence, 1999; Llewellyn & Northcott, 2005; Lowe, 2000). These arguments are also supported by Evans (1999), Guthrie et al. (1999, 2003), Rahaman and Lawrence (2001), Barrett (2004), Evaluation Report (2009), Diamond and Khemani (2005), Australian National Audit Office (2008), Murray (2008), Blondal et al. (2008) and Andrews (2009).

In summary, public sector financial management reforms have been an integral component of public sector reforms around the world. PFM reforms have played a significant role in NPM reforms, which are now well accepted by many countries because they enhance the operating efficiency, transparency and accountability of public sector organisations through the introduction of business-like concepts, thereby improving public sector performance. However, there is also a contention that private sector concepts are not perfect; therefore, there are mixed reactions to the adoption of private sector practices. The next section reviews the literature from developing countries.

### 3.5 Public Sector Reforms in Developing Countries

As this research stems from an interest in public sector reforms in the context of developing countries, this section will examine the reforms in developing countries other than PNG. A review of public sector reforms in PNG is presented in the next...
section. However, a significant feature of public sector reforms in developing countries worth discussing is the role played by external aid agencies. In the case of most developing and transitional countries, an additional factor driving NPM-type reforms has been donor advocacy and lending conditions of international financial institutions, notably the IMF and the World Bank, with the adoption of a more pro-market and pro-private sector stance in structural adjustment programs, and the spread of global markets, especially those related to financial integrations and liberation and the resultant competition are forcing the public sector in most countries to reshape itself to keep pace with the emerging global economy and modern information technology ((Hood, 1995; Jaruga & Nowak, 1996; Larbi, 2003; Jones & Kettle, 2003; Ouda, 2001,2003). The next sections of the review look at various studies undertaken by various researchers in developing countries.

Alam (1997) explored how the budgeting process is used to manage technical and institutional environments. The study was carried out in two state-owned organisations in Bangladesh. The conditions in Bangladesh suggested that all SOEs face bureaucratic environments. The two organisations selected provided examples of high and lower uncertainties. The findings suggested that in conditions of high uncertainty, budgeting is more oriented towards the management of external relationships with significant institutional actors than with the management of the organisation itself. The findings further suggested that budgets are relatively uncoupled from detailed aspects of the organisation’s task.

Polidano and Hulme (1999) undertook a brief survey regarding key issues in NPM reforms in developing countries. Their article examined how NPM reforms have made inroads in the developing world. The major themes of the reforms were unrelated to NPM reforms, such as capacity building, controlling corruption, political decentralisation, public empowerment, and the role of aid donors and its implication for the success of the reforms. Their findings concluded the need for further research by identifying ways to improve the low success rate of the NPM reforms. Although the article is over 10 years old, it is used here because it relates to the research objectives and questions raised in Chapter 2, which will be discussed in the analytical chapter.
Uddin and Hopper (2001) found that transnational institutions such as the World Bank and the IMF tend to promote global capitalism by forcing developing countries into market-based policies and practices. For example, in a soap manufacturing company in Bangladesh, there were devastating consequences on the poor and the underprivileged despite transnational institutions’ positive predictions. Empirical evidence in many developing countries has provided conclusive evidence that public sector reform initiatives are ineffective.

Alam et al. (2002) presented a study of the operations and accounting practices in the Fijian Development Bank. They raised the issue that accounting issues in Fiji cannot be understood outside of the complex historically constituted contradictions and related tensions in Fijian society. The bank had to reconcile a history of colonisation and racial discrimination with the forces of globalisation and the drive for economic development. The findings revealed the explicit social–historic specificity of the contradictions and raised questions about the meaning of accounting in development.

Rahaman et al. (2002) used institutional theory and Habermas’ legitimation theory to explain social and environmental reporting at a Ghanaian public sector organisation—the VRA—which was influenced by environmental reporting and constant pressure to comply with the requirements of funding agencies such as the World Bank in order to provide institutional legitimation. The study revealed that the same sources of pressure have led to undesirable outcomes for the local population, and they work against the original goals of the VRA project. The study further revealed that accounting systems were designed to meet the requirements of international institutional legitimisation. The end result was a crisis of legitimation.

Lodhia and Burritt (2004) examined public sector accountability failure in an emerging economy using a case study of the National Bank of Fiji. Under the NPM reform, one premise is that an effective accountability mechanism is in place. The study found that if bad management and corruption are prevalent, accountability may fail, especially when bad management and corruption are entrenched in the entire banking system. The authors suggested that this scandal illustrates the need for the proponents of NPM reforms to consider the net benefits before introducing such reforms in developing countries.
Mir and Rahaman (2005) explored the rationale and process regarding the decision by the Bangladeshi government and the accounting profession to adopt international accounting standards (IASs). The authors used archival documents and interviews with key actors, preparers and users of the financial reports and members of the profession to reach their conclusions. Their findings concluded that the decision to adopt IASs was the result of pressure exerted by external forces such as donors and lending institutions on the Bangladeshi government and professional accounting bodies. The findings further showed that institutional legitimisation was perhaps the major factor that drove the decision to adopt IASs.

Wickramasinghe and Hopper (2005) found that cultural and political influences over decisions often outweigh commercial considerations and bypass formal accountability systems in Sri Lankan SOEs. They found that given the importance of various social, cultural and political institutions in accounting among developing countries’ SOEs, accounting in these SOEs must be viewed from a sociological perspective, as accounting is a social phenomenon.

Uddin and Tsamenyi’s (2005) case study of accounting control changes and performance monitoring in a Ghanaian SOE found that budgetary practices at the Ghana Food Distribution Corporation (GFDC) did not change substantially, with the exception of reporting practices. The study found that budgeting remained politicised, delayed, directionless and ineffective. Reporting to the monitoring agency had no positive effects due to time limitations and difficulty in obtaining relevant data. These reforms were sponsored by the World Bank, suggesting that there is little evidence for success.

O’Donnell and Turner (2005) examined the export of NPM in the Vanuatu public sector. They described exports of NPM practices and evaluated these initiatives in different environments to the ones in which they originated. Their investigation found that the adoption of performance agreements has been slow and has enjoyed limited success. Further findings revealed difficulties encountered, such as suspicion, lack of incentives, unpredictable environment and possible identification of donor driven reforms, hence its limited success.
Chatterjee and Mir (2006) explored the role of mandatory cost auditing in enhancing trust in India. Their paper explored whether cost audits as a governance mechanism affected users’ trust of financial statements and whether they provided the benefits intended by regulators. They used unstructured, open-ended face-to-face interviews with cost auditors, and their findings revealed that mandatory cost audits in India have not enhanced the level of trust of investors and the preparers of financial statements, and they have not provided the benefits expected by the regulators. The study suggested that further research is required to consider the usefulness and cost and benefits aspects of mandatory cost audit in India.

Alam and Marwata (2006) conducted a qualitative case study research involving documents and regulation analysis and semi-structured interviews with key informants in Indonesian local governments. The study examined the introduction of new accounting systems as a result of public sector reforms. The findings have been characterised by rivalries and alliances among reform drives. This confirms the political nature of the process, which is conclusive evidence of the phenomena in the developing country.

Sarker (2006) undertook an analysis of the NPM successes and failures of developing countries with specific reference to Bangladesh. Sarker conducted a comparative analysis between Singapore and Bangladesh and found that the Bangladeshi public sector has failed to establish solid institutional frameworks, rules of law, proper control structures, checks and balances, and accountability. Some of the distortions that indicate the lack of a NPM environment are cumbersome procedures such as distortions in the administrative structure have been common, corruption, the over-politicisation of administration for narrow partisan interest, factional strife in flouting basic civil rights rules and constant interference by donors. The findings provided mixed reaction regarding whether NPM reforms are appropriate for developing countries.

Rahaman et al. (2007) sought to understand how the Ghanaian government decided to privatise its urban water services and the role of accounting in the reform process of ‘reinventing the government’. They used a variety of archival documents and interviewed 27 participants. Their findings showed how accounting is enlisted at the
sub-consensus level and how it can engender significant resistance and be used in various debates on profitability and adaptability issues.

Amosa (2008) examined the NPM agenda in small developing countries in relation to employment contracts and politicisation in Samoa’s public service. The purpose of the paper was to examine claims that the removal of tenure in favour of fixed-term contracts led to the politicisation of top-level appointments. The author established his findings using his experience as a senior public servant and data collected in interviews and government documents. However, the findings showed that the claims could not be fully endorsed; there was a level of politicising, but not for all appointments.

Rahaman et al. (2009) undertook a case study research of international development lending in Latin America to examine how accounting works in the context of international development. The case study approach used El Salvador, and data sources included archival documents, semi-structured interviews and observations. The findings highlighted how accounting and its associated actors further the development aspirations of loan beneficiaries but at the same time contribute to the ‘over-organisation’ of these actors’ social spaces. The findings reinforced similar findings in many other developing countries.

Hopper et al. (2009) evaluated the management accounting research in developing countries. The evaluation was based on existing literature analyses through the framework of management control transformation in developing countries. Their findings revealed that research is still growing in this area, especially in relation to accounting in SOEs and privatised enterprises, but that more research is needed in small and micro enterprises, non-government organisations and transnational institutions.

Gurtoo (2009) studied the adaptation of India’s public sector to market-driven economic reforms to promote economic development in India. Gurtoo found several unique capabilities of India’s public sector organisations that make them comparable to private sector firms. For example, India has a superior resource-picking capacity compared to private firms, as well as international financial assets and modern technologies. The findings revealed that the managerial systems and structures of public sector organisations give them an advantage in promptly meeting competitive demands.
Ndiweni (2010) used a case study and drew on Giddens’ structuration theory to help understand how management accounting practices are produced and reproduced through interactions in organisations. The study highlighted the unintended consequences that resulted from the (abuse) use of management accounting information in a large automobile corporation in Zimbabwe. The findings revealed how the use of management accounting information could lead to domination over other employees, resulting in unintended consequences such as redundancies. The study’s findings were consistent with similar findings of other researchers in the developing world.

Harun et al. (2012) undertook a case study to gain insights relating to critical features of the institutionalisation process of accrual accounting systems (AAS) in the public sector of one Indonesian municipality. The data were drawn from official documents of the Indonesian Government and publically available information about the accrual adoption process. The study revealed how the decision of the Indonesian Government to adopt accrual accounting in 2003 was part of greater political and economic reforms following the financial crisis that occurred in 1998. The adoption was delayed by technocrats in the Ministry of Finance and enabled by a series of national political events. The findings uncovered that politics and power inform the complexity of institutionalisation in a unique political–economic environment.

A number of studies in other developing countries regarding public sector NPM reforms have emerged, but it is impossible to extensively cover them in this literature view (e.g. Uddin & Hopper, 2001, 2003; Rahaman & Lawrence, 2001a, 2001b; Rahaman et al., 2004; Uddin & Tsamenyi, 2005; World Bank, 1995b; Wickramasinghe & Hopper, 2005; Hoque, 1994, 1997; Jacobs & Kemp, 2002; Chatterjee & Mir, 2008; Soobaroyen & Poorundersing, 2008; Hopper et al., 2009). These authors found consistent inadequacies in public sector reforms, including weak budgetary control processes, political interference, nepotism, over-bureaucracy, trade unions, cultural factors, ethnicity and interventions by aid agencies. These major factors made NPM reforms in many developing countries ineffective.

In summary, this section reviewed MACS from the perspective of developing countries. Researchers in this area of study pointed out the importance of understanding the
cultural context and local politics from a much wider spectrum because these are the factors that influence MACS in the context of public sector reforms (Wickramasinghe & Hopper, 2005). Further, donor agencies have a significant influence on the management control systems of many public sector organisations in developing countries, and they have called for more in-depth studies to be conducted (Uddin & Hopper, 2001). The next section discusses public sector reforms and public sector financial management reforms in PNG respectively.

3.6 Public Sector Reforms in PNG

Like many developing countries, PNG has had its share of public sector reforms, which commenced as early as 1979, just four years after independence, and it has been a continuous process since then. The public service left behind by the Australian Commonwealth administration at the time of independence was considered unsuitable and too cumbersome for PNG’s development context. The reforms that were occurring were general public sector reforms that had little to do with NPM reforms. The focus of this study is NPM reforms for the period 1995–2006. However, there is no empirical evidence or in-depth investigations into NPM reforms in PNG. Apart from one or two academic papers, this section reviews normative/prescriptive literature. Most or all of the reviews are of consultancy-type reports commissioned by the government or by donors who do not carry independent views, or is it explained by relevant theories to explain the behaviour of reforms in PNG.

To Robert (1979) undertook a study at the request of the PNG Government to identify existing management control problems in the public service. His study exposed a myriad of management control problems following the departure of its colonial master. Some of the problems found in his study included a lack of clear goal-setting by central agencies of the government, poor coordination and communication of national policies, a lack of adequate management control and performance accountability systems, poor coordination between national and provincial programs, a lack of expenditure control over public funds and poor payroll systems. Although the study highlighted NPM problems, the government was unable to implement any of these findings due to external influences.
Sause (2003) examined problems of policy transfer in public management reforms in PNG and highlighted the influence of donors such as the World Bank and the IMF regarding the relevance of policy transfers to recipient countries such as PNG. The findings showed that critical policies needed in the reforms were never adopted because of external influences in the reform program. The study showed a particular character of policy transfer in developing countries’ NPM reforms. This is the mutual state of dependency that many developing countries have. The study provided conclusive evidence of earlier studies in other developing countries that had limited success due to external influences.

Kavanamur et al. (2004) undertook an analytical evaluation of NPM reforms in PNG and found that the public sector has generally been characterised as ineffective and lethargic in its performance. They found that systems and procedures have broken down and that incapacity has crept in over the decades. The public service and other state institutions appear to have been captured by private and sectional interests. They found that implementing NPM reforms under such circumstances may be problematic because there is no infrastructure in place for NPM reforms to launch from. Their study further found that the earlier reforms undertaken by the government and assisted by the World Bank and the IMF may have contributed to the collapse of the public service. Notwithstanding the commendation by these financial institutions, with the help of these donors, the government dismantled the constitutional role of the Public Services Commission (PSC) and enacted the Public Services Management Act 1986 and created the Department of Personnel Management. The study further revealed that parliamentarians were given greater leeway to control the public service, which then increased the level of politicisation. Further, the appointment processes were abused, and theft and corruption became rampant. Attempts to retrench produced few results. The study was found to be consistent with researchers in other developing countries.

May (2006) studied public sector reforms in PNG and raised the issue of NPM reforms and the adoption of contract-based appointments in the public sector. He revealed that the Public Services (Management) Act was an amendment to facilitate merit-based appointments at senior levels of the public service and statutory bodies. The study also showed this to be the point of NPM reforms with a system of performance-based
contract systems implemented in PNG’s public sector. While this is meant to be an independent process, there appears to be a degree of politicisation in the appointment process.

According to the FMIP (2003), an examination of public sector reforms in PNG raised the importance of the government’s FMIP, which is an integrated reform program of financial management at all levels of government. According to the report, reasons for adopting the FMIP include a lack of support for sound financial management in provinces and districts, a lack of capacity in provincial and district treasuries, and the need to improve budgetary planning, accounting, financial control, monitoring and reporting, and debt management at all levels of government. The report concluded that the FMIP is perhaps one of the most significant single reforms of financial management ever undertaken with the help of donors. The fruits of this project have not yet come to bear.

Kavanamur et al. (2004) analysed PNG’s reforms and revealed that one of the key reforms adopted during this period was replacing the OLPG instituted in 1976 with the new OLPPLLG in 1995. This fundamental piece of legislation laid the new financial management arrangements at the decentralised levels with regards to the business-like concepts of good governance principles, transparency and accountability, strategic planning and budgeting systems, and a performance-oriented culture, as evidenced in the private sector.

A review of the PFMA (1996) revealed that a significant piece of legislation that stood as a pillar of the financial management reforms in PNG was the amendment to the PFMA. The review showed that significant sections of the legislation were amendments to accommodate private sector practices—for example, Sections 39 and 40 allowed for a review of the government’s procurement procedures and the supply and tender boards. Further, Section 9 allowed for the establishment of public sector audit committees, Section 10 allowed for the separation of the public accounts of national-, provincial- and local-level governments, and Section 63 allowed for the preparation of the financial statements of the government’s statutory bodies. These provisions were necessary for good governance, transparency and public accountability. Further, Section 3 of the Act was also amended to allow for the delegation of financial authority and performance-
based accountability systems to departmental heads. This meant that departmental heads were required to ensure that they maintained all appropriate controls in relation to strategic planning, budgeting, accounting, internal and external audits, and reporting requirements. However, the review of the Act fell short of converting the departments from ‘cost centres’ to ‘profit centres’, as in the Australia and New Zealand experiences. The fundamental reasons for these amendments were to replicate key private sector principles in public sector financial management.

However, the international aid agencies have played a significant role in the public sector reforms in Papua New Guinea. Some of these reforms initiatives supported by these external aid agencies included: the various Structural Adjustment Program loans (SAP), trade policy reforms, forestry reforms, General administrative reforms, Budget reforms, tax and tariff reforms, political parties and electoral reform, currency float, private sector wage liberation, corporatisation and privatisation, financial sector reforms, investment deregulation, the Public Expenditure Rationalisation and Review (PERR), Financial Management Improvement Program (FMIP), Organic Law on Provincial and Local Level Governments (OLP&LLG), Public Services (Management) Act, Public Finance (Management) Act, and the Public Sector Reforms. All these reforms initiatives were driven from the outside by the World Bank and International Monetary Fund (IMF), AusAID and Asian Development Bank (ADB) with their strict conditions attached to their financing packages.

However, the focus of this study is not concentrated on all of the above reforms, but rather, explores the extent, nature and implications of the NPM type public sector reforms in Papua New Guinea, focusing on the period 1995-2006. The central focus is on the Organic Law on Provincial and Local-level Governments (OLP&LLG), and the Public Finances (Management) Act. The Public Finance (Management) Act covers FMIP, PERR, and Budget reviews. These pieces of legislations are pillars of NPM type reforms which introduced market disciplines to improve public sector performance evaluations. While the reforms under these pieces of legislations was championed by the DoF, their success and failures, regarding whether or not, they have changed the accounting and management control systems at the lower levels of government is analysed in the later chapters of this study. While the literature review has so far attempted to present the various components of public sector reforms and their associated public sector financial management reforms and the adoption of MACS from
a number of perspectives, no study has tried to model these public sector reforms in the context of MACS in PNG. In fact, there is very little NPM reform literature in this area to be able to conduct a comprehensive review. Therefore, this study will attempt to fill this gap in the literature by examining the adoption of MACS and their modifications in regards to financial management reforms in PNG.

However, it should be noted that this study will not attempt to provide a comprehensive history of public sector reforms in PNG, which has been done by a number of academics (Turner, 2002; Turner & Kavanamur, 2007; May, 2006; Whimp, 2001). It will also not attempt to provide a progress update on the PNG government officials (Kua & Tuck, 2006) who have covered or replicated any reports of the transnational institutions of the World Bank, IMF, ADB or AusAID regarding public sector reforms in PNG (World Bank 1983, 1992, 1995b; AusAID, 2009). However, as no academics, government officials or multinational institutional reports have addressed the reforms from a MACS perspective in PNG, this study will contribute to the literature regarding MACS in the public sector.

3.7 Summary and Conclusion

In summary, this chapter reviewed the literature on public sector reforms—especially the NPM, which was introduced in the early 1990s to improve the performances of many public sector organisations by way of replicating the business-like concepts of the private sector. The chapter reviewed the literature relating to the public sector reforms of Australia and New Zealand because they appear to be forerunners in NPM reforms, and they undertook the reforms in a very comprehensive manner, addressing key components of the reforms. The chapter further reviewed public sector financial management reforms and the use of MACS in the public sector. Finally, the chapter reviewed public sector reforms in PNG and their associated financial management reforms. The review of literature then points to the research gap that exists in the literature.
Chapter 4: Research Methodology, Methods and Theoretical Framework

4.1 Introduction

This chapter presents the research methodology, methods and theoretical framework used in the study. The chapter will be presented as follows: research methodology, qualitative research, research design and the case study approach, access to the research site, data collection procedures, data analysis and data triangulation, theoretical underpinnings, and conclusion.

4.2 Research Methodology

In Chapter 2, three research questions were raised in relation to the design and implementation of private sector style MACS in the DoF. These research questions are exploratory in nature; as such, the qualitative methodological paradigm is used as a suitable approach to explore these questions. The exploration will attempt to answer the reasons for the design and implementation of MACS observed in the DoF. Burrell and Morgan (1979) and Parker (2008) argued that researchers undertaking exploratory research are by nature subjective and interpretive researchers who are advised to avoid emulating the characteristics of the positivist research community. Therefore, this study rejects the view that there is an objective world separate from the researcher, whose job is to record or capture the reality. Instead, a more subjective and interpretive paradigm is adopted for this study. Figure 4.1 illustrates the four paradigms for analysis in the methodological framework. Each paradigm is briefly explained below, as argued by Burrell and Morgan (1979).

The ‘radical structuralist’ paradigm is committed to radical change, emancipation and potentiality in an analysis that emphasises structural conflict and modes of domination, contradiction and deprivation. It approaches these general concerns from a standpoint that tends to be realist, positivist, determinist and nomothetic.
The ‘radical humanist’ paradigm emphasises radical change and modes of domination, emancipation, deprivation and potentiality. The concepts of structural conflict and contradiction do not figure prominently within this perspective, as there are characteristics of more objectivist views of the social world, such as those presented within the context of the radical structuralist paradigm.

The ‘functionalist’ paradigm is firmly rooted in the sociology of regulation and approaches its subject matter from an objectivist point of view. Its standpoint tends to be realist, positivist, determinist and nomothetic.

The ‘interpretive’ paradigm, which is located within the context of the interpretive paradigm-adopted consonant with tenets of the ‘sociology of regulation’ through its subjectivist approach to the analysis of the social world, often makes implicit links with this sociology rather than explicit links. The interpretive paradigm is informed by a concern to understand the world as it is and to understand reality as a subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity within the frame of reference of the participant as opposed to the observer of action (Burrell & Morgan, 1979).
4.3 Qualitative Research

The qualitative research approach is a non-mathematical analysis that aims to address or identify the ‘who, what, when, why and how’ of a phenomenon (Parker, 2008; Warren & Karner, 2010). The qualitative methodological paradigm used by qualitative researchers emphasises the ‘value-laden nature of inquiry’ and seeks answers to questions that stress the meaning of social experience by using questions beginning with ‘who, what or why’ in the qualitative method (Denzin & Lincoln, 2000, 2003, 2008). Qualitative research includes in-depth case studies, participant observations, semi-structured interviews, and historical and archival documents regarding information about a phenomenon.

Qualitative research is defined as a tool of research that is concerned with understanding rather than accurate measurement. The research in question is unstructured, allowing respondents to give their views, ideas and feelings regarding their knowledge of a given phenomenon. Unlike the quantitative method, in this instance, the interviewer can effectively design the questionnaire even if there is little or no previous knowledge about the issue being investigated, as only the respondents’ thoughts are accumulated (Hague et al., 2004). Qualitative researchers tend to observe the conduct of the self and others to understand and comprehend the social processes and attempt to explain why both actors and processes are the way they are (Denzin & Lincoln, 2000, 2008; Simons, 2009; Warren & Karner, 2010).

Glense and Peshkin (1992) and Irvine and Gaffínkin (2006) stressed that qualitative researchers usually do not find quantitative methods appealing, and they have a high tolerance for ambiguity and are prepared to invest time in the research. Puxty (1993) argued that qualitative researchers are interpretive researchers who can only make sense of understanding people as people. Puxty implied that research can only proceed through an understanding of how people understand each other’s behaviour rather than on some ‘objective’ account on the part of the researcher. Under interpretive or subjective methodology, the researcher is part of the reality and records the transactions taking place. The researcher interacts with participants and attempts to capture their understanding of a subjective reality. Interpretations of individual actions are based on
this understanding (Burrell & Morgan, 1979; Chua, 1986, 1988). Chua (1986, p. 615) summarised the aims of interpretive research as revealing to people what they and others are doing when they act and speak as they do. The aim of the interpretive researcher is to enrich people’s understanding of the meanings of their actions, thus increasing the possibility of mutual communication and influence.

4.4 Research Design

The main research strategy used in this study is the case study method. As this method is concerned with the DoF, the researcher attempts to understand a number of issues in the DoF, such as the current private sector style MACS practices used in the DoF, the influencing forces exerted on the DoF in the design and implementation of private sector MACS, the specific problems confronted by the DoF and how these problems are being overcome in the design and implementation of private sector style MACS. These specific problems were raised in the research objectives and questions in Chapter 2. The case study approach helps the researcher to understand the nature of the entity and related limitations (if any), as this strategy helps the researcher to understand the organisational phenomenon—particularly the behaviour of the organisational actors and the internal and external environments in which it operates in the design and implementation of private sector style MACS.

4.5 Case Study Approach

Yin (2003, p. 13) technically defined the case study method as: “a case study as an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.
- It copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
- relies on multiple sources of evidence, with data needing to coverage in a triangulating fashion, and as another result
• benefits from the prior development of theoretical proportion to guide
data collection and analysis”.

As such, in the qualitative interpretative methodological paradigm, in-depth case studies play an important and valuable role in data collection. Morgan and Smircich (1980) argued that the actual suitability of the research method is derived from the nature of the social phenomenon to be explored. In many cases, the research questions dictate the methodological approach to be used in the type of research. Simons (2009) explained that the purpose for undertaking a case study is to explore the particularity—the uniqueness—of the single case or phenomenon.

Ferreira and Merchant (1999, p. 4) indicated that the main characteristics in case study research are:

(1) the researcher has direct in-depth contact with the organizational participants, particularly in interviews and direct observation of activities, and these contacts provide a primary source of research data (2) the study focuses on real tasks or practices, not situations artificially created by the researcher (3) the research designed is not totally structured. It evolves along with the field observation (4) the presentation of data includes relatively rich (details) descriptions of company context and practices (5) the resulting publications are written to the academic community.

Therefore, the case study approach provides several advantages to this study because it helps to deal with multiple sources of evidence such as documentary survey, observations and interviews. It deals with detailed descriptions of organisational practices and procedures, and it helps understand the social, political and other public sector organisational influences that affect the design and implementation of private sector style MACS in the DoF. The case study approach also helps to understand the different views of the participants in relation to their working experiences and attitudes, problems and difficulties, and perhaps solutions found in the design and implementation of private sector MACS in the DoF.

4.6 Access to the Research Site

Although the Secretary for Finance and his two deputy secretaries are known to the researcher, setting the scene for the research was perhaps the most difficult issue
because of the contextual nature of the enquiry (Peshkin, 1992; Alam et al., 1994; Irvine & Gaffikin, 2006). Designing qualitative research for a sensitively researched organisation such as the DoF was not as easy as initially anticipated. Although the researcher communicated on a number of occasions directly with the Office of the Secretary for Finance through emails, letters and telephone calls to Port Moresby over a nine-month period (July 2009 to April 2010), setting the scene to commence the fieldwork initially appeared to be unsuccessful. A copy of the initial access letter to the Secretary for Finance is presented in Appendix ii of this thesis.

Irvine and Gaffikin (2006) pointed out that resistance perhaps enables the researcher to ‘get close’ to participants and ‘to penetrate their internal logic and closet, and interpret their subjective understanding of reality’. The breakthrough came in mid April 2010, and final written approval was received from the Secretary for Finance on 20 June 2010. The breakthrough would not have been possible without the assistance of the Secretary’s personal assistant, Mr Wal Hia (pseudo name), who later conveyed the Secretary’s apology due to his busy schedule. A copy of the approval letter from the Secretary for Finance is presented in Appendix iii of this thesis.

It was important for the researcher to accept the apology because it is not easy to obtain approval at the highest level of the organisation. The Secretary for Finance could have chosen not to grant the approval, which may have caused difficulties in obtaining access to the organisation. However, as soon as the approval was granted, the next task was to obtain access to the organisation itself. This was complex because of the functional responsibilities of the organisation. ‘Vulipindi Haus’—the building that houses the DoF, the Treasury and the Department of National Planning and Monitoring—was heavily guarded by armed guards and police officers due to the political and organisational nature of the activities conducted by these departments.

However, knowing the difficulties that the researcher was likely to be confronted with, the researcher decided to wait at the entrance to the building with a view to using a contact in order to meet the Secretary for Finance. As soon as a contact was identified (a police officer), the researcher requested to be led to the Secretary’s office to have an audience with the Secretary. The researcher’s appointment with the Secretary was earlier secured through the Secretary’s personal assistant. The contact was of great
assistance because he was able to take the researcher directly to the office of the Secretary without any hesitation. All appointments made by the researcher throughout the course of the fieldwork were recorded manually in a diary, which was later transferred to a Microsoft Word document for recording and analysis purposes.

**Brief to the Secretary for Finance**

Part of the formal protocols before the commencement of the data collection was to brief the Secretary for Finance on what the researcher was required to do and for how long. This brief was necessary so that the Secretary felt comfortable and confident that no data collected would be detrimental to him or his organisation directly or otherwise. The researcher had the privilege of meeting the Secretary for Finance for almost one hour in his office. The researcher thanked him for providing access to the organisation and explained the type of research that was to be undertaken in the organisation. This included the managers and employees that the researcher expected to interview and, if consent could be obtained, because the researcher planned to record the interviews using an MP3 player as soon as written consent was obtained from the individual employees concerned. The researcher also indicated that the research would entail collecting historical and archival documents relating to the reforms.

Furthermore, the researcher was also interested in observing participants, and the Secretary agreed that the researcher could sit in on all meetings of divisional heads, as well as the Public Debt Committee meetings, if required. Following the briefing with the Secretary, an instruction was issued from the Deputy Secretary responsible for operations, which advised the entire organisation to provide all assistance that was required to ensure that the researcher could complete the data collection. A copy of the Secretary’s internal memo to his employees is provided in the appendix of this thesis. The researcher was also given an access card for entry to the building and to the various floors (five levels) of the building. Although the access was provided, the researcher needed to ensure that minimum inconvenience was caused to the employees while receiving maximum benefits (Alam et al., 1994; Irvine & Gaffikin, 2006).

The researcher is indebted to the Secretary for Finance for giving the researcher access to his office and providing access through his personal assistant to open his office in his
absence. This showed the confidence of the Secretary for Finance and the privilege that the researcher was granted in receiving access to the cabinet containing all of the confidential cabinet submissions and decisions if they were required.

4.7 Data Collection Procedures

As a qualitative researcher, multiple sources of evidences were collected in order to understand the context of study based on interactions with people and observations of the way they act and relate (Alam et al., 1994; Irvine & Gaffikin, 2006). In qualitative case studies, multiple sources of data have been used to examine the context of the case study, such as documentation, archival records, interviews, direct observations and physical artefacts (Yin, 2003).

However, in this study, evidence was collected from archival documents, semi-structured interviews and participant observations. Open-ended questions provided guidance in the in-depth interviews. The questions used in the questionnaire gathered the diverse opinions of the respondents, from which the conclusion of the study was made in relation to the research questions raised in Chapter 2. The three methods used in the exploratory case study research were document analysis, interviewing and observations. These methods are discussed below.

4.7.1 Historical and Archival Documents

Archival government documents that cover the period of the research relating to the reforms (1995–2006) were collected and sorted into themes. The archival documents collected from the DoF included official policy documents; the organisational structure; corporate plans; annual management plans; internal and external audit reports; quarterly and annual reports; cabinet submissions and decisions; ministerial determinations; government gazettes; ministerial speeches; budgetary documents; quarterly, half yearly and annual financial statements; annual public accounts; the Financial Management Manual; Financial Instructions and Regulations; and other relevant secondary data sources. It is estimated that over 20,000 pages of documentation was gathered.
4.7.2 Semi-Structured Interviews

Semi-structured interviews entail in-depth interviews, and it is the most appropriate method to inherently capture human interactions that take place in the design and implementation of MACS. Semi-structured interviews allow more freedom to enter into a dialogue with interviewees. They also allow people to answer on their own terms compared to standardised interviews (May, 1997). Semi-structured interviews yield rich insights into people’s experiences, opinions, aspirations, attitudes and feelings. Interviews are used as a resource to understand how individuals make sense of their social world as well as how they act within it (May, 1997).

This researcher conducted 40 in-depth interviews in Port Moresby with key decision makers who were directly involved in the design and implementation of the private sector style MACS when the reforms took place. The key research site was the DoF, with staff at the executive-, middle- and lower-level management interviewed in order to understand the design and implementation of the private sector style MACS. The respondents interviewed were adequately covered those with the skills, knowledge, and institutional memory of the public sector reforms from 1995-2006. Other stakeholders involved in the design of the MACS were also interviewed, such as past and present ministers, CEOs of departments and other policy makers. These interviews were semi-structured in nature and each one lasted for 30–60 minutes. A list of the interviewees is in Appendix v of this thesis. A sample of a semi structured open-ended question used in the interview is in Appendix vii. The interviews were also recorded using an MP3 player, but consent was sought in writing before it was done, particularly for respondents at the lower levels of the organisational structure. The consent for participating in the interview form is in Appendix iv of this thesis. The interviews were conducted in English, and as English is the formal and official language, translation was not required. The researcher is indebted to the Secretary for Finance for arranging for key managers from the provinces to be in Port Moresby at the department’s cost to enable the researcher to interview them.

However, while the other echelons agreed for their interviews to be recorded, they considered written consent to be unnecessary and a waste of time because elites generally resent the restrictions placed upon them by narrow, stereotypical questions.
‘Elegants’ are considered very important and dignified within PNG society. They desired more active interplay with the interviewer in a very relaxed environment. The researcher was mindful of these concerns and the difficulty accessing the elites, as they are usually very busy and operating under demanding time constraints; thus, they were difficult to reach. Assistance in making appointments was requested ahead of time in order to maintain neutrality in the research undertaken. This group of respondents had valuable information because of their past and present positions and the decisions they made in their respective capacities in relation to NPM type MACS. Some of the respondents interviewed had left their official capacities but still had significant influence in the social, political, financial and administrative realms within their communities.

After initial delays from the University of Canberra’s Ethics Committee following their approval on May 2011, the research was conducted from 1 June 2011 to 31 July 2011. A follow-up took place from 1 November 2011 to 28 February 2012, totalling five months. Table 4.1 provides a list of the categories of managers interviewed. Appendix 5 provides a list of the interviewees and the duration of each interview.

<table>
<thead>
<tr>
<th>Categories of Managers Interviewed</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elegants</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Top management</td>
<td>11</td>
<td>27.5</td>
</tr>
<tr>
<td>Middle management</td>
<td>9</td>
<td>22.5</td>
</tr>
<tr>
<td>Lower management</td>
<td>8</td>
<td>20.0</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Data extracted by the author from the interviews in the DoF, PNG

4.7.3 Participant Observation

As part of the observations, the researcher attended four fortnightly executive staff meetings at the DoF at the approval of the Secretary for Finance, who chaired all four meetings. The meetings were attended in order to observe the types of discussions held, as well as the management accounting discourse used in the meetings. The researcher
also attended four weekly Public Debt Committee (PDC) meetings for the initial two months spent at the research site. The PDC comprises the Secretary for the Treasury, the Secretary for Finance and the Secretary for National Planning and Monitoring. They meet on a weekly basis to monitor the overall government expenditure and consider the government’s cash flow based on expenditure trends for the government. The rest of the observations were conducted at individuals’ workstations, especially for middle- and lower-level managers.

### 4.8 Data Analysis

Data analysis gives compelling reasons to reduce bias and to assist the study to make fair, analytical conclusions that rule out misinterpretations (Burrell & Morgan, 1979; Yin, 1994; Irvine & Gaffikin, 2006; Denzin & Lincoln, 2000, 2003, 2008). This process helps to transform the collected data into meaningful, descriptive interpretations. Data analysis helps the researcher to synchronise the data collected against the meaning or implication of the study being conducted. Data analysis involves reducing the data, presenting the data, and verifying and drawing conclusions.

The three commonly used methods in exploratory case study research, as discussed in Sections 4.7.1, 4.7.2 and 4.7.3, were used to answer the research questions raised in Chapter 2 relating to private sector MACS used in the DoF. The in-depth interviews were recorded using an MP3 player after written consent was obtained from the interviewees. The interviews were conducted between 30–60 minutes. Manual notes were also taken on issues not covered by the interviewee and questions uncleared were raised after the interviews. These were later transcribed using NVivo software. The data were then coded to identify the themes and patterns in relation to answering the research questions in Chapter 2. Marshall and Rossman (2006) described six general phases of data analysis: (1) organising the data, (2) generating categories and themes, (3) coding the data, (4) offering interpretations, (5) searching for an alternative understanding and (6) writing the report.
4.8.1 Organising the Data

The first stage involved a pre-analysis process of organising the data into a format suitable for further analysis. Data recorded in the interview process were taped recorded using an MP3 was transcribed in this phase of the analysis. Interview transcripts were typed and separately filed according to the categories of managers (see Table 4.1). The typed transcripts contained the date, location, duration of the interview and the name of the manager interviewed (pseudo names were used), and copies were printed and filed according to each category. There were five folders with different colours (e.g. red for interviewees who were considered elegant, green for top-level management, orange for middle-level management, blue for lower-level management and pink for others). By organising it this way, the researcher was able to identify information according to the managerial level. In addition, the transcripts were analysed within a day or two after the interviews were conducted in order to obtain further information and clarification if necessary. The clarified information was also attached to the respective interviewees’ folders.

4.8.2 Generating Categories and Themes

The qualitative data sources mostly comprised historical and archival documents, and observations and interviews pertaining to the public sector reforms and the associated financial management reforms and the adoption of MACS in the public sector. Observations and interviews were converted to verbal and narrative descriptions. These descriptions were transformed to categories and themes, according to the research phenomenon, in order to conduct meaningful analysis (Taylor & Trumbull, 2006).

Apart from interviews and observations, the official documentation pertaining to the research questions was organised under the following headings/themes: public sector reforms, FMIP, strategic planning, budgeting, accounting, auditing, financial reporting, District Treasury Rollout Program, District Services Improvement Program, Finance Instructions and Regulations and Circulars, minutes of staff and PDC meetings, cabinet submissions, cabinet decisions, professional training and development, public sector auditing and public accountability, Public Accounts Committee, and others. These
categories were based on the research objectives and themes in the research questions raised in Chapter 2.

4.8.3 Coding the Data

Coding the data is the formal representation of analytical thinking. It involves grouping the previously categorised data into a smaller number of explanatory themes (Marshall & Rossman, 2006). In this study, the coding techniques were carried out using NVivo, and they focused on the themes of the research questions and the theoretical background to the research. The categories used were the same as the themes used in Section 4.8.2: public sector reforms, FMIP, strategic planning, budgeting, accounting, auditing, financial reporting, District Treasury Rollout Program, District Services Improvement Program, Finance Instructions and Regulations and Circulars, minutes of staff and PDC meetings, cabinet submissions, cabinet decisions, professional training and development, public sector auditing and accountability, Public Accounts Committee, and others.

4.8.4 Offering Interpretations

According to Patton (2002, p. 480), ‘Interpretation means attaching significance to what was found, making sense of the findings, offering explanations, drawing conclusions, extrapolating lessons, making inferences, considering means, and otherwise imposing order on an unruly but surely patterned world’. Accordingly, to answer the research questions raised in Chapter 2, it is important to have an in-depth understanding of the data collected. The archival sources were also linked to this themes in accordance with their contents, with a view to compare them with the interview findings. The aim was to explore the relationships between different comments, to check the validity of the information, and to develop an in-depth understanding of the data collected.

4.8.5 Searching for an Alternative Understanding

In this phase, the researcher searched for other possible explanations for the data and for linkages among them, with a view to identify and describe the data alternatively (Marshall & Rossman, 2006). The purpose of this was to understand the most plausible
and empirically grounded explanation for the phenomenon. Liewelyn (2003) stated that a theory in qualitative research explains regularities and relationships between empirical phenomena. As such, in this study, the researcher attempted to alternatively explain the research phenomenon using the theoretical background outlined in this chapter. This is followed by a discussion of how the empirical data relate to the research questions posed by the thesis and the theoretical background to the research.

4.8.6 Writing the Report

Based on the data analysis, the findings of the study are presented in Chapters 5 and 6 of this thesis. Direct quotations and narrations are used to convey the respondents’ views and interpretations of important issues and events. In the organisational case study reports, the documents provide powerful and in-depth evidence to answer the research questions (Marshall & Rossman, 2006). Organisational records such as annual reports were also used to integrate the data.

4.9 Data Triangulation

To avoid any misconceptions that the researcher made up the data using various data collection methods during the data collection phase, it was necessary to undertake an internal data triangulation, in which one method is compared with another to assess and address different validity issues in relation to the research questions. For example, in-depth interviews that were recorded and transcribed were compared with historical and archival documentary evidence pertaining to the subject matter or the interviews transcribed.

Furthermore, internal triangulation was used to address validity issues in relation to the research questions, and preliminary findings were presented at three public forums in PNG. The first presentation was to a meeting of the departmental heads at the National Research Institute, the second was presented to members of the Opposition in the National Parliament, and the third was held at the Holiday Inn Hotel in Port Moresby.
Triangulation was used to show that more than two methods were used in this research to double-check the results in the design and implementation of MACS in the context of DoF reforms. This is a powerful technique that facilitates data validation through cross-verification from more than two sources. The notion behind this method is that people are more confident with the results if different methods are used to reach the same results (Model, 2005; Cohen & Manion, 1986; Altrichter et al., 2008; O’Donoghue & Punch, 2003; Tellis, 1997; Brewer & Hunter, 1989; Tashakkori & Teddlie, 1998). The next section discusses the theoretical framework used in the study.

4.10 Theoretical Underpinning of the study

Two theoretical frameworks were used in this study to analyse and interpret the data: institutional isomorphism, which was advanced by DiMaggio and Powell (1983), and the structuration theory, which was advanced by Giddens (1976, 1979, 1984). Institutional isomorphism is used to explore the design and implementation of the private sector style MACS. Giddens’ structuration theory is used to explain the structure of the reforms and the MACS discourses used and diffused in daily practices throughout the public sector in the design and implementation of MACS, consistent with the research objectives. These theories are discussed below.

4.10.1 Institutional Isomorphism

DiMaggio and Powell (1983) argued that under the processes of isomorphism, organisations must have the same form and emulate each other because they are in similar environments. They distinguished between competitive and institutional types of isomorphism. The latter is the subject of this study on institutional isomorphism, and the authors argued that organisations must appear legitimate to their broader constituencies and stakeholders in order to secure the resources they need for their survival. The authors pointed out that to gain legitimacy, organisations have to conform, or be seen to conform, to what is expected of them. The three classifications of institutional isomorphism are coercive, mimetic and normative. Each of these are discussed below.
4.10.1.1 Coercive Isomorphism

This form of isomorphism stems from political influence and the problem of legitimacy. Coercive isomorphism might originate from all spheres of an organisational or political environment. Additionally, coercive isomorphism takes the shape of a formal or informal pressure exerted on an organisation by external parties or other superior organisations they depend upon, as well as the cultural environment within which an organisation operates. In most instances, such pressures might be perceived by organisations as force, persuasion or an invitation to adopt a particular policy. Coercive isomorphism can either be internal or external to the organisation (DiMaggio & Powell, 1983).

4.10.1.2 Mimetic Isomorphism

Mimetic isomorphism occurs when there is uncertainty facing organisations. In situations where they are not sure what to do, they frequently look to reference groups and emulate what they do in similar situations in order to be more legitimate and successful. They contend that it is easy to predict the organisation of a newly emerging nation’s administration without knowing anything about the nation itself, since peripherals are far more isomorphic in administrative form and economic patterns than any of the world systems of the economic division of labour would lead one to expect. Unlike coercive isomorphism, mimetic isomorphism stems from standard responses to uncertainty. The degree of uncertainty is a powerful force that encourages imitation. It can be reasonably argued that organisations will mimic the activities, standards and principles of successful organisations when they are uncertain about the effects of their current principles on the organisations’ future. When organisations poorly or partially comprehend the technologies employed, when they have unclear goals, and when the environment in which they operate presents a certain degree of uncertainty, they model themselves after other organisations. Organisations emulate similar organisations in their field that are more legitimate and successful (DiMaggio & Powell, 1983).
4.10.1.3 Normative Isomorphism

DiMaggio and Powell (1983) argued that professionals play a major role in normative isomorphism. Organisational personnel who are also members of a profession are recognised as possessing specialised training and knowledge, and they are capable of dictating the terms and conditions of employment in the labour market. According to Carruthers (1995), normative isomorphism points out two actors—the state and the profession—as being particularly important for how rationalised procedures spread among organisations. Carruthers (1995), indicated that pressures arise from professionalisation, which socialises personnel within the organisation to view certain types of structure, membership and processes as legitimate. Larson (1977) and Collins (1979) interpreted professionalisation as the collective struggle of members of an occupation to define the conditions and methods of their work—to control the ‘production of producers’. Professionals must compromise with non-professional clients, bosses and regulators.

DiMaggio and Powell (1983) stated that professionals are subject to the same coercive and mimetic pressures as organisations. They pointed out while various types of professionals within an organisation may differ from one another they are similar to their professional counterparts in other organisation (p. 152). In many cases, professional power is assigned by the state, as it is created by the activities of the professions. DiMaggio and Powell (1983) cited two other important aspects of professionalisation that are important sources of isomorphism. The first one relates to formal education and legitimation in a cognitive basis produced by university specialists. The second one is the growth and elaboration of professional networks that span organisations and across which new models diffuse rapidly.

DiMaggio and Powell (1983) observed the pivotal role of universities and professional training institutions in the development of organisational norms among professional managers and their staff. They stated that professional and trace associations are another vehicle for the definition and promulgation of normative rules about organisational and professional behaviour. Perrow (1974) advanced that such a mechanism creates a pool of interchangeable individuals who occupy similar positions across a range of organisations and possess a similar orientation and disposition that may override
variations in traditions and control that might otherwise shape organisational behaviour. DiMaggio and Powell (1983, p. 52) argued that one important mechanism for encouraging normative isomorphism is the filtering of personnel in organisations. In many organisational structures, the hiring of individuals is conducted among firms and organisations within the same industry or departments, or by directly recruiting them from professional or academic training institutions that provide training in that particular field based on the skill-level requirements. Many professional career paths are so closely guarded—both at the entry level and throughout the career progression—that individuals who make it to the top are virtually indistinguishable and indispensable (DiMaggio & Powell, 1983). Table 4.2 illustrates the linkage between the conceptual framework and the factors affecting adoption. This study focuses on coercive isomorphism and its linkage, which is associated with internal and external influences or environments. Mimetic and normative isomorphisms are not a concern for this study because they do not answer the research questions raised in Chapter 2 of this study.

**Table: 4.2: Linkage between Conceptual Framework and Factors Affecting Adoption**

<table>
<thead>
<tr>
<th>Isomorphism Type</th>
<th>Linkage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coercive</td>
<td>Internal/external environment</td>
</tr>
<tr>
<td>Mimetic</td>
<td>Economic growth</td>
</tr>
<tr>
<td>Normative</td>
<td>Capital market</td>
</tr>
</tbody>
</table>

Source: Modified by author from Gyasi (2010, p. 24)

Institutional theory is becoming one of the dominant theoretical perspectives in organisational theory, and it is increasingly being applied in accounting research to study the practice of accounting in organisations. However, most institutional theory researchers have not adequately theorised the institutional process through which changes takes place or the socio-political context of institutions. Specifically, this study uses institutional isomorphism and particularly coercive isomorphism and structuration theory, and it draws on the work of DiMaggio and Powell (1983) and Giddens (1976, 1979, 1983). The expanded framework used in this study depicts the socio-economic
and political context better and more directly addresses the research questions raised in Chapter 2 and the dynamics of enacting, embedding and changing organisational features and processes. Expanding the focus of institutional theory-based accounting research can facilitate a more comprehensive representation of accounting as the object of institutional practices, and it can better articulate the role of accounting in the institutionalisation process (Rigsby & Goodman, 2004).

While a large number of studies undertaken by researchers and academics have used both institutional theory and Giddens’ structuration theory in their research to analyse and interpret data in accounting research, logistical problems in this study (e.g. word limits) do not allow for extensive discussions on each of these research areas; however, a few areas have been discussed in order to signify the importance of the theoretical underpinnings used in the study.

4.11 Empirical Evidence of Institutional Theory used in Accounting Literature

Carpenter and Feroz (2001) used institutional theory to explore how institutional pressures exerted on four state governments in the US (New York, Michigan, Ohio and Delaware) influenced the decision of these governments to adopt or resist the use of generally accepted accounting principles (GAAP) for external financial reporting requirements. They identified resource dependence as a form of coercive institutional pressure that was associated with early GAAP adoptions, and they identified three factors that led to initial resistance. First, if accountants were not active in professional associations that promoted GAAP adoption, they could miss out on the educational process. Second, organisation printing may impede GAAP adoption. Third, powerful interest may impede GAAP if the proposed GAAP legislation is expected to alter the existing power relationships.

Rahaman et al. (2002) used institutional theory and Habermas’ legitimation theory to explain social and environmental reporting in a Ghanaian public sector organisation—the VRA—which was influenced by environmental reporting and constant pressure to comply with the requirements of funding agencies such as the World Bank in order to
provide institutional legitimation. The study revealed that the same amount of pressure has led to undesirable outcomes for the local population, and it works against the original goals of the VRA project. The study further revealed an accounting system that was designed to meet the requirements of international institutional legitimisation. The end result was a crisis of legitimation.

Mir and Rahaman (2002, 2005) explored the rationale and process regarding the decision by the Bangladeshi government and the accounting profession to adopt the IASs. The authors used archival documents and interviews with key actors, preparers and users of the financial reports and members of the profession to reach their conclusions. Their findings concluded that the decision to adopt IASs was the result of pressure exerted from external forces such as donors and lending institutions on the Bangladeshi government and professional accounting bodies. Their findings further showed that institutional legitimisation was perhaps the major factor that drove the decision to adopt IASs. If the profession and government had not given in to the pressure, it was highly unlikely that they would have received the funding they required.

Ribeiro and Scapens (2006) explored the contributions of two strands of research: ‘old institutional economics’ and ‘new institution sociology’. The idea was to develop these theories in order to have an institutional understanding of management accounting change. Their findings identified complementarity between these two theories, which could draw on the insights of the ‘circuits of power’ framework. The demerits to these suggest building of bridges with various other institutional approaches.

Dolnicar et al. (2008) used institutional theory to expose the effect of competitive grant funding on public sector non-profit volunteer organisations. Institutional theory was used to explain the developments within the sector and the pressure to respond in ways that affect organisations’ cultures, structures and routines, resulting in the possibility of their mission being compromised in the pursuit of money.

Hassan (2008) examined the process of setting accounting standards in a developing country in transition that of Egypt. Hassan explored the socio-political and economic forces that underline the development of accounting regulations implemented in Egypt. The study used in-depth interviews and document analysis, and it relied on institutional
theory and the notions of coercive, mimic and normative isomorphic mechanisms to link the changes in the financial accounting regulations. The paper highlighted the major changes in the state’s political philosophy, the regulators’ motivations and the processes of the accountancy profession, which provided momentum to the formulation of Egyptian accounting standards. Although the empirical findings suggest that ‘globalisation forces’ from technical and financial assistance programs created pressure during the standard setting processes, the limitations to the study suggest that a full investigation and explanation of such pressures is an area of future research.

Sharma (2008) examined MACS changes using the institutional theory of the National Housing Authority in Fiji. The data were collected using in-depth interviews, and the document analysis suggests that wider social and institutional structures have been influential in bringing about changes in MACS at the National Housing Authority. Sharma (2008) demonstrated that the organisation changes in the National Housing Authority reinforce the findings of other researchers, who claim that the wider social, political, institutional and economic contexts govern the ways in which MACS operate in organisations.

Andrews (2009) used institutional isomorphism to examine public sector reforms—especially public sector financial management reforms—in 31 African countries. His study was specific in determining why many reform results fall below expectations in the developing world. Some of the questions he raised in his study were: do the reforms just need more time to work better, or should the expectations be adjusted? In attempting to answer these questions, the author drew upon institutional isomorphism to examine the benefits and limitations to reforms in developing countries. His study showed that reform changes in many of the 31 developing countries are motivated more by the need for legitimacy than efficiency. The findings suggested isomorphic changes by future governments and that the development community should think about how it facilitates and motivates reforms in developing countries.

Gyasi (2010) used institutional isomorphism as the theoretical underpinning to examine the adoption of International Financial Reporting Standards (IFRSs) in developing countries—particularly in Ghana. Gyasi used questionnaires to gather existing data on companies adopting the IFRS standards and how institutional forces in Ghana, such as
the Institute of Chartered Accountants Ghana (ICAG) have influenced the adoption process. Gyasi’s findings revealed the benefits of using institutional isomorphism in the adaptation process of adopting new accounting standards in Ghana. The findings further revealed the external environment—particularly the donors that have influenced such adoptions in Ghana and other developing countries.

Irvine (2011) examined the process of change in an Australian not-for-profit organisation changing from a cash-based to an accrual-based accounting system using institutional theory. The study examined the image portrayed by adopting accrual accounting compared to the technical realities of the new system. It used interviews, documents and meetings and then interpreted the data using institutional theory. The findings revealed that the decision to change was made from the top level of the organisation. The implementation of the new system was poorly conceived, inadequately resourced and hampered by an authoritarian structure that ignored the training needs of its staff.

Conrad and Uslu (2011) conducted a study on the effect of ‘payment by results’ on performance measurement and management in three National Health Service (NHS) trusts in England. The study employed institutional theory to analyse the process of change in specific organisational contexts, as organisational members enact the change process. The findings showed the importance of financial performance, the adoption of business-focused attitudes and cooperative relationships between clinicians, managers and accountants to foster better institutional practices within the NHS.

There are many other researchers that have undertaken research using institutional theory, but for logistical reasons, it is impossible to extensively cover these in this thesis (e.g. Covaleski et al., 1993; Mayer and Rowan, 1997; Irvine, 2000; Burns & Scapens, 2000, 2006; Carpenter & Feroz, 2001; Porter, 2002; Rahaman et al., 2004; Mir & Rahaman, 2005; Ribeirro & Scapens, 2006; Busco et al., 2006; Dolnicar et al., 2008; Lounsbury, 2008; Andrews, 2009).

The major limitations of using institutional theory—especially coercive isomorphism, which is the central theoretical underpinning used in this study—were rightfully stated by Mir and Rahaman (2002): there is very few (if any) recipient organisations have or
can do because of the high dependence on foreign aid. However, these inherent limitations will not affect the use of institutional theory in this thesis because institutional changes and modifications have been made in the context of MACS to suit local circumstances and bring about the successes covered in Chapters 5 and 6. The next section examines structuration theory.

4.12 Structuration Theory

The second theoretical framework adopted in this study is structuration theory, which is used to examine the structure of reforms and the various management accounting discourses used in the study. In this respect, accounting is treated as part of the wider social practices, and it uses Giddens’ structuration theory to better understand the ways in which accountants and MACS are implicated in certain social reforms. Increasingly, there is acceptance that accounting cannot be understood as an autonomous sphere of activity, but that it needs to be part of a complex series of the political, economic and organisational contexts in which it operates (Lawrence et al., 1994, 1997).

In using structuration theory, Giddens warned that the entire conceptual apparatus of structuration theory cannot be introduced into a concrete research project, but suggested that it can be employed as a ‘sensitising’ device. The advantage of using structuration theory in this research is that it synthesises the actors’ approach and the systems’ approach, emphasising the inevitable human agency in the reproduction of systems or structures. According to Macintosh and Scapens (1990, p. 474), human action comes into the fore when crises arise. The financial management reforms of 1995–2006 in PNG—particularly the OLPLLG and the PFMA—have the attributes of crises and abrupt discontinuity in institutional practices.

Giddens’ (1983) structuration theory is concerned with the interplay of structures and agency in the production, reproduction, regulation and change of social orders. Structure is the codebook for social behaviour; it exists in virtual time and space and is drawn upon by agents as they act and interact in a specific time and space. The outcome of these actions and interactions is known as structuration, and it denotes the duality of structure.
Structuration theory is a valuable way of explaining the role of private sector style MACS in the creation, regulation and transformation of an organisation’s social order, and to understand the dynamics that provide the impetus to such systems. For the purpose of this study, selected concepts of the theory are used to analyse the institutional context and the interactions among DoF agents and other stakeholders in the design and implementation of MACS in PNG. These include the role of agency, the duality of structure and the structural dimensions of signification, domination, legitimation, dialectic of control, and routine and crisis situations.

4.12.1 The Role of Agency

Giddens (1983) depicted social life as actively constituted by individuals who produce a shared understanding that guides them in their social settings. Agents are capable of acting in a conscious and unconscious manner in their social settings. Conscious is when agents are able to question the rationale for their behaviour in following prevailing patterns, rules, codes and procedures. Unconscious or unintended change may occur in the absence of understanding and/or accepting the rules, codes and procedures in their social settings. Agency is the ability of individuals to be purposeful in their social settings and to be able to reflect and monitor their own and others’ actions in their respective settings. Consequently, human beings act while being aware of the conditions and consequences of their actions. In doing so, they constantly display a potential for change.

4.12.2 The Duality of Structure

Giddens (1979, 1984) introduced the concept of structure, systems and the duality of structure as core elements of his theoretical design. Structures are abstract templates that guide human behaviour in social settings. They represent the rules and resources, or sets of transformation relations, which enable the binding of time and space in social systems. Therefore, systems have structures that reproduce the relations of people organised as regular social practice. Agents’ interactions lie at the heart of the process of structuration, where social systems are produced and reproduced across space and time. The agency and structure are two completely different things—a dualism—but
they represent duality. They are simultaneously the medium and the outcome of the practice and activities they recursively organise in the duality of structure. Table 4.3 illustrates the duality of structure.

Table 4.3: The Duality of Structure

<table>
<thead>
<tr>
<th>Structure (s)</th>
<th>System(s)</th>
<th>Structuration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules and resources, or sets of transformation relations, organised as properties of social systems</td>
<td>Reproduced relations between actors or collectivities, organised as regular social practices</td>
<td>Conditions governing the continuity or transmutation of structures, and therefore the reproduction of social systems</td>
</tr>
</tbody>
</table>

Source: Giddens (1984, p. 25)

The arguments presented by Giddens (1984) in Table 4.3 are summarised as follows. Structure is a recursively organised set of rules and resources, and it is out of time and space, save in its instantaneous and coordination as memory traces. The social system in which the structure is recursively implicated comprises the situated activities of human agents reproduced across space and time. Therefore, the structuration of social systems means studying the modes in which such systems are grounded in the knowledgeable activities of situated actors who draw upon rules and resources to produce and reproduce in their interactions. Giddens (1979, 1984) stated that structure is seen as interacting through the modalities of interpretative schemes, resources and norms respectively, with the human actions of communicating meaning, power and sanction. Due to the recursive nature of the interaction, structure can be understood from both institutional and action viewpoints. From an institutional viewpoint, the signification dimension represents the interpretative schemes that participants use to interpret past results and future actions. Structuration and duality of structure are the key concepts in understanding the continuity of social reproduction through the continual regrooving of social templates as established ways of doing things, as well as the way in which new templates replace old ones.
4.12.3 Dimension of Structuration

Giddens (1979, 1984) stated that structuration theory consists of three dimensions: signification, legitimation and domination. Signification creates meaning in social interaction. It consists of abstract structures, interpretive schemes and discursive practices. Signification structures are organised webs of semantic codes. Interpretive schemes are stocks of knowledge, skills and rules used by agents to draw on significant structures in order to communicate with each other. Domination produces power and a means of allocative and authoritative resources. Allocative resources involve the rights of some to hold command over material objects (computers, technical skills). Authoritative resources comprise the rights of some agents to command others. This is the harnessing of human beings, not physical artefacts; it concerns the rights of some humans to have dominion over other humans.

**Figure 4.2: Giddens’ three dimensions of structuration**

Legitimation provides for the system’s morality. It involves the moral constitution of social action. The legitimation structure consists of the normative rules and moral obligations of a social system. They are its collective conscience or moral consensus. They constitute the shared set of values and ideals about what is regarded as virtue, what is counted as important, and what should happen in social settings. Figure 4.2 shows the three dimensions.
4.12.4 The Dialectic of Control

Giddens (1984) pointed out that the concept of dialectic control is an important element in structuration theory, as it signifies that dependence and autonomy is always a two-way process. From the context of this study, while supervisors have access to allocative and authoritative resources with which to exercise power over subordinates, the subordinates always have some power resources at their disposal to use over superiors. Superiors are always dependent on subordinates to some extent, and supervisors are never absolutely autonomous, no matter how much leeway superiors seem to grant them. The dialectic of control is a secondary contradiction that has been triggered by a primary contradiction. For example, by virtue of the structural principle, top executives have the upper hand over subordinates’ managers and employees. By the same token, subordinate managers and their employees of social reproduction also have considerable power resources of their own within the dialectic of control.

4.12.5 Routine and Crisis Situations

Giddens (1984) pointed out that routinisation is another fundamental concept in structuration theory. Routine, which is a basic element of daily social activity, is defined as whatever is habitual over time and space. In a routine situation, activities that are undertaken are repeated in the same manner every day. Thus, agents do not have to constantly think or speak about them or devise or negotiate new social codes every time they meet. However, if routines must change, there are either incremental changes that gradually occur over time and space, or they can be sudden or discontinuous. In a critical or crisis situation, the habitual routines and conventions of daily life can be drastically disrupted. Conventions and social codes can be abandoned and new ones can be introduced. Giddens referred to this as ‘systems contradiction’ or ‘fault lines’. In critical or crisis situations, structuration works differently. Crisis situations occur when the established routines of daily social life are shattered or drastically undermined. In a crisis, agency comes to the fore, often reshaping prevailing social structures. The next section provides examples of how structuration theory has been used in accounting and accounting research.
4.13 Use of Structuration Theory in Accounting Literature

Lawrence and Doolin’s (1997) case study of New Zealand’s health care sector used Giddens’ structuration theory to explain the way in which accounting systems and systems of accountability have changed abruptly in New Zealand’s health care sector. Their study focuses on an analysis of the establishment of a Crown Health Enterprise in place of a public hospital. The findings showed the transformation of public institutions into successful businesses, using structuration theory to analyse and interpret the data.

However, while the study is over 15 years old, the significance of the study raises pertinent issues that are consistent with this study’s research objectives. For example, Lawrence and Doolin’s (1997) study highlighted crisis situations when the reforms took place, which Giddens (1976, 1979, 1984) referred to as systems contradictions. These create a ‘crisis’, and there are clashes between the old and new systems as a result of the reforms, which Giddens referred to as the ‘fault lines’ of social systems. Therefore, Lawrence and Doolin’s (1997) study of New Zealand’s health sector reaffirmed the research objectives of this study, where the PNG government’s interventions created ‘fault lines’ in the social systems when the reforms emerged.

Uddin and Tsamenyi (2005) conducted a case study of accounting control changes and performance monitoring in a Ghanaian SOE. Their findings showed that budgetary practices at the GFDC did not change substantially, with the exception of reporting practices. Budgeting remained politicked, delayed, directionless and ineffective. Reporting to the monitoring agency did not have any positive effects on accountability and performance, and it was not able to save public interest. Uddin and Tsamenyi’s (2005) study demonstrates the usefulness of Giddens’ idea of the dialectic of control in the contextual study of management controls, including budgeting and performance in the public sector in LDCs.

Gurd (2006) used structuration theory in a case study of accounting during organisational change from different theoretical perspectives. Gurd’s paper demonstrates the usefulness of theoretical triangulation in exploring a case study of accounting and organisational change at the Electricity Trust of South Australia. Gurd
drew on two theories: Giddens’ structuration and Laughlin’s middle range theory. The focus of this study is Giddens’ structuration. Giddens’ concept of structuration provided richer insights from the dimension of domination and legitimation. Domination brings to the fore the role of accounting in control as a power device. Legitimation clarifies what is ‘moral’ as organisations change. The research findings demonstrated how a different theoretical lens enabled different insights, which would not have been achievable using one approach.

Englund and Gerdin (2008) discussed structuration theory and mediating concepts and their pitfalls and implications for management accounting research. They examined Giddens’ way of conceptualising how structures work as both the medium for, and outcome of, human action. Duality of structure has been emphasised as a valuable point of departure when studying management accounting in its social context. The authors pointed out that management accounting systems are seen as both the medium for action and as human action. Their findings concluded that when management accounting is defined through both ‘virtual’ structures that generate action and the situated doings of individuals, structures and actions may become conflated, and there is a risk of drawing erroneous conclusions about structural change or stability.

Coad and Herbert (2009) examined the new potential for structuration theory in management accounting research. They observed that the use of structuration theory has made a significant contribution to management accounting research. However, with advocates moving away from Giddens (e.g. Stones, 2005) and towards providing more concrete constructs that provide epistemological and methodological guidance to researchers in the field, they concluded that the investigation of position practices focuses attention on the strategic conduct of agents, the importance of power in social interactions and a plurality of structures and theories of action. They suggested that there are limitations, but that these can be overcome by using structuration theory in a flexible manner and drawing inspiration from other theoretical perspectives.

Busco (2009) reviewed the pillars and the rationale of Giddens’ theory of structuration and offered a snapshot of the effect of these ideas on research in management accounting. The snapshot findings highlighted the need to conceptualise as a way of making sense of social life. Structuration theory represents a sensitising device for
researchers, which must be drawn upon in a selective way when answering research questions or interpreting findings.

Ndiweni (2010) researched accounting in emerging economies and examined the trail of unintended consequences as a result of using management accounting information in a volatile environment. The article highlighted the unintended consequences resulting from the (abuse) use of management accounting information in a large automobile corporation in Zimbabwe. The article used a case study approach and Giddens’ structuration theory to help understand how management accounting practices were produced and reproduced through interactions in organisations. The findings revealed how the use of management accounting information can lead to the domination of other employees in organisations, resulting in unintended consequences such as redundancies. The study suggested that significant educational research should be undertaken in the future to ensure that accounting information is not abused to justify political decisions made by managers.

Moore (2011) examined the contribution of Norman Macintosh to the development of structuration theory, which was used to investigate accounting and the European Union’s emissions trading systems. Macintosh demonstrated the potential of structuration theory as a sensitising device for management accounting research by illustrating how accounting presents the dimensions of signification, legitimation and domination, as well as the ethics of profit manipulation using the dialectic of control. The findings revealed how structuration theory demonstrated the financial reporting interpretation for emissions, represented by the dimensions of signification, legitimation and domination.

Englund and Gerdin (2011, 2012) used Giddens’ structuration theory and argued that a duality perspective has significant advantages for understanding the change processes of MACS. They suggested that when embedded actors envision new MACS practices, their interests, intentions and interpretations are largely conditioned by the prevailing structural arrangements. Thus, to better understand the phenomenon, a flat, local duality perspective should be adopted.
Many other researchers have used Giddens’ structuration theory, but for logistical reasons, it is impossible to expound on each of these in this thesis (e.g. Macintosh & Scapens, 1990, 1991; Scapens & Macintosh, 1996; Nandan, 1996; Thatcher et al., 2001; Staber & Sydow, 2002; Dillard & Yuthas, 2002; Goad & Herbert, 2009; Conrad & Uslu, 2011). As pointed out by many of these researchers, there are limitations to using structuration theory in its entirety in a project or study. Therefore, selective components of the theory are used as a synthesising device to understand how humans interact with each other in social systems. The final section summarises and concludes the chapter.

**4.14 Conclusion**

This chapter explained the methodology, methods and theoretical framework used in this study. It argued that an interpretive qualitative methodological paradigm was used in this study because the approach provides a better understanding of people. Case study research was considered appropriate for the interpretive methodology because it provides a deeper and richer understanding of MACS within the broader context of social, political and organisational perspectives. The methods used in the case study research are in-depth semi-structured interviews, observations and archival documents relating to MACS reforms. The two theories used in this case study are structuration, as developed by Giddens (1976, 1979, 1984), and institutional isomorphism, as advanced by DiMaggio and Powell (1983). Institutional isomorphism is used to explain the design and implementation of public sector reforms, and structuration theory is used as a sensitising device to explain the structure of the reforms and the way in which MACS are used and spread in the DoF by agents in the organisation.
Chapter 5: Introduction to the DoF

5.1 Introduction

In Chapter 2, three research questions were raised regarding the design and implementation of private sector style MACS in the context of the public sector reforms initiative in the DoF. This chapter introduces DoF as the site of this exploratory case study research. The chapter begins by introducing the DoF and its functions, roles and responsibilities. The chapter then discusses public sector reform initiatives in PNG from 1995 to 2006, followed by a discussion of financial management reforms. The chapter then presents a summary of the key components of NPM reforms adopted in the DoF, followed by the summary and conclusion of the chapter.

5.2 DoF and its Functions, Roles and Responsibilities

5.2.1 Brief Background

The DoF has played a multifunctional role as a central agency that drives policy formulation and implementation roles. Since the departure of its colonial master after obtaining independence in 1975, the department has retained the public service structure, culture and work ethics of the Australian Commonwealth. Over the years, the department has undergone various institutional changes and had various organisation names attached to it to underpin the importance of the multifunctional roles it has played. The institutional changes that followed after independence still had the remnants of the old colonial administration in the DoF at senior levels (Deputy Secretaries, First Assistant Secretaries, Assistant Secretaries and other senior staff) who then became implanters in ensuring that these institutional changes took effect to the satisfaction of its colonial master.

As pointed out in Chapter 2, the DoF has witnessed public sector reforms as a continuous process since independence, and its roles and responsibilities have more or less been similar throughout these periods. However, this study focuses on the reforms that were introduced after 1995, as this is the period in which NPM type reforms were
introduced into the department under the influence of international financial institutions. The functions, roles and responsibilities of the DoF have also varied following a number of structural reforms that took place during these periods. These reforms were driven mostly by international aid agencies such as the World Bank and the IMF. As a result, in the past decade, the department has undergone significant structural reforms—particularly in 1995 and 1999.

In 1995, the Office of International Development Assistance (OIDA) was incorporated into the DoF to coordinate and facilitate international aid and project funding from bilateral and multilateral donors. According to empirical evidence from the field, the suggested advice from the donors was to have OIDA come under the DoF&P for effective aid co-ordination. According to a top management executive:

In this way the Office of the Secretary for Finance and Planning would be the only office directing or seen to be directing international traffic on foreign aid management in the country (GY)

Structurally, this office has a different director, who reports directly to the minister. However, notwithstanding their own advice (World Bank) the department was restructured again in 1999 when the National Executive Council (NEC) through the advice of the World Bank decided to remove the same planning and aid management functions from the department and place them in the newly created Department of National Planning and Monitoring. This department is now responsible for national development planning and for managing and coordinating all projects and funding received from donor agencies and bilateral and multilateral organisations. Although it is structurally divorced from the DF&T, the two departments are located in the same building (‘Vulupindi Haus’) and work in close consultation with each other. In particular, the Department of National Planning and Monitoring is required to liaise with DF&T regarding the injection of donor funds into the national budget and how the funds are to be used. The DF&T is responsible for policy formulation and regulation. This involves all matters pertaining to economic management and the formulation and management of the budget. Implementation activity largely revolves around the disbursement of public expenditure and subsequent accounting inspections and audits (Sause, 2008).
Table 5.1: Functions and Responsibilities of the DoF and Treasury

<table>
<thead>
<tr>
<th>Function</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic management</td>
<td>Monitoring domestic and international developments; formulation of macroeconomic policy framework of government; preparing relevant NEC submissions on economic policy; upgrading economic data</td>
</tr>
<tr>
<td>Budget analysis, preparation</td>
<td>Evaluation of expenditure proposals, preparation of annual budget and control monitoring of expenditure</td>
</tr>
<tr>
<td>Receipts, payments and preparation of public accounts</td>
<td>Preparation of monthly consolidated statement of government’s revenue, expenditure, trust accounts and movements; cash flow forecasts and circulation of financial instructions</td>
</tr>
<tr>
<td>Coordination and regulation of insurance services</td>
<td>Collection of data on insurance company performance; monitoring of solvency insurance requirements; formulation of insurance policies; promotion and strengthening of the national insurance market and implementation of relevant laws</td>
</tr>
<tr>
<td>Provincial liaison</td>
<td>Facilitate the implementation of OLPLLG, especially on financial management, grants, and administration and management of provincial and district treasuries</td>
</tr>
</tbody>
</table>

Sources: Table constructed from DoF archival documents by the author

Table 5.1 illustrates the roles and responsibilities of the DoF and Treasury as it was in 1995 at the start of the NPM type reforms. Anecdotal evidence suggests that after the restructure, the DoF adopted its first ever Corporate Plan, 1998–2000. A corporate plan is a private sector tool that entails the vision, mission, values, objectives and strategies of the organisation and how it intends to achieve these goals and objectives.

The DoF is the largest department in the PNG public service, with over 1,500 staff scattered around the country, from its headquarters in Port Moresby to the district treasury offices at the remote peripheries that report to the Secretary for Finance through their respective divisional managers. Under this organisational structure, there are 10 divisional managers or First Assistant Secretaries reporting to two deputy secretaries (policy and operations) who then report to the Secretary and the Secretary to
the Minister. Figure 5.1 outlines the structure of DF&T at the start of the 1995 NPM reforms.

**Figure 5.1: Organisational Structure-DoF and Treasury**

However, in 2001, the National Executive Council (NEC) decided to detach the operational functions—particularly those associated with expenditure control, accounting, cash management, auditing and financial reporting—by further separating the DoF and Treasury in NEC Decision No. 14/2001, dated 11 January 2001, in order to establish two separate entities: the DoF and the Department of Treasury. The Department of Treasury is responsible for macroeconomic management, but it is not the subject of discussion in this context. Conversely, the DoF is responsible for all accounting and the overall financial management functions of the government under NEC Decision No. 14/2001. The DoF’s functions, roles and responsibilities have been further redefined to clearly demarcate the operational functions under the reforms. Table 5.2 summarises the functions and responsibilities of each divisional unit and its mandated functions and responsibilities under these reforms. It should be noted that similar functions and responsibilities existed previously, but the focus is more concentrated at the period of the study.
### Table 5.2: Functions and Responsibilities of the DoF

<table>
<thead>
<tr>
<th>Function</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash management &amp; expenditure control</td>
<td>Cash flow projections and expenditure control; ensure all warrants, CFCs and cash payments are processed; all cash transactions paid and received are accurately recorded against appropriate revenues and expenditure votes</td>
</tr>
<tr>
<td>Accounting frameworks and standards</td>
<td>Enhance quality of financial reporting; improve inefficiency and accuracy of trust accounts; improve the whole of government reporting</td>
</tr>
<tr>
<td>ICT</td>
<td>Sound ICT infrastructure and technical support to government financial management and related systems</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>Collect appropriate fees and charges, and ensure non-tax revenue collected is accurately recorded; undertake research and development on non-tax revenue base</td>
</tr>
<tr>
<td>Provincial &amp; district financial management</td>
<td>Facilitate implementation of OLPLLG, especially on financial management; grants and administration; management of provincial and district treasuries</td>
</tr>
<tr>
<td>Audit and compliance</td>
<td>Better governance and management; compliance through the expansion of audit capacity in public agencies; establishment of public sector audit units and committees</td>
</tr>
<tr>
<td>Corporate services and training</td>
<td>Attract and retain high-quality staff; develop and maintain a skilled work force; ensure staff and other stakeholders are kept fully informed through regular comprehensive and appropriate communications</td>
</tr>
<tr>
<td>FMIP</td>
<td>Use the Integrated Financial Management System to increase and strengthen the managerial and operational capacity of staff in regard to strategic planning, budgeting, accounting and financial reporting</td>
</tr>
</tbody>
</table>

Source: Table constructed from the DoF archival documents by the author
The DoF has always had a pyramidal hierarchical structure (see Figure 5.1) with a chain of command and reporting linked to the portfolio minister even before the NPM reforms started, but this study focuses on structural reforms from 1995 to 2006. The DoF is headed by the Secretary for Finance, who is appointed by the NEC for a term of four years. The Secretary is supported by two Deputy Secretaries at strategic policy and operations levels, while further down the hierarchical structure, the department comprises nine divisions, which are headed by the First Assistant Secretaries.

**Figure 5.2: Organisation Structure of the DoF**

The terms ‘First Assistant Secretary’, ‘Divisional Head’ and ‘Divisional Managers’ are used interchangeably in this thesis. The divisions are: Cash Management and Expenditure Control Division, Accounting Framework and Standards Division, Information Technology and Communication, Non-Tax Revenue Division, Provincial and District Financial Management Division, Audit and Compliance Division Human Resources, Corporate Services and Training Division, and Financial Management Improvement Program. In the analysis in this chapter and throughout this thesis, the divisional levels are the levels at which the analysis and theorisation is undertaken.
If the DoF has to achieve its reform objectives in relation to the design and implementation of private sector MACS in the DoF, then it is through divisional managers that such results are achieved. Obviously, the Secretary for Finance and his two Deputy Secretaries cannot successfully implement the department’s reform strategies, but through the organisational structure that permits effective decentralisation. The organisational structure discussed so far depicts a decentralisation process that is common in many private sector organisations. Decentralisation is the delegation of decision-making authority to managers relating to their area of responsibility. Some organisations are more decentralised than others, as it is with the DoF because of its geographical dispersion of decentralised units such as provincial and district treasury offices, which makes it a highly decentralised department. The purpose of this organisational structure is to show how responsibility is divided among managers and to show formal lines of reporting and communication, or the chain of command.

Using Figure 5.2 as an example, each box depicts an area of management responsibility, and the lines between the boxes show the lines of formal authority between managers in the department. For example, divisional manager, or FAS, Cash Management and Expenditure, is responsible to the Deputy Secretary of Operations, who in turn is responsible to the Secretary, and the Secretary for Finance is responsible to the Minister. Similarly, in the private sector, for example, the Treasurer is responsible to the Chief Financial Officer, who would then be responsible to the President, and the President would be responsible to the Board of Directors (Merchant & Van der Stede, 2012; Macintosh & Quattrone, 2010).

This hierarchical structure from the Minister, Secretary, Deputy Secretaries and the First Assistant Secretaries reflects the command structure over the MACS process in which resource allocation (allocative and authoritative) is used in the exercise of power in the organisation (Giddens, 1979, 1984). Drawing on Giddens’ domination structure in this case allows certain organisational participants to hold others accountable for particular activities in the organisation (Giddens, 1979, 1984). For example, the actors at the divisional levels, hereafter referred to as divisional managers, will be held accountable for not meeting performance targets. This is why MACS are a key element in the process of accountability. However, the notion of accountability makes sense only in the context of the signification and legitimation structures involved in management.
accounting practices. Organisational participants or employees make senses of actions and events by drawing upon meaning embedded in MACS concepts. In fact, MACS give legitimacy to certain actions of organisational participants (Giddens, 1979, 1984).

The MACS in the DoF provide managers in the hierarchical structure with a means of understanding the activities of their organisation and allow them to communicate meaningfully about those activities. As such, a management accounting system is an interpretive scheme that mediates between the signification structure and social interaction in the form of communication between managers in the DoF. The signification structure in this case comprises the shared rules and concepts, which are drawn upon to make sense of the department’s activities. In particular, individuals may draw on the accounting practices as interpretive schemes for communicating meanings and understanding within the signification structure (Giddens, 1979, 1984).

Accountability is a cornerstone of the NPM type public sector reforms because it requires that those who hold and exercise public authority be held to account. Although accountability regimes vary, in a collective sense, they encompass the process whereby citizens hold their managers to account for their behaviours and performances through the mechanism of public scrutiny through hierarchical structures of authority and responsibility. The DoF has traditionally had a vertical hierarchical governance structure where the chain of command flows from the Minister to the Secretary and down to divisional heads and vice versa. With a vertical governance structure, the design and implementation of private sector style MACS are conducted in a centralised hierarchical manner, and the implementation is conducted via the hierarchical structure.

However, with the NPM type public sector reforms in 1995, the DoF shifted its focus to a more horizontal, non-hierarchical governance structure with fewer reporting requirements. In a horizontal approach, issues regarding the design and implementation of MACS are dealt with by managers who collaborate, negotiate and share power and responsibility, although final approval is usually given by the CEO of the organisation. Under horizontal governance, managers are on an equal footing. A classical example in the DoF is the divisional manager for the Accounting Frameworks Division, who would be required to consult his colleague, the divisional manager for Provincial and District Financial Management, regarding the submissions of annual financial statements.
regarding statutory compliance requirements. Horizontal governance has evolved from the period in which the contracting out of public services delivered to the private sector and not-for-profit organisations has emerged as a characteristic of NPM (Michels & Meijer, 2008; Ferguson & Phil, 2009). The next section discusses the public sector reform initiative in PNG from 1995 to 2006.

5.3 Public Sector Reform Initiative in PNG from 1995 to 2006

This section of the review will address the adoption of NPM practices in the DoF from 1995 (when public sector reforms began) to 2006. At the start of the reforms, much preparation took place in anticipation of fully implementing the reforms from around 2002 onwards, when massive reforms were taking place. The post-2006 period was considered a period of ‘consolidation’, as few new initiatives were introduced, apart from building on past initiatives. However, the reason for choosing the DoF as the research site to explore the research questions raised in Chapter 2 is primarily for reasons explained in section 5.2, and particularly because of the level of authority the DoF holds to influence both allocative and authoritative resources (Giddens, 1979, 1984). All decisions made by the DoF in either policy or financial management matters have significant overarching influences and trigger consequences across the entire government. The NPM type reforms in PNG, and particularly in the DoF, were triggered by two major legislative reforms: the OLPLLG in 1995 and the PFMA in 1996. These two pieces of legislation became the pillars of the public sector reforms in PNG. The implications of these legislations and the MACS that culminated from these triggers are introduced in the following sections of this chapter.

5.3.1 Organic Law on Provincial and Local-level Governments (OLPLLG)

The OLPLLG is the first trigger that commenced the public sector reforms in PNG in 1995. The repealing of the old Organic Law and the introduction of the new OLPLLG was considered a significant reform initiative because it embedded private sector concepts of good governance, accountability and transparency, customer focus, enhanced service delivery and the decentralisation of public resource management at provincial- and local-level governments. The old Organic Law from 1976 was replaced
because it was considered a foreign piece of legislation that appeared to be a replica of the Australian state and local government councils, which allowed for financial mismanagement as a result of the lack of capacity at the decentralised levels to design and implement any type of reform. Empirical evidence suggests that replacing the old Organic Law with the new OLPLLGG was wholly driven by the government, which embedded NPM type management control systems. The DoF has a peculiar role under Section 112 of the OLPLLGG and Section 70 of the PFMA—to establish provincial and district treasury offices. Further, the Public Services (Management) Act (PSMA) of 1996 supports this piece of legislation, which sets out the employment conditions and behavioural conduct of civil servants working in the public service at decentralised levels. Some of the administrative type NPM reforms adopted in the DoF since 1995 are:

- downsizing and retrenchments
- contracting out of services in the department
- District Services Improvement Program (DSIP)
- performance contracts
- institutional and capacity issues in managerial reforms.

Each reform initiative is discussed below.

5.3.1.1 Downsizing and Retrenchment in the DoF

Downsizing and retrenchment exercises is one of the DoF’s major administrative NPM type reforms undertaken since the involvement of the World Bank, the IMF, the ADB and AusAID. This technique can be categorised either as administrative/non-financial type reforms. The administrative consequences or implications of such reforms is that downsizing and retrenchment exercises remove skilled and qualified staff with institutional memory from the organisation at the cost of financial outcomes. The DoF underwent at least three restructures from 1995 to 2006, as pointed out in Section 5.1, with an estimated 200 staff retrenched, redeployed or sacked through unintended consequences (DoF, 2003, Annual Management Report). The structural reforms that took effect were supposedly to have been reduced in size of the department to improve efficiency. With the restructure, the task was to create a leaner department that had a
clear organisational mandate and objectives. As discussed in Section 5.1, in general, the rationalisation and trimming of public service positions was to achieve a ‘leaner’ or smaller and ‘meaner’ (cost-effective) department.

However, to be very tactical and avoid criticisms from the public—especially the trade unions—the government called this particular exercise ‘right sizing’ rather than ‘downsizing’ because downsizing has negative connotations. The likely consequence of industrial unrest was inevitable, so the government used NEC Decision No. 143/2004 on 25 August 2005 to direct that this management control tool be called ‘right sizing’ to avoid unintended consequences. Downsizing and retrenchment exercises are based on a cost–benefit analysis using private sector concepts, where cost-cutting measures are implemented by an organisation to reduce its expenses and improve profitability. Some of these measures may involve laying off employees, reducing employee pay, switching to smaller offices to save costs, or even restructuring its debt. Cost-cutting measures are often employed to keep a business afloat and operating through difficult economic periods. In much the same way as if it was in the private sector, its application in the public sector is the subject of critical evaluation in the next chapter.

5.3.1.2 Contracting Out in the DoF

During the three different restructures of the DoF in 11 years, various sections of the department were detached into operational arms of government to form autonomous agencies. For example, the role of Insurance Commissioner (see Figure 5.1), which was once part of the DoF, was detached to create a separate entity called the Insurance Commission Office. The DoF also contracted out its Information Technology Services to a private provider—Fijtech Ltd—a Fijian-registered company. Whether the company delivered the required services is the subject of critical evaluation in the next two chapters. Other services that were once performed in-house were also contracted out, including office-cleaning services, security services, building and ground maintenance, and catering services. The DoF had to contract out some of its services as one of the mechanisms to promote the efficient and effective delivery of services under its NPM reforms. Contracting out is a private sector concept used to improve the efficiency and productivity of private sector organisations.
5.3.1.3 District Services Improvement Program (DSIP)

Another significant administrative-related NPM reform undertaken by the DoF was related to DSIP. PNG suffered tremendously during the years after independence as a result of a lack of basic services at the district- and local-level governments. The NPM reforms, of which the DoF played an instrumental role from 1995 to 2006, received praise from politicians, bureaucrats and donors (Barcham, 2009). Two major components under the NPM reforms related to two specific programs driven by the DoF, which are related to the DSIP and the District Treasury Rollout Program (DTRP). While the former is specifically related to administrative type NPM reforms and is discussed here, the latter is related to private sector style MACS and is discussed in the next section. The reason for raising the latter in this section is simply to reflect that it constitutes part of the services delivery mechanism at the decentralised levels—accounting and financial management services in the province-, district- and local-level governments.

The government’s DSIP was considered a major reform initiative undertaken by any government since independence. The program was initiated by the Minister for Finance and Treasury, Hon. Bart Philemon, through NEC Policy Submission No. 103/2005, dated 8 June 2005. This major reform initiative was approved by the NEC in Decision No. 33/2005, dated 18 July 2005. In its decision, the cabinet endorsed that the DoF take leadership in the service delivery reforms, making the district’s ‘One Stop Shop’ a private sector concept in delivering basic government services to the majority of its populace. The effectiveness of this program and the involvement of external aid donors is the subject of critical analysis, theorisation and evaluation in the next chapter.

An interesting feature of the DSIP reform is that the program has been mirrored by external donor agencies and mimicked the success other programs such as the Provincial Services Improvement Program (PSIP) and the Local-Level Government Service Improvement Program (LLGSIP). These programs are not driven by the DoF, but by relevant state agencies through the support of donors such as AusAID. Finance Instruction Numbers FI 1B/2005 of 19 September 2005 and FI 4/2006 of 16 October 2006 were issued to protect public expenditure under the DSIP. It should be noted that
Finance Circular Instructions are issued under Section 117 of the PFMA and are enforceable by law.

5.3.1.4 Performance contracts in the DoF

An important feature of the administrative type NPM reforms is the development of the public sector performance management system and performance contracts in the DoF. Despite some well-known problems associated with performance management systems and contracts in the state enterprise sector in PNG, such as the abuse of contract systems, there were efforts to promote them in the DoF as managerial reforms took root in the department. Performance contracts were part of the process of encouraging divisional managers to relocate to the districts as part of the decentralisation process under the OLPLLG and the PSMA. Through Special NEC Meeting No. 45/2001, Decision No. 208/2001, the government approved performance management systems in the DoF and other government agencies as part of its NPM type reforms. In the DoF, performance contracts constitute a central aspect of the managerial reforms, and these contracts cover top- to middle-level managers. In the contracts, key result areas are clearly stipulated as the output by which their performances are measured against. Apart from the performance contracts, the DoF has also introduced position statements for each position occupied. In the position statements, key areas of responsibilities are specifically laid down, as well as key result areas and the performance standards for each key result area. These administrative measures are used periodically for performance measurement systems. However, in the DoF, junior-level managers are not covered by any contractual agreements. By comparison, in the context of the private sector contract system, performance contracts have been used extensively as part of its efforts to improve work commitment, productivity and service delivery at all levels of an organisation.

5.3.2 Institutional capacity in managerial reforms in the DoF

Perhaps the important issue under NPM type reforms is to understand the institutional and capacity issues in the DoF’s managerial reforms. Some significant questions were raised before the adoption of private sector MACS in the DoF: How have the managerial reforms fared to date in other developing countries? Have they brought
about changes in the way that government bureaucrats operate? Have markets developed sufficiently to change the way that agencies do business in the public sector? Has efficiency improved? Is the public better serve by these reforms? Given the relatively short period in which countries in the developing world have adopted or embraced market-focused managerial reforms, empirical studies on the subject are limited, and the results of this adaptation are slowly beginning to emerge.

In the DoF, reskilling and control has been a significant managerial reform that has occurred in anticipation of implementing private sector style MACS in the department. The majority of managers—both top-level management to district treasury-level employees—were never trained or reskilled to take on private sector style MACS because aid agencies did not support such programs as part of their aid packages. As it would be normal in the private sector, workers who are retained by companies are those who have the prerequisite skills and knowledge of how to use new technologies or new innovations. In reskilling, only workers with skills that match the new practices are retained. The workers’ skills become obsolete when new technology is introduced that can perform the work more efficiently. In some cases, organisations decide to go for upskilling, in which the skills of the current employees are improved by training so that additional skills are acquired to meet the new skill requirements (Macintosh & Quattrone, 2010; Merchant & Van der Stede, 2012).

In recognising the inadequacies in the DoF in adopting private sector style MACS, the Minister for Finance and Treasury, Hon. Bart Philemon, through NEC Policy Submission No. 173, dated 8 November 2004, decided to push the government for appropriate funding both in the reskilling and upskilling program for its employees in the DoF as part of its management reforms. This was necessary to allow the DoF to drive the NPM reforms with a competent and skillful workforce. In his submission, the Minister specifically acknowledged that a government is only as good or as bad as the bureaucrats and technocrats who drive the reforms. The success of management reforms in the public sector is dependent upon a more responsive and well-tuned-in bureaucracy to facilitate the government’s desired reforms. In Decision No. 174, dated 4 August 2005, the government approved the necessary funding for the reskilling and upskilling of its employees with professional management accounting qualifications. Management accountants in the department played a pre-eminent role in the provision of accounting
and other relevant non-accounting information needs for internal stakeholders in the department. Therefore, management accountants in the DoF were responsible for efficiency and value creation in the private sector style MACS, such as in strategic planning, programing, budgeting, accounting, reporting and other management control systems. By the end of 2005, in order to drive NPM reforms, over 600 people had been trained to professional-level management accounting qualifications for the first time since the reforms began.

Moreover, the need for an increased number of well-trained reskilled and upskilled professional management accountants in the DoF is now more profound than ever due to the significance of implementing private sector style MACS. Management accountants in the department are not just accountants *per se*, but strategic thinkers who play more of a strategic role in the design and implementation of private sector MACS. The DoF has also invested substantial resources in the upskilling program in readiness for the implementation of private sector MACS. However, the interesting feature of this reform program is the shift that has taken place not only in the organisation itself, but also in its agents and participants. From a private sector training or upskilling context, the DoF has embarked on a competency-based training program in three phases: phase 1 is based on formal training, phase 2 is based on workplace and learning, and phase 3 is the formal assessment. In phase 1, formal training is conducted by the National Training Council of PNG and the Financial Training Unit of the DoF with expertise in the relevant area of discipline. These trainees are taken through theory and practical exercises/activities aligned with adult learning principles. In phase 2, officers are taken through the experience of performing a particular task in the ‘real world’ or industry, such as the preparation of a financial statement. According to the chief accountant trainer:

This is a crucial component of the program cycle as this is where the trainee practices in the work environment with specific tasks that align with the units of competency that they will be assessed on. These activities become part of their portfolio of evidence but they are also designed to give genuine workplace outcomes. For example, provision of timely and accurate management accounting information. In phase 3, this is where the formal assessments take place through a variety of methods including portfolio of evidence, such as questioning, observations and third-party reports. These assessments are conducted by the DoF and NTC qualified assessors to ensure the principles of assessment are met, valid, current and reliable (PJ).
It was interesting to note the number of officers who had undertaken reskilling and upskilling management programs who had interacted with each other, and the level of private sector style MACS discourses used in their daily communications with each other. In the formative years, these officers were simple public servants who were unimportant and perhaps incompetent and redundant, and who were thought to have reached the end of their working lives. However, the sudden use of private sector accounting discourse by these officers was amazing. Phrases such as ‘subsidiary ledgers’, ‘trial balance’, ‘asset management’ and ‘total quality management’ were used during their communications. Undoubtedly, through the NPM reforms, the DoF has been the vanguard in introducing private sector accounting discourses, which is interesting because in these types of environments, such practices are usually prevalent and diffused. Giddens (1979, 1984) raised the point that individuals have the potential to draw on private sector MACS as interpretive schemes for communicating meaning and understanding within the signification structure.

5.3.3 Financial Management Reforms: PFMA of 1996

The second trigger of the NPM type public sector reforms in the DoF was the amendment to the PFMA of 1996. The overall aim of the financial management reforms was to achieve better value for public spending. The PFMA of 1996 was considered the most important pillar of public sector reforms in PNG because of its embeddedness in private sector MACS. It complements the OLPLLG of 1995 and the Public Services (Management) Act of 1996. The key reforms associated with the PFMA and financial management reforms include:

- strategic planning
- program and performance budgeting
- accounting reforms and the appointment of FCs
- audit committee
- competitive tendering and contracting systems
- customer orientation unit
- decentralisation of financial management functions
- FMIPs.
Each reform program was supported by international aid agencies, but others were modified to meet the circumstances of the DoF. Each of these MACS is briefly introduced in the following sections.

5.3.3.1 Strategic Planning System in the DoF

One of the first private sector style MACS adopted by the DoF was the strategic planning and budgeting system. Short-term strategic planning for a financial year had previously been the practice, where resources were tied to a financial year (e.g. a project), and if the project was not completed, the remaining funds were reverted back to the Consolidated Revenue Fund (CRF). The short-term planning system was superseded by resources tied into a medium-term three-year planning process. In fact, many successful for-profit and not-for-profit organisations around the world are driven by long-term planning and budgeting systems to achieve their organisational goals. Long-term strategic planning is a very important element in MACS in organisations (results control). In as much as there are successful for-profit organisations around the world whose motives are bottom-line profits and increasing their value for shareholders, not-for-profit organisations such as public sector organisations have introduced private sector concepts under NPM (Hood, 1991) to improve public sector performance and enhance service delivery. Like many other public sector organisations around the world, the DoF is driven by public sector reforms to strategically align its visions, missions, goals, objectives and strategies to achieve its strategic vision under its reform program. Further critical analysis and theorisation are conducted in the next chapter.

5.3.3.2 Program and Performance Budgeting in DoF

Consistent with the NPM type reforms, the DoF has been pursuing reforms to improve budgeting processes to increase the effectiveness, efficiency and transparency of public spending. As part of this, the budgeting process in the DoF and across the entire government and its instrumentalities, which is funded through the annual appropriation process, is shifting towards a management framework to monitor the performance of divisional managers in the department and at all levels of government. As mentioned earlier, all decisions made by the DoF not only affect the motivation and performances of managers in the DoF, but they also have overarching influences and trigger
consequences across the entire government. This budgetary reform initiative is driven by the FMIP, a vehicle used to deliver a robust financial management system as normally absorbed in the private sector. Under this framework, managers in the DoF justify their annual budget bids against programs and activities, with continued access to funding being based on their performance against agreed indicators. This will help to ensure that planned results are being achieved with allocated resources to:

- clarify policy objectives
- focus expenditure more tightly on priorities
- potentially inform and motivate program managers and service providers
- identify the causes of good and bad performance and thereby reduce waste and increase impacts
- facilitate across-agency working.

The above planned requirements are stipulated in the Budget Manual and accompanying Financial Management Manual, 2006. These manuals were part of the DoF’s working documentation since 1995, when they were officially commissioned as Financial Management 2006. Under these manuals, the above requirements are achieved by allocating budget resources to spending units/divisions within the department on the basis of reviews of past performances and statements of future strategies, and in return for commitments to achieve defined results. The imperative behind performance budgeting is to ensure that scarce budget resources are used to the best possible effect. This supports a framework for good public expenditure management. Where budget variances are incurred at various divisional levels, the managers who are responsible are held to account for these variances. Further budget variances are analysed and theorised in the next chapter.

5.3.3.3 Establishment of Provincial and District Treasury Offices

As previously discussed, the OLPLLG of 1995 and the amendment to the PFMA of 1996 are significant pieces of legislations that stood as pillars of the NPM type reforms in the DoF from 1995 to 2006. These legislations not only provided administrative type NPM reforms, but also embedded in them the private sector type MACS that the DoF adopted over the reform period. In line with the government’s policy to decentralise
financial operations, the DoF committed significant resources to establish fully functioning provincial and district treasury offices. The OLPLLG Section 112 and the PFMA Section 70, subsections 1 and 2 provide the legal basis for the establishment of 89 district treasury offices and 19 provincial treasury offices nationwide. Section 112 of the OLPLLG provides the legal framework for the DoF to implement and maintain a robust and responsive government financial management system. The NEC Decision No. 232, dated 18 November 2003, approved funding of 26 million PNG Kina commencing in the 2004 financial year. The accounting function is actually performed in the provincial and district treasury offices. While readers of this thesis may suggest that provincial and district treasury offices are not private sector MACS, the author argues otherwise in the next chapter. In the context of a private sector lens, provincial and district treasuries are organisation units at the decentralised geographical locations in the provinces and districts, with managers responsible for decision authority.

5.3.3.4 Accounting reforms

Similar to many other developing countries, the PNG government continues to use cash basis accounting, and it is highly unlikely that private sector accrual accounting will be adopted in the near future due to its complexities. However, a significant aspect of private sector culture worthy of mention in this section is associated with decentralisation and the timely remittance of accounting data for consolidation after the reforms took place. In this regard, the most significant improvement in the accounting reforms is the time taken to transmit accounting data from remote sites (peripheries) to the headquarters. However, to appreciate and understand the context, it is important to present a summary of accounting developments before the reforms, and what transpired after the reforms.

The government accounting system in PNG is on a cash basis rather than an accrual basis. Receipts and expenditures shown in financial statements are the amounts that are received and spent during the financial year. Goods or services received in a particular year are brought into account in the actual year of payment. Similarly, income receivable in one year but received in a subsequent year is brought into account in the actual year of receipt. All refunds must be offset by charging the expenditure votes. Offshore loans received in PNG Kina must be recorded into the account as loans.
revenue and as expenditure. All grants and loans received in cash are considered revenue and recorded accordingly (PFMA, 1996).

The Finance Regulations state that the accounting system and records maintained by the various departments at the national and provincial levels, at the Bureau of Management Services (BMS) and at cash offices are subsidiary to the accounting system and records of the DoF. There are more than 150 cash offices that are sources of input to the main appropriation ledger maintained by the DoF. These sources are overseen by the DoF to ensure better control and management of public money and property. Cash offices account for their receipts and payments to the various BMSs in the provinces. In turn, the BMSs account for their receipts and payments together with the transactions of the cash offices to the respective Area Finance Offices. At the national government level, departments are categorised into three groups: self-accounting departments with their own drawing accounts—these departments have the expertise to run their own financial management affairs; self-accounting departments without drawing accounts—these departments have limited capacity to run their own financial management affairs; and non-self-accounting departments—these departments do not have the capacity to run their affairs and thus require the assistance of the DoF to do so. Before the reforms, the process of consolidating financial data took from two weeks to 3–6 months before the general ledgers in the DoF headquarters were updated. Table 5.3 summarises the accounting reforms.

**Table 5.3: Flow of Accounting Information before and after the reforms**

<table>
<thead>
<tr>
<th>Old System</th>
<th>New Reform System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash offices</td>
<td>District treasuries</td>
</tr>
<tr>
<td>BMS</td>
<td>Provincial treasuries</td>
</tr>
<tr>
<td>Area Finance Offices</td>
<td>Self-accounting departments</td>
</tr>
<tr>
<td>Self-accounting departments</td>
<td>Finance headquarters</td>
</tr>
<tr>
<td>Non-self accounting departments</td>
<td></td>
</tr>
<tr>
<td>Finance headquarters</td>
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</table>

Source: Data abstracted by the author from financial reform documentation
The significant aspects of the reforms relating to the accounting systems both at the national government departmental levels and at the provincial and district treasury offices in relation to the decentralisation process is where managers see the importance of time management as a significant private sector tool in managing the accounting information at their decentralised levels. The process has been explained at the provincial level, where it begins at cash offices and move to the BMS, the AFOs and finally to headquarters. At the national government department level, the process begins with both the non-self-accounting and self-accounting departments submitting their accounting data via the AFOs and Finance Cashier Branch before the data are finally consolidated into the main appropriation ledger. The time lag for data transmission takes from two weeks to more than three months before the reforms, depending on the remoteness of the districts transmitting the accounting data to be consolidated in the general ledgers. The reforms have not only reduced the distance time and space for timely financial management and accountability purposes, but they also add value to management accounting systems (Quattrone & Hopper, 2005; Bloomfield & Combs, 1992; Macintosh & Quattrone, 2010). Improvements in transmissions have occurred as a result of an upgrade in the current computerised Government Accounting Systems Software package (PGAS) to allow for these improvements to eventuate. This means that accounting data from remote peripheries (district treasuries) may now be transmitted to headquarters without going through intermediaries.

In addition to the accounting reforms, the DoF introduced a number of FCs under the influence of external aid donors into strategic line positions within the DoF’s organisational structure, who are responsible for ensuring that compliance requirements are met before any expenditure in the department takes place. To ensure that the government’s reform policy objectives are met, the DoF introduced a private sector concept of FCs. Similar to private sector practices, the role of the controllers is to ensure they pre-audit claims prior to processing them through the PGAS. This is to ensure that purchasing and procurement by the department is carried out in accordance with the PFMA and the Financial Instructions contained in the Financial Management Manual (FMM). The concept of FCs in private sector management control practices has always had the support of the chief executive management. In any case, FCs in the private sector are usually senior people in the organisation. The effectiveness of this program and its success or otherwise will be analysed in the next chapter.
5.3.4 Internal Audit Committee

The adoption of an Audit Committee commenced in the DoF following a NEC policy submission by the Minister for Finance and Treasury, Hon. Bart Philemon, and subsequent NEC Decision No. 25 in 2004. In the same approval, the NEC approved an amendment to Section 9 of the PFMA and its subsequent presentation on the floor of Parliament. The amendment took effect as soon as it was gazetted on 22 June 2005. Section 9 of the PFMA not only required the establishment of an Audit Committee in the DoF, but the amendment was more specifically for the Secretary for Finance, as the Secretary responsible for the overall financial management oversight to provide an independent chair for all public sector committees across the whole of government. In the DoF, there is an independent chair supported by two independent directors on the board. The Audit Committee in the DoF meets on a quarterly basis unless otherwise directed by the chair. The Audit Committee makes a valuable contribution to improving the governance and performance accountability of the department as the lead agency. It also plays an important role in examining the department’s policies, processes, systems and management controls. However, it should be mentioned that the Section 9 amendment to the PFMA was fully endorsed by aid agencies such as the ADB and AusAID, and they sit on the Audit Committee as observers. The Audit Committee in the DoF reports directly to the Minister for Finance, who then presents the report to cabinet under the Section 9 amendment of the PFMA. A further discussion of this private sector concept will be presented in the next chapter.

5.3.5 Competitive tendering and contracting system in the DoF

The competitive tendering and contracting system is the other private sector style MACS adopted in the DoF as a result of the Section 39 amendment of the PFMA in 2000. One of the primary reasons for adopting this private sector tool is to help divisional managers get the best value for money by ensuring that the best choice is made for the task at hand at a competitive price. If this MAC is implemented well, it can lead to significant improvements in accountability, quality and cost-effectiveness, providing benefits to clients, taxpayers and the broader community. The Hon. Bart Philemon, Minister for Finance and Treasury, in his Policy Submission dated 21 October 2003, with a subsequent decision arising out of a Special Cabinet Meeting No.
21/2003, Decision No. 92/2003, approved for a competitive tendering and contracting system to be designed and implemented in the DoF to provide two distinctive features in the reform program. First, it means that the DoF will have to clearly define the services to be delivered by the government. Second, it involves periodically opening up competition to external suppliers for the provision of goods and services (PFMA, 1995). This practice is common for countries that have introduced NPM type reforms, such as Australia and New Zealand. AusAID was instrumental in the procurement reforms when it released the ‘Good Procurement Guide’ through the Central Supply and Tenders Board (PFMA, 1996). Empirical evidence further suggests that AusAID advisors attached to the Central Supply and Tenders Board (CSTB) have had a significant influence on this particular submission. However, its workability, success or failure will be evaluated in the next chapter.

5.3.6 Establishment of customer orientation unit in the DoF

One of the other private sector concepts adopted in the DoF is associated with customer focus. In an attempt to address customer needs, the DoF established a ‘Complaints Unit or Cell’ within the Cash Management and Expenditure Division. The task of this unit is to address various complaints raised by its customers—in this case, its citizens—regarding the performance of the organisation or individuals or agents within the organisation. Complaints are usually raised on a face-to-face basis and, depending on the seriousness of each complaint, they can either be referred to the top management for punitive action against those implicated, or they can be referred to the audit unit for investigation before necessary action is taken. If managers in the complaints unit are able to find a solution to the problem or complaint, then they do so immediately. The Secretary for Finance, or the CEO as he is usually referred to, needs to create a culture of customer service within the department and ensure that it is clearly communicated to its stakeholders. In the private sector, customer service is perhaps the most significant aspect of any business because there is a positive relationship between the profitability of a business and customer satisfaction. Therefore, the CEOs of the best-performing companies in the private sector ensure that employees at all levels understand their customers and are given the tools to service them well. To ensure that private sector organisations are serving their customers well, they undertake market research using questionnaires to understand the satisfaction levels of their customers (Langfield-Smith
et al., 2012). Further issues relating to this tool will be analysed, evaluated and theorised in the next chapter.

5.3.7 Decentralisation of financial management functions

The issue of decentralisation was previously discussed in the context of administrative reform. This section is associated with the decentralisation of financial management functions down to the divisional levels of management (inclusive of provincial and district treasury levels). For the purpose of discussion in this section, private sector MACS is the context; therefore, decentralisation is seen as the means through which the DoF is able to: provide high-quality services that are considered value for money; increase its managerial autonomy; reduce central controls in finance headquarters in demanding, measuring and rewarding both organisational and individual performances: enable managers to acquire human and technological resources to meet performance targets, such as creating responsiveness to competition and open-mindedness about the public purposes as to what should be performed by public servants compared to the private sector; empower managers through their enhanced participation in decision-making through planning and budgeting systems; and provide better governance.

The primary modes of decentralisation in the DoF that are attributed to NPM reforms are de-concentration, delegation, devolution and privatisation. Privatisation is not the subject of discussion at this stage. However, de-concentration is the passing down of selected administrative functions to lower levels at the divisional heads, provincial and district treasury levels. For example, all selections and placements, managerial capacity building, and disciplinary or punitive measures at the provincial and district treasuries are not de-concentrated, although recommendations may be forwarded up the chain of command. This is the least expensive form of decentralisation. Delegation is a form of decentralisation where there is a transfer of specific authority and decision-making powers to the decentralised units (divisional heads and provincial and district treasuries). Delegation is seen as way of offering public goods and services through a more business-like organisational structure that makes use of private sector accounting techniques. In the DoF, the Secretary for Finance appoints designated positions for approving public expenditure for goods and services as well as capital expenditure under Section 32 of the PFMA. These positions are subsequently gazetted in the
government gazette. This is a form of action control exercised by the Secretary for Finance for controlling the behaviours of managers and their employees in the department—especially managers with decision-making authority. Action control is a dominant management control tool in managing large, decentralised entities such as the DoF in empowering, motivating and controlling managerial behaviours. This is a classical private sector concept (Merchant & Van der Stede, 2012). Devolution is the other form of decentralisation, where decision-making powers to lower-level authorities or managers allow them to take full responsibility and accountability without making reference to the authorising officer in finance headquarters. This includes financial powers as well as the authority to sign off public expenditures, but within the Section 32 approved limits. It should be noted that devolution is the strongest form of authority. Its essence is discretionary and it allows for the reduction of the levels of administration through which activities have to pass and no reference is made back to finance headquarters. Devolution has some similarities to delegation, which is also a significant results control tool as advanced by Merchant & Van der Stede (2012).

5.3.8 Financial Management Improvement Program (FMIP)

The FMIP was initiated and established by the government with donor assistance to implement improved financial management systems in the DoF as part of the financial management reforms in 1998. The program is an integral part of the DoF’s initiative to improve financial management in the public sector. The FMIP is the overall umbrella program that acts as the vehicle to implement the government’s initiative of implementing improved financial management to:

- establish appropriate organisation structure and fully resource it through the necessary funding and recruitment process
- develop a medium-term financial management strategy (MTFMS) with technical support from development partners
- provide a mechanism in accordance with the government’s financial management systems to channel development funds for specific financial management capacity building initiatives of the government and report on the benefits/outcomes for value for money
create awareness of the project through regular newsletters and visits to build stakeholder relationships
procure and implement a network system for necessary training to prepare and provide skilled personnel for the implementation of the IFMS
establish awareness among provincial administrators and secure support to participate in a capacity-building project through their contribution.

The success or failure of the FMIP implementation will be analysed, evaluated and theorised in the next chapter.

5.4 Summary of Key Components of NPM Type Reforms in the DoF

A summary of the key components of NPM type reforms adopted in the DoF is presented in Table 5.4. These lists of private sector concepts are not in any specific order, however, the imposition of these pro-market and pro-private sector techniques were designed and implemented in the DoF to gain and maintain external legitimacy through formal practices which permeated across the entire public sector. The 24 MC tools introduced in the next page were implemented as part of the NPM reforms from 1995 to 2006. The tools introduced are not an exclusive list but implementing these tools has received mix reactions. Their success or failures in the design and implementation of these tools are critically analysed, evaluated and theorised in the next chapter. However, due to logistical reasons not all these tools are individually discussed.
Table 5.4: Adoption of private sector MACS (NPM) or tools in the DoF

<table>
<thead>
<tr>
<th>Element of private sector MACS tools</th>
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<tbody>
<tr>
<td>Program and performance budgeting</td>
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<tr>
<td>Strategic planning (multi-year)</td>
</tr>
<tr>
<td>Implementation of program budgeting in provinces and LLGs</td>
</tr>
<tr>
<td>To down and bottom up planning and budgeting</td>
</tr>
<tr>
<td>Emphasis on customer focus</td>
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<tr>
<td>Use of corporate plans, mission statements, and strategic plans</td>
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<tr>
<td>Benchmarking and competition</td>
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<tr>
<td>Good governance, accountability and transparency</td>
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<tr>
<td>Hands-on-professional management</td>
</tr>
<tr>
<td>Professional growth and development opportunities</td>
</tr>
<tr>
<td>Appointment of FCs</td>
</tr>
<tr>
<td>Research and development</td>
</tr>
<tr>
<td>Recruitment and placement of officers</td>
</tr>
<tr>
<td>Establishment of audit units and public sector audit committees</td>
</tr>
<tr>
<td>Punish or reward staff</td>
</tr>
<tr>
<td>Commercial type contracting of procurement procedures</td>
</tr>
<tr>
<td>Total quality management</td>
</tr>
<tr>
<td>Goal congruent objectives</td>
</tr>
<tr>
<td>Achievement of departmental goals</td>
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<tr>
<td>Timely publications of financial statements</td>
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<tr>
<td>Take appropriate action on results</td>
</tr>
<tr>
<td>Periodical evaluation of programs and activities</td>
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<tr>
<td>Setting of performance targets</td>
</tr>
<tr>
<td>Performance Management Systems</td>
</tr>
</tbody>
</table>

Source: Data extracted by the author from archival documents held in the DoF

5.5 Conclusion

This chapter introduced the DoF as the research organisation site at which the researcher explored the research questions raised in Chapter 2. The chapter commenced
with an overview of the DoF since the departure of its colonial master after independence, the roles and responsibilities of the department, the effects of the organisation’s decision making, and its overarching influence and triggering consequences across the entire government. The chapter also highlighted how, through the support of external donors, the NPM reforms have introduced significant private sector style MACS—both non-financial or administrative, such as good governance, transparency and accountability—to private sector MACS tools such as strategic planning, performance program budgeting and the decentralisation of decision-making authority. These borrowed concepts have completely changed the organisational culture of the DoF into a business-like entity, which has been mimicked by other government agencies, thereby changing the public sector face of PNG culture into private sector style.
Chapter 6: Design and Implementation of Private Sector Style MACS in the DoF

6.1 Introduction

In Chapter 5, the DoF was introduced as the research organisation site for this study. This chapter will explore the research questions raised in Chapter 2 and attempt to answer them through an interpretive case study of the department. A significant number of private sector style management control tools were introduced in the previous chapter—both administrative and those associated with private sector MACS as part of the public sector reforms in the DoF.

The main objective of this study is to explore the design and implementation of the private sector style MACS adopted in the DoF. While these tools were designed and implemented in the DoF, the researcher is also aware that some of these private sector MACS tools adopted have inherent limitations. These limitations have a profound effect on their design and implementation in the DoF, and this argument has been supported by a number of researchers around the world. For example, Mayston (1993) argued that while the private sector is an unambiguous model for the private sector to emulate in order to achieve accountability and efficiency, the private sector has its own problems that must be avoided as far as possible in any reform of the public sector. When studying the adoption of accrual accounting in the Commonwealth of Australia, Barton (2009) advised that private sector style MACS should not be praised too highly yet because the private sector concepts are not immune to problems. Some of these tools have only been resolved in the past few years, so they require time to prove their success or otherwise.

In addition, the researcher is aware of the fundamental differences in the goals and objectives of both the public sector and the private sector, which therefore suggest non-goal-congruent objectives, which may result in some of these tools not being properly designed and implemented. Some of these differences are the subject of critical analysis and theorisation in this chapter. It should also be mentioned from the outset that much
of the empirical evidence introduced in Chapter 5 (e.g. NEC submissions and decisions) is presented in this chapter again to allow for critical analysis and theorisation.

The chapter begins by critically analysing, evaluating and theorising the various administrative type management control systems embodied in the OLPLLGs, starting with downsizing and retrenchment in the DoF and followed by the contracting out of services in the department, the DSIP, performance contracts and institutional capacity in managerial reforms in the DoF. The chapter then proceeds to critically analyse, evaluate and theorise the private sector type MACS embedded in the PFMA of 1996, such as strategic planning, program and performance budgeting, accounting reforms and the appointment of FCs, audit committees, competitive tendering and contracting systems, customer orientation, decentralisation of financial management functions and the financial management improvement program reforms.

6.2 Organic Law on Provincial and Local-Level Governments (OLPLLGs)

Two significant triggers commenced the NPM type public sector reforms in 1995 to 2006: the enactment of the OLPLLG in 1995 and the amendment to the PFMA in 1996. These legislations became the foundations of the public sector reforms in PNG. The old Organic Law from 1976 was replaced because it was considered a foreign piece of legislation that appeared to be a replication of the Commonwealth of Australia and its federated states and local government councils. This piece of legislation embodied characteristics for possible financial mismanagement as a result of the incapacitated public sector at decentralised levels to design and implement any types of reforms. Empirical evidence suggests that the replacement of the old OLPG with the new OLPLLG was internally designed and wholly driven by the government (Kavanamur et al., 2004), which embedded in this piece of legislation with NPM type reforms associated with good governance, accountability, transparency, decentralisation and customer orientation. The new OLPLLG was meant to address the shortcomings of the old OLPG by in-building private sector performance-oriented culture into public service culture. This change can be seen through the lens of systems reproduction, where the
change is incremental in nature and unintended processes as routinised or institutionalised systems are reproduced in daily life (Giddens, 1979, 1984).

On the other hand, the PFMA was amended to adopt private sector style MACS or financial management reforms. This involves the habitual routines and conventions of daily life being drastically disrupted through the adoption of private sector style MACS. Conventions and social codes of agents in the DoF were abandoned and new ones were introduced. This type of change is what Giddens (1979, 1984) called ‘system contradiction’. Nevertheless, these legislations stood as pillars of the NPM type reforms. These two triggers of the reforms may also involve the role of the government. As Lawrence and Doolin (1997) stated, governments may sometimes create ‘crisis’ situations so they can introduce new and contradictory elements and disrupt extant social codes. Under such conditions, clashes occur, as is the case with the two triggers of the NPM reforms. Giddens (1979, 1984) referred to it as the ‘fault lines’ of social systems. The extent of the changes depends on the degree to which definite groupings arise along the ‘fault lines’ and on the ability of agents within the ‘fault lines’ to command authoritative and allocative resources to effect or prevent change (Macintosh & Quattrone, 2010). Obviously, the replacement of the old Organic Law with the new Organic Law and the amendment to the PFMA suggest the attributes of the involvement of the government to create a crisis and the abrupt discontinuity in institutional practices. Moreover, this chapter attempts to critically analyse, evaluate and theorise each of these MACS tools and to further evaluate their successes or failures (if any) regarding their design and implementation in the DoF.

However, it should be mentioned that the NPM reforms in which the DoF played a pivotal role have received praise from politicians, bureaucrats and donors. However, evidence suggests that few reforms occurred at the start of the NPM type public sector reforms in 1995 until about 2001 onwards, which is reflective of the level of preparation and training that was taking place before the commencement of the massive reforms. One other delay also attributed to the leadership style exerted at the top. Unless the organisational leadership demonstrated reformist culture at the top managerial level, the pace of the reform was going to be slow, making it difficult to achieve the intended outcome quickly. Mir and Rahaman (2006) described the importance of a transformational leader as someone who is able to effect the transformational change of
the basic assumptions and operating policies of organisations. This is how one senior manager defined it during the interview regarding the importance of driving the reforms:

Since Captain Mande (pseudo name) lowered the anchors and hang up the captain’s cap in the wheel house, MV Finance has not sailed and is been blown about by the stormy winds. Ship’s deckhands, engineers, passengers are killing each other on board the ship. It is a ship going nowhere and without a captain. The wise ones have left for the greener pastures knowing that to remain on-board is really awaiting disaster (O.W)

The first of the analysis, evaluation and theorisation of the management control systems in the chapter begins with downsizing and retrenchment, and is followed by the other management control systems designed and implemented in the DoF. However, pertinent questions should be asked in relation to the adoption of these concepts in other developing countries to appreciate and understand its workability in the DoF. Some of these questions are: How have managerial reforms fared to date in other developing countries? Have they brought about changes in the way that government bureaucrats operate? Have markets developed sufficiently to change the way that government agencies do business in the public sector? Has efficiency improved? Is the public better serviced by these reforms? Given the relatively short period in which countries in the developing world have adopted or embraced market-focused managerial reforms, empirical studies on the subject are limited, and the results of this adaptation are slowly beginning to emerge (Wickramasinghe & Hopper, 2005; Uddin & Tsamenyi, 2005; Harun et al., 2012).

6.2.1 Downsizing and Retrenchment in the DoF

Downsizing and retrenchment exercises are a major administrative type NPM reform undertaken in the DoF as a result of the enactment of the OLPLLG in 1995. Although the OLPLLG triggered the design and implementation of this management control tool, the law itself was silent over the words ‘downsizing’ and ‘retrenchment’ in the legislation. The fundamental objectives of the government were implicitly clear that the DoF should be restructured to become a smaller and leaner department at headquarters, with the majority of staff deployed to provincial and district treasury offices. Those who did not want to be relocated to provinces and districts were expected to be retrenched.
Perhaps the main thrust of the OLPLLG was decentralisation, which is another control tool discussed later in this chapter. This is evident in Section 112 of the Organic Law, in which the designers of the MCS in the DoF were required to establish provincial and district treasury offices. However, it must be effected through the structural reforms of 1995, 1999 and 2001, as discussed in Chapter 5. It was expected that the majority of officers affected would be redeployed to the provinces and districts, but instead the intended purpose did not materialise, allowing for a completely new recruitment process to take place. Evidence from the archival documents—especially the approved structure in 2005—showed 972 staff at the provincial and district treasury offices, with 800 staff at headquarters. An estimated 200 staff have been retrenched since the start of the first restructure, which took place from 1995 to 2006. One retrenched officer said:

What is the criterion that the DoF is using in deciding who should be retrenched and who should not? Do they consider the seniority of service for some of us? What sort of cost benefit analysis have they done before proceeding with this exercise or are they been influenced by the donors to undertake this exercise? (VK)

The implication of such reforms is that downsizing and retrenchment exercises remove skilled and qualified staff with institutional memory at the cost of financial outcomes. Under such circumstances, it is difficult to drive the reform agenda in other areas because of the lack of institutional memory and capacity to carry out other reform agendas such as performance measurement systems. Nevertheless, the DoF underwent at least three restructures from 1995 to 2006, with an estimated 200 staff retrenched, redeployed or sacked through unintended consequences (DoF, 2003, Annual Management Report). The structural reforms that took effect were to reduce the DoF’s size to improve efficiency. With the restructure, the task was to create a leaner department that had a clear organisational mandate and objectives. A staff member who refused to relocate to the districts said:

The welfare of my children is important. I have four school age children, 2 in primary school, and 2 in high school. I can’t take them to the districts where their schooling will be affected. These are all surprise moves and the consequences are not easy (PJ).

Downsizing and retrenchment exercises as a tool designed and implemented in the DoF are the result of using a private sector concept based on cost–benefit analysis, where cost-cutting measures are implemented by a company to reduce its expenses and
improve profitability. These measures may involve laying off employees, reducing employee pay, switching to a smaller office to save costs, or restructuring debt. Cost-cutting measures are often employed to keep a business afloat and operating through difficult economic periods (Seric, 2005; Langfield-Smith et al., 2012). Seric (2005) argued that redundancies are a way of removing those who are not performing to meet organisational goals.

From a theoretical perspective, the downsizing and retrenchment exercise could be viewed from a reflexive monitoring of actions, where such action produces unintended consequences through the retrenchment process. Giddens (1979, 1984) illustrated how individual actors and others actors within organisational settings continuously monitor the flow of activities to determine an outcome and intended or unintended consequences. Giddens (1984, p. 91) distinguished between reflexive monitoring and the rationalisation of action from its motivation. Motivation is defined as a potential for action. In doing so, Giddens contrasted ‘reason’ as the grounds for action with motives, which refers to the ‘wants’ that prompt the action. While reflexive monitoring and rationalisation are directly bound in routine or continuity, motivation occurs in relatively unusual circumstances and services in some way to break with routine. Motives tend to supply the overall plans, projects or programs, as is the case with this particular management control tool. According to Giddens’ duality of structure, both the structure and human are dynamically interlinked. It is concerned with understanding the relationship between the activities of knowable human actors and the structuration of social systems.

The evaluation of this management control tool suggests that downsizing has created many unintended consequences and therefore has not worked in the DoF because it was financed and influenced by the international aid agencies of the World Bank, the IMF, the ADB and AusAID. DiMaggio and Powell (1983, p. 150; 1991, p. 154) and Meyer and Rowan, 1997) argued from an institutional theory perspective that organisations such as the DoF compete not just for resources and customers, but also for political power and institutional legitimacy. Such pressures can either be by ‘force, persuasion, or invitation to join in collusion’. While the intent of the new OLPPLLG was to introduce private sector MCSs, if cultural and environmental considerations were not taken into account by external aid agencies, the design and implementation of this particular tool
was bound to fail, and many unintended consequences were likely to arise. The major cultural and environmental implication in the design and implementation of this particular tool is that PNG has a very difficult geographical dispersion in which provincial and district treasuries are located in remote locations with limited services. Officers affected by downsizing would prefer to be retrenched than be relocated to the provincial and district treasuries. Another retrenched officer said that:

DoF management cannot make unilateral decision and have officers in the department retrenched unless it is on a voluntary basis. But this is against individual will and is likely to create industrial unrest if unions get involved (LA).

It should also be noted that downsizing as a management control (MC) tool has been extensively criticised in the private sector as an unworkable concept. Henkoff (1994, p. 58) pointed out that every year, thousands of companies lay off workers in the hope of enhancing organisational performance. However, research on the effects of downsizing is inconclusive, and a large number of companies, rather than becoming ‘lean and mean’, often end up ‘lean and lame’ as a result of downsizing (Luthans & Sommer, 1999; Little & Innes, 2003; Love & Nohria, 2005). Therefore, if it is an unworkable concept in the private sector, what would make it work in the public sector? Moreover, it brings to the fore of the analysis what the researcher raised in the introduction about the fundamental differences in the goals and objectives of the private and public sectors (Maystone, 1993; Mir & Rahaman, 2002, 2003, 2006, 2007, 2011; Barton, 2009; Alam & Lawrence, 2009; Alam & Nandan, 2010; Pekkarinnen et al., 2011; Ratnatunga & Alam, 2011; Alam & Holloway, 2012; Bracci & Llewellyn, 2012). The finding of this study is consistent with similar findings of other researchers in the developing world (e.g. Ghana and Zimbabwe) by researchers such as Uddin and Tsamenyi (2005) and Ndiweni (2010). Ndiweni examined the management accounting information of Zimbabwe’s automobile industry, in which the findings found unintended consequences such as redundancies to be very prevalent.

6.2.2 Contracting Out in the DoF

The contracting out of essential services in the DoF is the next MCS tool designed and implemented in the DoF. Empirical evidence from archival documents revealed that the then Secretary for Finance Mr More Vale (pseudo name), in management meeting No.
6, dated 15 June 1999, advised divisional managers of the restructuring of the
department and detaching of non-core functions into statutory bodies, and to contract
out important services to the private sector on the basis that they can best perform these
services because it is their area of expertise. The DoF should be more concerned about
the core functions of the department—an area that the private sector is not capable of
delivering. In the welcoming remarks, the Secretary for Finance said:

On behalf of the DoF I want to welcome the Hon. Minister for Finance and
Treasury and our consultant seconded from the World Bank Dr. Watchman
(pseudo name) to one of our most important meetings since the reforms have
happened. This meetings marks a significant moment in our history because
certain historical decisions are going to be made that will not affects us as
individuals but the organization as a whole. The government has already taken
a position on the matter which the Minister will advise us soon but much of
the assistance will be provided by the World Bank in implementing these
decisions especially through the restructures we will be undertaking (MV).

At this meeting, major decisions were made regarding the design and implementation of
various management control decisions, including the design and implementation of this
particular management control tool. Whether it was meant to be a collective managerial
decision or not was unclear, but it was made more so by the World Bank via the
consultant who was seconded to the department. Irvine (2005) viewed the role of
consultants in organisations as a clear manifestation of normative pressure on not-for-
profit organisations. However, the 1999 restructure of the organisation was the
restructure in which various sections of the department were detached into operational
arms of the government to form autonomous agencies. For example, the role of the
Insurance Commissioner (see Figure 5.1), which was once part of the DoF, was
detached to create a separate entity called the PNG Insurance Commission. The DoF
also contracted out its information technology services to a private provider— Fijtech
(pseudo name) Ltd—which is a Fijian-registered company. A divisional manager
complained:

I don’t think it is fair for all our IT services to be provided by a private
company. We do not only provide IT services for the DoF alone but we assist
other government agencies with their IT problems. As a divisional manager,
don’t I not have the right to see the management service agreement with the
department, for transparency and accountability purposes, rather than for Dr
Watchman (pseudo name) and the Secretary only to deal with it? (RA)
Other services once performed in-house were also contracted out, including office cleaning services, security services, building and ground maintenance, and catering services. The DoF contracted out some of its services as one of the mechanisms to promote the efficient and effective delivery of services under its NPM reforms. The NPM or business-like concepts driven by the Secretary for Finance and the World Bank advisor was unheard off by many divisional managers present at that meeting. For the first time in their working lives, they were confronted with new ideas such as allowing the Insurance Commissioner’s Office to be created under the Company Act as a Limited company, contracting out vital services to the private sector, the cost–benefit analysis of some of these services, total quality management (TQM), better customer orientation and better-quality services when they are better rendered by the private sector.

Giddens (1979, 1984) described these discourses as cognitive dimensions of social life, where agents communicate with and understand each other. They consist of abstract structures, interpretive schemes and discursive practices. In their daily practices, agents or divisional managers communicate with each other during meetings and in their daily routine practices through social interaction by using subjective interpretive schemes and accounting discourses in order to communicate meaning and understanding. For example, it was interesting to observe the behaviours of managers, the way they discuss, interact, and debated issues regarding cost savings, expenditure controls, streamlining government services, efficiency and performances as interpretive schemes to make sense of their experiences.

However, an evaluation of this particular management control tool brought mixed reactions—both successes and failures. On the success front, detaching the Insurance Commissioner’s Office into a statutory organisation under the Company’s Act was perhaps the right choice because the organisation can better monitor and regulate the insurance industry like any other private sector organisation. Likewise, the outsourcing of cleaning and building maintenance, catering and security services in the department was considered a common-sense view. In this context, although an external aid agency (the World Bank) sponsored the program, the success in the design and implementation of this particular MC tool in the DoF indicated that its success did not hamper the fundamental objectives of both the private and public sectors. This tool is a very successful tool used in the private sector to improve organisational performance and
increase the value for shareholders. However, the outsourcing or contracting out of its information technology services was considered a failure because it resulted in the absorption of the very few technically qualified IT personnel in the department into the new service provider—Fijtech Ltd—with large bonuses and remunerations paid to these IT experts.

The cost-benefit analysis from archival documents indicated that the cost of retaining the management services agreement outweighed any benefits that the department was receiving in the long term. Archival documentation showed that the department paid the equivalent of A$180,000 per month to the company, totalling A$2,160,000 in one year and $4,320,000 in two years. These costs are inclusive of lost time, inefficiency and the disruption of services in the department. However, the benefits that the DoF received from this company were not provided, except as a footnote in one piece of correspondence, which claimed that the benefits were difficult to justify. In the private sector, cost-benefit analysis is a significant tool because decisions must be made regarding whether it is worth continuing an investment or whether changes should be made. If there are going to be changes, the cost of the changes and the benefits must be calculated from these changes. Where costs or benefits are paid or received over time, it is important to work out the time it will take for benefits to repay the costs. In the DoF and the public sector, it is difficult because there is a need to deal with the issue of accountability and value for government spending. If benefits cannot be proven in measurable and tangible terms, it is difficult to justify the continuation of a contractual arrangement for the department and the government as a whole. Thus, in 2001, the newly appointed Secretary for Finance decided to determine the services on the basis that:

The cost of maintaining their service agreements is too expensive. Not only is the cost exorbitant, but the recruitment and training, has become problematic in driving the other aspects of the reforms in the department when these IT experts have refused to return to the department. With the roll out of the IT infrastructure to the provincial and district treasury offices their expertise is very essential for the DoF (GY).

In the private sector, the motivation that would drive the success of many businesses is the level of remuneration and the bonuses accorded to high-performing employees. This is rarely found in any public sector organisations in many developing countries.
However, the failure itself is the result of aid agencies influencing their resources’ superiority by driving the reforms externally, without organisational considerations in the design and implementation of this MCS (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1997). Polidano (2001) investigated the extent to which developing countries took up NPM reforms and pointed out that the power of the purse and some quick and definite ideas regarding desirable reforms has enabled donor agencies to take centre stage in the design and implementation of the management control systems that have experienced limited success.

6.2.3 District Services Improvement Program (DSIP)

Another significant MC tool designed and implemented in the DoF is associated with the DSIP, which is a management control tool designed and implemented by the DoF without much assistance from external aid agencies due to the lack of efficient service delivery at the provincial and district treasury levels. The government’s DSIP was considered the most significant management control tool designed and implemented in the DoF by any government of the day since the reform began. The DSIP was first conceived at the opening of the district treasury office in the remote Menyamia district in the Morobe province by the Minister for Finance and Treasury, Hon. Bart Philemon, in May 2004 at the opening of one of the first district treasury offices in the country. In his opening speech to an audience of over 5,000 people, the Minister was overwhelmed by the run down facilities left behind by the former colonial administration, with absolutely nothing left in the districts for the government to be proud of under the new reform initiative of the government. The opening of the district treasury office was the only physical evidence of the government’s presence at the district level as far as enhanced services delivery was concerned—especially the private sector style MACS (accounting and financial management services) at the district level. A senior manager summarised the importance of the reforms:

Opportunities of change in an organisation only present itself once in a lifetime. If you have the opportunity to make the changes do the changes if you can to bring about changes to our citizens, otherwise the very systems that appointed you will bring about changes in you (Dr DK).

However, when the Minister returned to the DoF headquarters, he used his executive authoritative powers as the Minister responsible for the macroeconomic and financial
management of the country to influence the government to provide appropriate annual funding for what it is now called the DSIP. This was done through NEC Policy Submission No. 103/2005, dated 8 June 2005. This major reform initiative was approved by the NEC in Decision No. 33/2005, dated 18 July 2005. During the NEC meeting, a cabinet minister said:

The governments past and present are accountable for the lack of basic delivery of services to our citizens (our customer) who have mandated us to represent them. If we have not delivered our responsibilities than we have failed our people and we should not be in this cabinet at all. As an elected government efficient service delivery is a MUST and I will support the Minister’s submission (AK).

In its decision, the cabinet endorsed the DoF to take leadership in the services delivery reforms, making the district’s ‘One Stop Shop’ a private sector concept in delivering basic government services to the majority of its customers (citizens). The design and implementation of this MC tool is deeply implicated in the domination structure (Giddens, 1984). This is a vital authoritative resource in the hands of the Minister for Finance and Treasury. Authoritative resources comprise the rights of some agents to command others, as is the case here in the policy submission and its outcome. Therefore, it is the harnessing of human beings and financial resources rather than physical artefacts. It concerns the rights of some humans to dominate over others. Both power resources provide for the coordination and control of the design and implementation of this particular MC tool and the people within the social system (Giddens, 1979, 1984).

The evaluation of this particular MC tool suggests success in the design and implementation of this reform initiative. A brief from the Minister to cabinet on the progress of the implementation of this MC tool highlighted the increase in satisfaction levels of stakeholders through a survey and peer reviews conducted by the department at the direction of the Minister, especially at the district treasury level. For example, the survey found in 2005 that an investment of $US4.42 million in an integrated software package under the FMIP program, would have saved $19.5 million per annum already in maintenance costs, of existing legacy systems maintained by the DoF since the reforms began. Additional cost savings in the future is set to flow in with increase efficiency in the department and the whole public service when the system is fully
implemented across the whole of government including the provincial and district treasury levels with fraud, waste and abuse, identified and prevented.

To avoid bias in the survey, further investigations were made to confirm that it was creditable before the survey was accepted. Kaplan (2001) and Atkinson et al. (1997) pointed out that these surveys and peer reviews are important to improve the long-term effectiveness of the MC tool in organisations. The success is also evident in that there was no involvement of donors. Further, the control tool was internally designed and implemented by the DoF. From an organisational analysis standpoint, Lounsburry (2008) argued institutional theory as the dominant perspective for the analysis. The use of institutional theory applied to this MCS tool suggests it is not just a technical device to support managerial decision making, but that it is an internally designed product of a particular organisational culture, which in turn is embedded and influenced by a broader set of institutional arrangements.

Management control practices are often institutionalised to gain legitimacy (Meyer & Rowan, 1977; Scapens, 2000, 2006; Soint et al., 2002; Carpenter & Feroz, 2001). Success also reaffirms that there are no fundamental differences in relation to the goals and objectives of the public and private sectors regarding customer focus or orientation. Customer orientation is a successful tool used in the private sector. When it comes to customer orientation or focus, organisations in the private and public sectors should identify their target customers, determine what they want, create a culture of customer service within the organisation, clearly communicate the service requirements and consistently deliver the required service (Langfield-Smith et al., 2012). The other most significant aspect of the success of this MC tool in the DoF at the district level is the motivational aspect, where managers and employees have a level of satisfaction when seeing that customers are satisfied:

We enjoy doing what we are paid to do. We are public servants called to serve the public. There is no greater satisfaction than to be just serving our citizens. Money is a very small contribution of our satisfaction. There is so much happiness and fulfilment knowing we have served our customers well with distinction (NH).

An interesting feature of the evaluation of the DSIP as a MC tool under the reforms is that its success has been mirrored by external donor agencies, and it has mimicked the success in other programs such as the PSIP and the LLGSIP. These programs are not
driven by the DoF, but by relevant state agencies through the support of donors such as AusAID. Barcham (2009) investigated the involvement of aid agencies in the PSIP program confirmed (although not independent) in its article on the building capacity of LLGs reaffirmed the success of AusAID involvement in the above PSIP. An independent investigation was made thereafter with one of the provincial administrators responsible for implementing the above program, and he confirmed its success in his province.

6.2.4 Performance contracts in the DoF

As mentioned previously, the first trigger of the NPM reforms was the enactment of the new OLPLLG. Two complementary legislations that are subordinate to the OLPLLG are the amendment to the PFMA 1996, which triggered the private sector MACS, or the financial management reforms. Further, the PSMA of 1996 governs the employment conditions of public servants working in the PNG public service. The PFMA of 1996 and the PSMA of 1996 are intertwined in the sense that the PFMA lays down the functional responsibilities of divisional managers in the DoF regarding the design and implementation of the management control systems, while the PSMA is the legal instrument upon which contractual agreements are tied and performances measurements are based. In instances of the abuse of contractual agreements of top- and senior-level divisional managers, punitive action is taken under the PSMA. An important feature of these MCSs is the development of the public sector performance management system and performance contracts in the DoF. Despite some well-known problems associated with performance management systems and contracts in the state enterprise sector in PNG, there have been efforts to promote them in the DoF itself as managerial reforms took root in the department. Regarding contracts, a CEO said that:

One departmental head has been on 4 separate contracts in a span of four years. He was the acting departmental heads for 4 separate organisations, Finance, Defense, Transport, and now he is appointed PNGs Ambassador to one of our largest mission overseas. This is a complete abuse of the contract systems. Contracts are for a period of 4 years and not 6 months each. He has been paid out his 4 contracts an abuse of the contract systems (GY).

In Special NEC Meeting No. 45/2001, Decision No. 208/2001, the government approved the performance management systems in the DoF as well as other government
agencies as part of its NPM type reforms. In the DoF, performance contracts constitute a central aspect of the managerial reforms, and these contracts cover top- to middle-level managers as part of the managerial reforms. In the contracts, key result areas are clearly stipulated as the output against which their performances are measured. In addition to the performance contracts, the DoF has also introduced position statements for each position occupied. In these position statements, key areas of responsibilities are specifically laid down, as well as key result areas and the performance standards for each key result area. These administrative measures are periodically used for performance measurement systems. Giddens (1984) argued that contracting as a MC tool is explained by the reflexive monitoring of action that depends on rationalisation. According to Giddens, rationalisation is understood as a process with the competence of an agent that is under contract. Thus, reflexive monitoring, rationalisation and motivation of action are treated as embedded sets of processes. These dimensions are viewed as routine in the process of human conduct. In fact, human conduct, which is the performance of the contract itself by the agents, is evaluated by other actors according to the level of competence exhibited in the rationalisation of his or her actions under the contract (Giddens, 1984, 1991).

However, the evaluation of this MCS tool suggests that its design and implementation has not been effective in the DoF because only a few top-, middle- and senior-level managers are the beneficiaries of the contract system. The purpose of adopting this private sector concept is to improve performance in the DoF, and if those responsible for the implementation of the various NPM type reforms, what benefit does it have for the majority of the employees in the department? These MC tools are socially constructed and as such, are good for advanced economies because many public sector organisations in these countries have the financial capacity to contract their employees to improve both individual and organisational performances. Unless the DoF has the same capacity in PNG and replicate such a system for the entire organisation, its success is very limited. As one manager explained:

I am on a contract for 3 years but the salaries I receive on this contract are fixed. The contract does not specify if there is any additional remuneration or bonus if I perform well above what is expected in the contract I signed (JS).
Further, a contracting system as a MCS tool is directly associated with performance. If performance is above the required standards, the likelihood of receiving bonuses or other monetary rewards is highly likely; however, if performance is below the expected standards, then the agent under contract is required to be rewarded accordingly, but negatively (Merchant & Van der Stede, 2012). A further evaluation of this MCS tool in the DoF highlighted that managers were contracted to serve a period of 3–4 years, after which time, if their contracts were not renewed, their contractual benefits ceased and they were reverted to the substantive positions with standard terms and conditions of the public service applied. Thus, the public service is full of non-performing or redundant officers. Such a scenario is not seen in the private sector. Therefore, it can be comfortably concluded that the tool is not suitable for application in the public sector because of the fundamental difference in the goals and objectives of these two sectors. Therefore, in order for this tool to be effectively implemented in the DoF, it has to be modified to fit the organisational culture of the department. Amosa (2008), in his study of employment contracts in the small island state of Samoa, found similar abuses of contract systems and its politicisation.

6.2.5 Institutional and capacity issues in managerial reforms

The design and implementation of this MC tool arose as a result of the adoption of business-like concepts in the DoF as part of the public sector reforms. By the start of the NPM type reforms, it was revealed that the DoF did not have the capacity to fully implement the reforms brought about by the OLPLL and the PFMA. Empirical evidence from the department’s training files revealed little or no training for employees in the DoF in anticipation of the design and implementation of these private sector concepts. Adequate care had to be taken to upskill and reskill people to cope with the reforms, since capacity building had been very haphazard since the reforms commenced in 1995. Many training programs were formalised in 2004 onwards. In fact, one of the greatest challenges left behind by the former colonial administration was that it failed to sufficiently train qualified accounting and financial management personnel or managers at the DoF headquarters, as well as at the district levels, to adequately implement the public sector reforms. A senior divisional manager pointed out that:

What the DoF is confronted with regarding the design and implementation of this management control tool is an indictment on the Australian colonial
administration and the PNG governments past and present since independence. The both administrations are accountable for the reform mishaps and difficulties encountered in the design and implementation of the MCS in the DoF and the PNG public sector generally. They failed to adequately trained PNG manpower as public administrators and financial managers at the districts and local level governments to effectively implement the reforms (JY).

Thus, the reforms started at a slow pace until around 2000, when tangible reform initiatives were witnessed. The lack of capacity is perhaps the single most demanding area of need that past and present governments have neglected to develop or invest. Human resource development and training should not have been considered costly by the designers of the MCS, but rather an investment because without a properly trained and equipped civil service, it is difficult to implement any types of reforms. As the saying goes, ‘the systems are as good as the people that operate them’. Therefore, human resources are seen as considerable assets because they create value in organisations in the private sector. Thus, in recognising the inadequacies in the DoF in designing and implementing such a MCS, the Minister for Finance and Treasury, Hon. Bart Philemon, in his NEC Policy Submission No. 173, dated 8 November 2004, pushed for the government to provide appropriate funding both for the reskilling and upskilling programs for the DoF employees as part of its management reforms. This was necessary to allow the DoF to drive the NPM reforms with a competent and skilful workforce with requisite intelligence, training, experience, stamina and knowledge for the task at hand. In his submission, the Minister specifically acknowledged:

"A government is only good, or as bad, as its bureaucrats and technocrats to drive the reforms. The success of any management reforms is very much dependent on a more responsive and well-tuned-in bureaucracy that facilitated the desired reform wishes of the government. If adequate investments are not made in our human resources now through relevant training programs everything else will fail because we will not have a workforce capable of undertaking the reforms in this country (BP)."

In Decision No. 174, dated 4 August 2005, the government approved the necessary funding for the reskilling and upskilling of its employees with internationally recognised professional management accounting qualifications. Management accountants in the department played a pre-eminent role in the provision of accounting and other relevant non-accounting information needs for internal stakeholders in the department. Therefore, the management accountants in the DoF were responsible for
efficiency and value creation in the private sector concept, such as strategic planning, programming, budgeting, accounting, reporting and other MCSs. By the end of 2005, more than 600 employees were trained to international standards with professional-level management accounting qualifications for the first time since the reforms were implemented.

In addition, to reskill and upskill the divisional managers and their employees in the DoF, the Minister considered it necessary to ensure that there was a professional body in place to monitor and regulate the conduct and behaviours of members who were professionally qualified with management accounting qualifications so that issues of professional ethics and conduct, as well as the sanction of these members, was taken care of. Giddens (1979, 1984) stated what the Minister had done to be a legitimation process. Legitimation involves the moral constitution of social action instituted by the professional body. This consists of the normative rules and moral obligations of a social system, constituting the shared set of values and ideas about what is regarded as virtue, what is counted as important and what should happen in social settings. They also designate what is considered immoral, what is trivialised and what should not happen (Macintosh & Quattrone, 2010).

In April 2004, the Hon. Bart Philemon, in Policy Submission No, 173, dated 8 November 2004, titled ‘Establishment of the Institute of Chartered Management Accountants of PNG and the Enactment of the Management Accountants Act of 2004’ secured the overwhelming support of the NEC in Decision No. 175, dated November 2004. In the same decision, the NEC approved the establishment of the Management Accountants Registration Board (MARB), with its rules and regulations governing the institute and its members, and the tabling of the Management Accountants Bill 2004 on the floor of Parliament and the annual appropriation earmarked for the DoF and the institute to continue the reskilling and upskilling program in the DoF. By the end of the November Budget session of the same year, the Management Accountants Act 2004 was passed with an absolute majority of members on the floor of Parliament, thus establishing a second professional accounting body in PNG’s short accounting history. The other professional accounting body in PNG is the Certified Practicing Accountants of PNG (CPAPNG).
The need for more well-trained reskilled and upskilled professional management accountants in the DoF is now more profound than ever before due to the significance of implementing the private sector practices. Management accountants in the department are not just accountants per se, but are strategic thinkers who play more of a strategic role in the design and implementation of private sector management control systems. In the upskilling area, the DoF has also invested substantial resources in the upskilling program in readiness for the implementation of the private sector concepts. However, the interesting feature of this reform program is the shift that has taken place not only in the organisation itself, but also in its agents and participants. In the context of private sector training or upskilling, the DoF has embarked on a competency-based training program in which interpretive schemes of private sector discourses are communicated in daily practices (Giddens, 1979, 1984). Phrases such as ‘subsidiary ledgers’, ‘trial balance’, ‘asset management’ and ‘total quality management’ were used during their communications. Through the NPM reforms, the DoF has been the vanguard in introducing private sector accounting discourses, which is interesting because in these types of environments, such practices are usually prevalent and diffused.

Giddens (1979, 1984) argued the inadequacies in the DoF as improving the ability of agents in the organisation to learn, act reflexively, and maintain and transform the social systems. He employed the concept of duality of structure and structuration to explain the dynamic relationship between human agency and the structure of the social systems. Duality of structure therefore suggests that they are constituted by human actions within the organisation, and are simultaneously the medium of this constitution. Social systems are not structures, but they have structures and structural properties that actors or designers of MACS within the DoF draw upon in their social interactions. In the context of the design and implementation of this particular MC tool, Giddens’ (1979, 1984) concept of structuration refers to the process by which actors within the organisation reproduce and transform the social systems and practices through reskilling and upskilling across time and space. Reskilling and upskilling can be viewed as processes and practices that are embedded in the social systems, and depending on how it is structured, they can either enable or constrain actions in the design and implementation of the private sector techniques in the DoF. In this regard, structures themselves never determine actions. Actors, who are the designers of private sector MCSs in the DoF—
such as the policy makers; for example, the Minister for Finance and Treasury or the CEO—are engaged in structures that they transform in the process of acting on and through them in the design and implementation of the MCS. This is why structuration theory offers a conceptual scheme for understanding how actors create organisational structures as both the medium and the outcome of organisational design and their social relationship created through the design and implementation of this MC tool (Macintosh & Quattrone, 2010).

In the DoF, reskilling, upskilling and control have been the most significant and successful managerial reforms that have occurred in anticipation of implementing the private sector concepts in the department. However, the majority of managers—both at top-level management and employees at the district treasury level—have not had the opportunity to be reskilled or upskilled to implement such private sector techniques because reskilling and upskilling are not usually supported by external aid agencies because of the conditionality to aid packages. However, the internal influence and intervention by the government through the involvement of the Minister is undoubtedly a testimony to its success—for example, the enactment of the Management Accountants Act 2004. Therefore, theorising this from an institutional framework (Kloot & Martin, 2000; Modell, 2001; Collier, 2001; Carpenter & Feroz, 2001) argued that management control practices are often institutionalised to gain legitimacy from external constituents such as a government. Carpenter and Feroz (2001) explored how institutional pressures exerted on four state governments in the US (New York, Michigan, Ohio and Delaware) influenced the decision of these governments to adopt or resist the use of GAAPs for external financial reporting requirements. They identified resource-dependence as a form of coercive institutional pressure that was associated with GAAP adoptions.

Further, as it would be normal in the private sector, those who are retained by companies are those who have the prerequisite skills and knowledge of how to use new technologies or new innovations. In reskilling, only workers with skills that match the new practices are retained. The workers’ skills become obsolete when new technology is introduced that can perform the work more efficiently. In some cases, organisations decide to go for upskilling. Therefore, it can be comfortably concluded that there is no fundamental difference in the objectives and goals of both the private and public sectors, hence their successes (Macintosh & Quattrone, 2010; Merchant & Van der
Stede, 2012). The next section analyses and theorises the design and implementation of private sector style MACS triggered by the financial management reforms—the amendment to the PFMA of 1996.

6.3 Financial Management Reforms—The PFMA of 1996

The second trigger arising out of the NPM type public sector reforms is the amendment to the PFMA of 1996. This amendment is the most significant component of the entire public sector reform in PNG. This piece of legislation has become the cornerstone of the financial management reforms with the adoption of private sector MACS and culture in the design and implementation of these tools in the DoF. The amendment not only instilled private sector MACS, but also behavioural considerations—an important element in MACS, which are also embedded into the legislation. MACS are seen as part of the wider social practices (Macintosh & Quattrone, 2010). The amendment to the PFMA can be viewed from Giddens’ (1979, 1984) structuration theory. Routinisation is a fundamental concept of structuration theory. Routine is a basic element of daily social practices where actors before the amendment have routinised their daily practices. Agents did not have to negotiate their daily practices because they were habitual routines undertaken across space and time. However, the amendment to the PFMA and the design and implementation of various MACS in the DoF have allowed these habitual routines to be shattered or drastically undermined (Macintosh & Quattrone, 2010). Giddens (1979, 1984) referred to such situations as ‘crisis or critical situations’, where the ‘old templates’ of doing business in the DoF have been abandoned, and new ones emerged on the spot as a result of the PFMA amendment. This was done through the design and implementation of private sector MACS adopted in the DoF as part of the public sector reforms. Moreover, there has been increasing acceptance that MACS cannot be understood as an autonomous sphere of activity, but that they need to be seen as part of the political, economic and organisational contexts in which they operate (Alam et al., 1997; Lawrence & Doolin, 1997; Macintosh & Quattrone, 2010). The next section analyses and theorises strategic planning and budgeting systems—the first of the private sector style MACS designed and implemented in the DoF.
6.3.1 Strategic Planning and Budgeting System in the DoF

One of the first of the private sector style MACS designed and implemented in the DoF was the strategic planning and budgeting systems at the commencement of the NPM type reform in 1995. Long-term planning and budgeting systems are essential private sector MACS tools. Effective planning and budgeting requires examining the organisation as a system and understanding its components (Blondal et al., 2008). Planning consists of developing objectives (the work required to achieve the organisations’ goals), timetables, performance standards needed to implement the organisations’ strategies, and assuming managerial accountability for results based controls (Merchant & Van der Stede, 2012). Budgeting involves identifying, prioritising, acquiring and allocating the resources needed to carry out the plan. However, prior to the 1995 NPM reforms, the DoF was using a short-term planning and budgeting system in which resources were tied into the planning and budgeting system for a fiscal year. This MCS tool had disadvantages in that it was more input-focused with a very short timespan and no long-term program objectives of the organisation. This was the planning and budgeting system inherited from its colonial master after independence in 1975. The planning and budgeting system that the DoF inherited was predominantly influenced by its colonial master, because Australian aid constituted the major source of revenue in financing the annual budgets over the years. Therefore, it goes without saying that, Australian taxpayers dictate the terms of the planning and budgeting system in PNG because nearly three-quarters of PNG’s national budget has been received from Australia’s foreign aid. Therefore, Australian taxpayers have not only directly influenced the budget, but are seen to have done so in the process of allocating resources into their own desired areas of development because they had the resources and influence to dictate the terms of the reforms (DiMaggio & Powell, 1983, 1991; Meyers & Rowan, 1997). The next section analyses the budgeting systems used in the DoF.

6.3.1.1 Budgeting systems designed and implemented in the DoF

The system of budgeting used prior to the reforms was the traditional or cash basis of budgeting systems. The major aim of the traditional budgeting system, also known as the line-item budgeting system, was to make the budget a tool for financial compliance.
Within the budget, expenditure is classified in the chart of accounts (COA) by organisation and object of expenditure (line item)—for example, transportation of items and full-time personnel—to control the use of resources. Budgets prepared in this way are often very detailed, and in some cases may include several thousand line items. Line-item budgeting contains volumes of budgetary documents, which becomes difficult for management accounting information users (Evans & Bellany, 1995; Kim, 2004; Blonde et al., 2008; Bellamy & Kluvers, 1995). Line-item budgets are associated with an ‘input-oriented’ budget preparation with detailed controls and rigid appropriation rules (e.g. rules regulating or forbidding transfers between line items).

The shift from the cash basis of budgeting to program and performance budgeting in the DoF commenced mid 1995 as a result of the market reforms. This shift can be explained with Giddens’ (1979, 1984) signification structure, which deals with interpretive schemes and how there is a change of mindsets in the ways that agents in the DoF undertake their new planning and budgeting systems. In fact, many successful for-profit and not-for-profit organisations around the world are now driven by long-term planning and budgeting systems to achieve their organisational goals. One of these is strategic planning, which is an important element in MACS and is regarded as a results-based control system. However, in as much as there are such successful for-profit organizations in the world, whose motive is to increase ‘bottom line’ and shareholders value, so too are not-for-profit organisation such as the public sector organisation that have introduced private sector concepts under NPM style practices to improve public sector performance and enhance service delivery (Hood, 1991, 1995). Like many other public sector organisations around the world, the DoF is driven by public sector reforms to strategically align its visions, missions, goals, objectives and strategies to achieve its strategic visions under its reform program (Mir & Rahaman, 2006, 2007; Irvine, 2011; Pekkarinen, 2011; Bracci & Llewellyn, 2012).

In addition, for the long-range strategic planning and budgeting system designed and implemented in the DoF, the concept of program and performance has also surfaced as an additional MC tool to ensure that the strategic planning and budgeting system meets the intended objectives of the department. The MACS tool of program and performance budgeting has been designed and implemented in the department and pursued in an aggressive manner. Consistent with the NPM type reforms, the DoF has been pursuing
these reforms to improve budgeting processes to increase the effectiveness, efficiency and transparency of public spending and to ensure that funding reflects the medium-term strategic plan. Therefore, the budgeting process in the DoF is shifting towards a management framework to monitor the performance of divisional managers in the department itself and at the provincial and district treasury levels. This budgetary reform initiative is driven by the FMIP—a vehicle used to deliver a robust financial management system with the adoption of private sector MACS. Under this framework, managers in the DoF justify their annual budget bids against programs and activities over the medium term, with continued access to funding being based on their performance against agreed indicators. This helps to ensure that planned results are being achieved with allocated resources. This is achieved by allocating budget resources to spending units/divisions within the department on the basis of the reviews of past performances and statements of future strategies, and in return for commitments to achieve the defined results. The imperative behind performance budgeting is to ensure that scarce budget resources are used to the best possible effect. Figure 6.1 presents an example in the DoF in which annual funding is appropriated to divisional managers who perform above expectations to meet organisational targets in the department through quarterly review processes.

Figure 6.1: Program and Performance Structure—Province and District Financial Management

Source: Data extracted from 2002–2003 Estimates of Revenue &Expenditure
The implication of the graph presents the performance target by the divisional manager of the provincial and district financial management division. The exceptional performances have allowed for incremental budget increases for the period 2001–2005. This is the period in which the government’s major policy initiative regarding the establishment of provincial and district treasury offices was at its peak. This was a success because the resources were not only tied into the performances of the divisional head concerned, but they were also tied into the medium term for the completion of projects at the provincial and district treasury levels. The divisional manager interviewed stated that:

As a division we have had consistent increases in our budget allocation over the last five consecutive years. As a divisional head I am happy, by comparison to my other colleague. It shows we have done our job well. Our performances at the provincial and district treasury levels is a testimony of our success. On a personal note, such achievements are never rewarded for the divisional head in the public service as they would in the private sector (SP).

However, there are also instances in which budgeted resources were not used in the best possible way to achieve the intended outcome of the department. In such circumstances, punitive action is taken during the budget reviews that take place on a quarterly basis. One possible action that is usually taken under such circumstances is that future funding for the divisional unit concerned is reduced to demonstrate that performance targets were not reached as budgeted. In addition, punitive action is taken against the divisional managers whose performance is below the expected standards. In most cases, this involves a letter of reprimand, which has very little or no consequences at all, but this action is common in public sector organisations. Similar actions are also considered when budget variances are incurred by divisional managers. If managers at various divisional levels have created variances in the implementation of their budgets, then they are held accountable for incurring such variances. But the consequence for incurring such variances has little effect on their performances because public sector organisations do not consider budget variances as significant as private sector organisations. One interviewee said:

Who cares if there is a budget variance. Politicians tend to be running around running the shore from making laws in parliament down to running administrations and implementing projects. They really don’t care because many of them are chairpersons of the Joint Provincial Planning and Budgets Priority Committee and District Joint Planning and Budgets Priority
Committee meetings. They seem to be diverting funds from one program to another to suit their political mileage (LE).

For example, the DoF’s budget in 2003 provides a classical scenario, and variances have been identified to illustrate the point. Table 6.1 shows the budget appropriations for the DoF for the 2003 financial year. Column 1 shows the divisions of the DoF, column 2 shows the revised appropriation, column 3 shows the warrants issued, column 4 shows the expenditure to date and column 5 shows the variance.

Table 6.1: Budget variances in the DoF

<table>
<thead>
<tr>
<th>2003 Program</th>
<th>Revised Appropriation</th>
<th>Warrants K’000</th>
<th>Expenditure K’000</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>206 DoF</td>
<td>K20,374,200</td>
<td>K20,374,200</td>
<td>K20,393,666</td>
<td>K(19,466)</td>
</tr>
<tr>
<td>212 ICT</td>
<td>K14,574,300</td>
<td>K14,574,300</td>
<td>K11,979,572</td>
<td>K2,594,728</td>
</tr>
<tr>
<td>Provincial treasuries</td>
<td>K31,660,500</td>
<td>K26,596,300</td>
<td>K32,235,638</td>
<td>K-5,639,338</td>
</tr>
<tr>
<td>Subtotal</td>
<td>K66,609,000</td>
<td>K61,544,800</td>
<td>K64,608,876</td>
<td>K-3,064,076</td>
</tr>
<tr>
<td>Department</td>
<td>Development</td>
<td>Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>206 FMIP</td>
<td>K13,300,100</td>
<td>K13,300,100</td>
<td>K12,593,630</td>
<td>K706,470</td>
</tr>
<tr>
<td>206 District Rollout Program</td>
<td>K40,000.00</td>
<td>K38,000.00</td>
<td>K38,000.00</td>
<td>K2,000.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>K53,300,100</td>
<td>K51,300,100</td>
<td>K50,593,630</td>
<td>K2,706,470</td>
</tr>
<tr>
<td>207 Miscellaneous</td>
<td>K334,684,100</td>
<td>K334,683,600</td>
<td>K333,875,402</td>
<td>K808,198</td>
</tr>
<tr>
<td>Subtotal</td>
<td>K334,684,100</td>
<td>K334,683,600</td>
<td>K333,875,402</td>
<td>K808,198</td>
</tr>
<tr>
<td>Grand total</td>
<td>K422,932,700</td>
<td>K420,932,200</td>
<td>K416,842,270</td>
<td>K-1,549,408</td>
</tr>
</tbody>
</table>

Source: Extracted from data set by the author, 2013

The variance shows a deficit of 1.5 million PNG Kina, equating to about A$717,000, suggesting that the divisional managers responsible should be held accountable for such deficits. Budget variances in the DoF alone contribute to the overall national budget deficit at an aggregate level, which should be a serious cause of concern but seems to be taken lightly by managers in many instances. A divisional manager said that, ‘seriously speaking what is the incentive for us to control cost?’ (JY). However, in the private sector, such deficits would amount to serious losses for the organisation concerned, and those responsible for such variances could lose their jobs. Private sector entities can
become unprofitable and in many instances would not be able to compete with its competitors in the marketplace.

6.3.1.2 Bottom-up planning and budgeting system

It is also evident that the DoF used the bottom-up planning and budgeting system following the reforms. A bottom-up planning and budgeting system is used where there is a participative process in which managers at subordinate levels—especially at the lower levels of the department—who are responsible for the implementation of the MACS play an active role in setting their own budget targets. Budgets are prepared at the divisional head levels and at the provincial and district treasury levels, and they are consolidated and given to senior management. Under this approach, many negotiations take place before budgets are eventually approved by senior managers. One of the interviewees pointed out that:

In our planning process in the districts we bring together our senior managers and we consider number of aspects such as the administrative, economic, social, and importantly the environmental factors in our planning process. The managers at the DoF H/Qs do not have the faintest idea the requirements and the needs of our customers, so we are better position to do the planning. If the projects do not get funded like the DSIP we will be held accountable for not producing the results required (BN).

Bottom-up planning and budgeting encourages more coordination and communication between managers at the district and provincial levels and at headquarters, providing a greater understanding and appreciation of the objectives and strategies of the DoF. Bottom-up planning and budgeting systems allow managers at the lowest level to take ownership of the budgeting system so they feel part of the process and are accountable for reaching targets. The accuracy of the budget estimates also becomes crucial, and in many instances, these estimates may be enhanced because the divisional managers who are very close to the action have the best knowledge and the likely costs of running the divisions. The officers who are engaged in the bottom-up planning and budgeting systems had some level of upskilling at the start of the reforms, but it was haphazardly done until 2004, when it was formalised through government policy decisions. Giddens’ (1979, 1984) structuration theory explained how agents communicate and understand each other through the signification structure. Planners and budget officials understand each other through long-range planning and budgeting systems and through a bottom-up
process rather than the traditional top-down and short-term planning and budgeting process to achieve organisational objectives.

The evaluation of this technique suggests that this control tool has provided mixed reactions to its success and failure on two fronts. On the first front, the old planning and budgeting systems inherited from the former colonial administration had a short-term focus; subsequently, its shift to program budgeting introduced by the international aid agencies of the World Bank and the IMF was considered a failure because it was imposed by these aid agencies. A very senior manager said that:

IMF placed so many conditions when we adopted the program structure of budgeting that is why it was so difficult for us. We couldn’t even implement it in the provinces. Their focus was only in the DoF and at the national government level and we found it very difficult to implement. The provinces do not even use program budgeting structure at this stage although they are required to submit their budget estimates using the program budgeting templates. At the implementation stage they use cash base budgeting. Even if they did it, it won’t work because the entire planning and budgeting systems in the provinces, and districts are been hijacked by national politicians. They dictate as Chairpersons of the District Joint Planning and Budgets Priority Committees (JDPBPC) and the Provincial Joint Planning and Budgets Priority Committees (JPPBPC) where funding should go. In many cases, project funding goes to where their political support came from. All that we do is transfer their constitutional guaranteed grants to the provinces and they budget according to their priorities using the traditional budgeting format (LA).

The evaluation revealed that program budgeting was copied from the US when it first implemented this MCS tool in several of its states in 1965 (Novick, 1966). The fact that these two financial institutions are US-based suggests that if these MCSs can work in Western societies, they can also work in developing countries such as PNG. These misconceptions have led to limited success of many MACS tools copied from Western societies into developing countries. In this particular instance, program budgeting systems have failed their intended outcomes because they were externally driven and imposed by aid agencies. Researchers have argued that MCSs are often institutionalised in order to gain legitimacy from external constituents (DiMaggio & Powell, 1991; Meyer & Rowan, 1997; Scapens, 2000, 2006; Burns & Scapens, 2000; Lounsbury, 2008).
However, on the second front, the long-range strategic planning and budgeting systems designed and implemented in the DoF were considered successful because they were modified to suit PNG’s context—shifting from a short-term focus to a medium-term focus of about a three-year timeframe. The success was attributed to the DoF introducing the performance budgeting component of the MACS tool, where funds are tied to the performance of the programs and objectives of the organisation. The success was commended by a divisional manager:

The biggest challenge for us as provincial and district treasurers is managing a lot of these unfunded and uncompleted projects using the short term planning and budgeting systems. Many of these projects are like sore in the eyes when you see them around. Sometimes contractors do a very poor quality job in fear of funds be reverted back to the CRF under the one year planning and budgeting system. With funds been reverted back to the CRF they have to be re-appropriated again in the following year to have the projects completed. Sometimes politics has its way and the funds for the completion are never re-appropriated again leaving the project uncompleted. With the multi-year planning and budgeting systems it has now overcome this deficiency and the good thing about it is that it has the performance element attached to it. The motivation for us in the provinces and districts is to complete the projects. Our performance at the districts are determined by the success of its completion with professionally accredited standards (BN).

The multi-year planning and program/performance budgeting systems designed and implemented in the DoF as a technique is a tool commonly used in private sector organisations. The modification to this MACS tool indicates that there is consistency in objectives between private and public sector organisations. That is, the modifications made to the private sector MACS tool did not hamper the fundamental objectives of the private and public sectors (Macintosh & Quattrone, 2010; Merchant & Van der Stede, 2012).

However, further evaluation suggests that there is a slight variation in the objectives of these sectors in relation to dealing with employees in the organisations responsible for creating variance in the budget. From a public sector perspective, evidence from the field suggests that variances in the budget should be a major cause of concern, and serious punitive action should be taken against those responsible during the review process, but variances appear to be taken very lightly. In most instances, where such situations arise, the CEOs of public sector organisations are usually held accountable for the organisations’ performances because they have to report to parliament via the public
accounts committee. However, in the private sector, such variances may warrant the removal of the employees, the CEO and the Board of Directors, and the possibility of a company making substantial losses is inevitable (Free et al., 2007; Macintosh & Quattrone, 2010; Merchant & Van der Stede, 2012).

6.3.2 Accounting reforms and appointment of FCs

Most large organisations in the private sector have a finance function, which is a group of staff who undertake a variety of accounting activities. Within the finance function, the senior accountant may have different titles, such as finance manager or FC. In large organisations, this person is usually called the FC. The FC is usually responsible for both management accounting and financial accounting activities and also management control activities. As the organisation’s most senior management accountant, the controller acts as an advisor to all managers. Moreover, most FCs influence resource management decisions across all management levels and functional areas of the entity. FCs are usually important members of the senior management team (Langfield-Smith et al., 2012). The FC and his or her staff are responsible for implementing accounting reforms and accrual accounting concepts in private sector organisations that public sector organisations have emulated in recent times under their reform initiatives—especially developed economies such as Australia and New Zealand (Alam & Lawrence, 1994, 2000, 2009; Mir & Rahaman, 2006, 2007, 2011; Christensen, 2002, 2003; Barton, 2009; Hoque & Adams, 2008; Alam & Nandan, 2010).

In PNG, like many other developing countries, the government will continue to use the cash basis of accounting for the foreseeable future. It is highly unlikely that private sector accrual accounting will be adopted in the near future due to fundamental differences in objectives. When studying the adoption of accrual accounting in the Commonwealth of Australia, Barton (2009) advised that private sector style MACS should not praise too highly yet because the private sector concepts are not immune to problems. Some of these tools have only been resolved in the past few years, so time is required to prove their success or otherwise. However, other aspects of private sector culture worthy of analysis and theorisation in this section are associated with the decentralisation of financial management information systems and the timely remittance of accounting data for consolidation and faster managerial decision making. However,
to appreciate and understand the context, it is important to present a summary of accounting developments before the reforms, and what transpired after the reforms that brought about the private sector style MACS and its managerial culture.

Since the government’s accounting systems are on cash basis, receipts and expenditures shown in the financial statements are the amounts received and spent in the financial year. Goods or services received in a particular year are brought into account in the actual year of payment. Similarly, income receivable in one year but received in a subsequent year is brought into account in the actual year of receipt. All refunds must be offset by charging the expenditure votes. Offshore loans received in Kina need to be recorded into the account both as loans and expenditure. All grants and loans received in cash are considered revenue and recorded accordingly. The Finance Regulations state that the accounting system and records maintained by the various departments at the national and provincial levels, the BMS and the cash offices are subsidiary to the accounting system and records of the DoF. There are more than 150 cash offices, which are sources of input to the main appropriation ledger maintained by the DoF. These sources are overseen by the department to ensure better control and management of public money and property. Cash offices account for their receipts and payments to the various BMSs in the provinces.

In turn, the BMSs account for their receipts and payments together with the transactions of the cash offices to the respective Area Finance Offices. At the national government level, departments are categorised into three groups: self-accounting departments with their own drawing accounts—these departments have the expertise to run their own financial management affairs; self-accounting departments without drawing accounts—these departments have limited capacity to run their own financial management affairs; and non-self-accounting departments—these departments do not have the capacity to run their affairs and thus require the assistance of the DoF to do so. Before the reforms, the process of consolidating financial data took from two weeks to 3–6 months before the general ledgers in the DoF headquarters were updated (see Table 5.2).

The significant aspects of the reforms relating to the accounting systems both at the national government departmental levels and at the provincial and district treasury offices in relation to the decentralisation process is where managers see the importance
of time management and faster decision making by managers as a significant private sector tool in managing the accounting information at their decentralised levels. In this regard, the most significant improvement in the accounting reforms is the time taken to transmit accounting data from the remote sites (peripheries) to headquarters. Under the financial management reforms, the former cash offices were converted into district treasury offices, while the BMS offices were converted into provincial treasury offices. Area Finance Offices were closed and all national government departments were upgraded and given financial autonomy under Section 5 of the PFMA. Under Section 5, each departmental head was given delegated power and authority and appointed chief accountable officers. Delegated power and authority can be explained by Giddens’ (1979, 1984) domination structure, which is drawn upon by means of allocative and authoritative resources. Allocative resources involve the rights of some to hold command over others in the organisation structure in the decentralised units. However, by definition, chief accountable officers authorise the collection or payment of public moneys or accounts for stores and are responsible for all financial matters under his or her control (PFMA, p. 6). With the appointment of the chief accountable officers, the transmission of accounting data for consolidation has been made much easier than the arrangements used prior to the reforms. The consolidation process is either instantaneous or overnight before the general ledger is updated. This is the difference that the financial management reforms have brought about regarding the design and implementation of this technique in the DoF. A respondent pointed out that:

The appointment of chief accountable officers under s.5 of the PFMA was a very good initiative of the government. It makes a lot of senses because I wear two hats, as the Commissioner of the Royal PNG Constabulary and the Departmental Head and chief accountable officer of the Department of Police. It gives me a lot of flexibility and control over how I intend to use the financial resources into my priority policing areas. The concern though, is that the appointment of Financial Controller by the Secretary for Finance to the Department of Police is interfering with my delegated authority (SE).

6.3.2.1 Appointment of FCs in the DoF

In addition to the accounting reforms, the DoF colluded with external parties and influenced the appointment of financial controllers in the department to gain legitimacy from external constituents (Meyer & Rowan, 1977; DiMaggio & Powell, 1983, 1991; Burns & Scapens, 2000, 2006; Lounsbury, 2008). The appointment of FCs is a concept
that is applicable in the private sector, where the position is a very senior, respected position within the hierarchy of the organisation. In the DoF, FCs are appointed within the line positions of the department and are much lower than divisional managers. The difference between a Chief Accountable Officer (CAO) and the FC in the DoF is that a CAO is a CEO of a public sector organisation compared to a FC, who is a more junior officer appointed to a line position in the DoF structure. The role of FCs is to ensure they pre-audit claims prior to processing them through the PGAS to ensure that purchasing and procurement by the department is carried out in accordance with the PFMA and the Financial Instructions contained in the FMM.

The evaluation of this MC tool received mixed reactions. The appointment of FCs was considered a failure because external aid agencies were behind the design and implementation of the tool on the assumption that what works well in other developed economies will also work in developing countries such as PNG. The importation of this technique by aid agencies has been a failure because it is considered a Western technology that is not suitable for PNG. The failure of the technique was summarised by the divisional manager:

The imposition of Financial Controllers in the DoF has certainly not worked because they are very junior positions within the organizational structure. This FC may have the authority to decide if payments should proceed or not. But if the CEO gives instruction there is nothing very much this little FC can do. They have no authority to stop if instructions are given from the top management. Secondly, the FCs are actually interfering with the delegated authority of CEOs under s.5 of the PFMA which is in breach of the Act. ADB that imposed this technique has not considered the legal ramifications behind the introduction of such a concept (NH).

However, the accounting reforms were considered very successful because they were internally designed and implemented without donor assistance. The upgraded PGASs installed in provincial and district treasury offices were able to remit accounting data instantaneously. These reforms have not only reduced distance in time and space for timely financial management and accountability purposes, but they have also added value to management accounting systems (Quattrone & Hopper, 2005; Bloomfield & Combs, 1992; Macintosh & Quattrone, 2010). This meant that accounting data from remote peripheries (district treasuries) could now be transmitted to headquarters without going through intermediaries. The significances in the design and implementation of
this software package as a technique collapsed distance through real-time information, allowing managers to make faster decisions affecting their units (Bloomfield & Combs, 1992). Quattrone and Hopper (2005) argued that such integrated software packages are an extension of managerial control, which also indicates the decentralisation of power.

6.3.3 Establishment of Internal Audit Committee in the DoF

The establishment of the audit committee is the other private sector style MC tool designed and implemented in the DoF for good governance. The establishment of the audit committee was influenced by external aid agencies—particularly the ADB—at the request of the government for a governance loan and the refinancing of the second component of the FMIP project. Empirical evidence from archival documents—especially the initial policy submission—showed the request by these aid agencies particularly ADB to strengthen the audit and accountability institutions, including the Auditor General’s Office. In their initial report to the government, they emphasised the need to strengthen the audit and accountability institutions because they ensured compliance to set rules and procedures, preventing the abuse of public office and making it difficult for political and administrative corruption to intensify. They advised in their report, which later turned into a NEC Policy Submission, the need to strengthen accountability institutions because they are the microscope in which the actions of state institutions and actors are examined. Accountability for, and the sanctioning of, corrupt behaviour and in the case of public service, accountability for incompetence and poor performance, depends on robust audit and accountability institutions. According to empirical evidence from the field, the ADB’s report to the Minister for Finance and Treasury recommended an amendment to the Audit Act to allow for the establishment of internal audit committees. The recommendations suggested that where departmental heads refuse to establish such a committee, it was incumbent on the departmental heads to put appropriate systems and processes in place to support the departmental heads to carry out their accountability and governance responsibilities.

However, a counter policy submission was drafted by the DoF for the Minister for Finance and Treasury on the basis that the Audit Act and the ‘Good Internal Audit Guide’ to be issued by the Auditor would have little influence on those responsible for implementing this MC tool because the Audit Act in many instances is for a handful of
employees—particularly those who deal with either internal or external audit matters on a day-by-day basis. If the intention is to strengthen the management control functions of the DoF and other government institutions, then the amendment to the PFMA is the place for consequential amendments to be made. In a culture where corruption, financial mismanagement, theft and embezzlement are everyday issues, it has to be legislated through the PFMA so that it has the force of the law. With the support of the Minister, the adoption of the audit committee was finally incorporated into the DoF’s NEC Policy Submission by the Minister for Finance and Treasury, Hon. Bart Philemon, and the subsequent NEC Approval No. 25 of 2004. In the same approval, the NEC approved the amendment to Section 9 of the PFMA and for its subsequent presentation on the floor of Parliament. The amendment took effect as soon as it was gazetted on 22 June 2005. Section 9 of the PFMA not only required the establishment of an audit committee in the DoF, but the amendment was more specifically for the Secretary for Finance, as the Secretary responsible for overseeing overall financial management in the country under Section 4 of the PFMA to provide an independent chair for all public sector committees across the entire government.

In the DoF, there is an independent chair that is supported by two independent directors on the board. The audit committee in the DoF meets on a quarterly basis unless otherwise directed by the chair. The audit committee makes a valuable contribution to improving the governance and performance accountability of the department as the lead agency. The audit committee plays an important role in examining the department’s policies, processes, systems and management control systems. The chairperson said, ‘It is good the guys know we do not mass around in the audit committee meetings. We in fact make valuable and significant contributions to the checks and balances in the systems’. However, it should be mentioned that the Section 9 amendment to the PFMA was fully endorsed by aid agencies in principle, although modified, and they sit in on the audit committees as observers. However, when interviewing a chairperson regarding the chair’s independence, as AusAID is an observer in the audit committee, the chairperson said that:

I only requested them to be here on invitations only because this was their initial idea. If there are not requested to be present they don’t come. They can make contributions if they wish in the meeting but the final decision is the chairs (MK).
The audit committee in the DoF reports directly to the Minister for Finance, who then presents the report to cabinet. It should be mentioned here that the role of the audit committee in the DoF lessens the work of the external auditor. However, in theorising the design and implementation of this concept in the DoF, it can be argued from the perspective of the legitimation structure. While the audit committee constitutes a private sector concept, it can be thought of as a major signification modality. Giddens’ (1979, 1984) legitimation structure involves the moral constitution of social action. Legitimation structures consist of the normative rules and moral obligations of a social system. They constitute the set of values and ideals about what is regarded as virtue, what is considered important and what should and should not happen in the implementation of the MACS tool within the social system. Agents within the DoF draw on these codes during social interactions. In the implementation of this MACS tool, they sanction others and themselves in accordance with what has been laid down (Dillard & Yuthas, 2002; Macintosh & Quattrone, 2010).

The evaluation of this concept suggests that the implementation of this particular private sector tool has been successful. The success has been the result of modifications made to the design and implementation of the tool itself, which has the effect of legislative changes to the PFMA. The CEO of the DoF said:

> It is very unusual for the Minister to give us listening ears. When it comes to dealing with external aid agencies his is more responsive to them than he is to us as a department. For us to have persuaded him and get the policy submission and cabinet approval is a major breakthrough and a milestone achieved for us as an organisation (GY).

In PNG, where good governance has been problematic like in many other developing countries, creating a culture of good governance is a difficult task unless it is backed by the force of law. But at the implementation level, the internal audit committee is chaired by a prominent person as the independent chair and two independent directors and one observer from an external aid agency. Since the inception of the first audit committee meeting in the DoF, they have highlighted major weaknesses in the systems and processes, and have also identified employees implicated in some of these fraudulent activities. According to the independent chair:

> Since the inception of the audit committee we have done an exceptional job identifying weakness within the systems and process and recommending appropriate action to the management and the Minister. We have also
identified employees implicated in some of these non-goal congruent activities and recommended that they be referred to the appropriate authorities for further investigation. But the problem is with all the hard yards put into the audit committee meetings the sitting allowances and management fees paid to us is peanuts and not compared with the work load we have taken on. As the Chairperson some level of recognition by way of increase sitting fees will be good but may be let’s given it few more months (MK).

The success of this private sector concept is a significant corporate governance tool that assists management and provides a level of assurance that the management control system within the organisation is working to the satisfaction of the management. The internal audit and the audit committees in the private sector are the ears and eyes of the management (Dillard & Yuthas, 2002; Tuley & Zaman, 2007; Merchant & Van der Stede, 2012). The success of this tool in its implementation suggests that it has been modified to meet the cultural and environmental significances of the department. The option that cabinet agreed to take for the modification was good because the public sector internal audit units and public sector audit committee structures and processes have to be inbuilt into the PFMA so that the culture of good governance, accountability and transparency must be re-inculcated. In fact, the success rate since the inception of the audit committee has been phenomenal. One divisional manager said:

We have not had any problems or complaints since the audit committee was established. We’ve had an overwhelming support both from within the department and outside of the department because a lot of internal audit reports submitted to the top management have never been dealt with. At least the audit committee can make the CEO and his senior management to start doing something about these reports. It is interesting that in the first year of its operations, 10 recommendations were made, and out of the 10, 7 recommendations were implemented. Out of the 7 implemented, 4 recommendations were administrative control systems that had to be implemented in the department, 3 had financial mismanagement and had referred to the fraud and anti-corruption squad. Of the three I was convicted, one pass away while waiting for trial and the last one got dismissed for lack of evidence in the committal court (AS).

However, compensation payments such as remuneration, sitting allowance, management fees and other monetary rewards are important motivational issues in the private sector, as they are usually durable and paid in a timely fashion, which is not the case in the DoF or many other developing countries. The basic premise is that there is a fundamental difference in objectives (Mir & Rahaman, 2006, 2007; Hoque & Adams, 2011; Irvine, 2011). However, other non-monetary rewards provide a level of
recognition for members of the audit committee in the DoF. The independent chairman and the two directors are allocated car parking spaces under the DoF’s executive-level carpark, which reflects some consistency between the objectives of these sectors (Merchant & Van der Stede, 2012).

6.3.4 Competitive tendering and contracting system in the DoF

The competitive tendering and contracting system in the DoF is another management control tool designed and implemented in the DoF following the amendment to Section 39 of the PFMA. Prior to this amendment, and before the reforms began in 1995, most of the government’s services were provided by the ‘Government Stores’—a Supply Division of the Department of Public Works Transport and Supply. Most or all of the government’s requirements are in bulk orders, and various departments and agencies of the government, including the DoF, would receive their orders from the government stores. This includes the hire of cars: the Department of Public Works, Plant and Transport division would provide vehicles for the government. Similarly, any major infrastructural requirements, whether social, economic or other development projects, are usually undertaken by the DPW&S as the government’s responsible agency. The need for competitive tendering was not an issue prior to the NPM reforms in 1995.

The competitive tendering and contracting system was only adopted after the amendment to Section 39 of the PFMA in 2003, which was the second trigger that brought about private sector style MACS in the DoF. One of the primary reasons for adopting this private sector management control tool was to help divisional managers get the best value for money by ensuring that the best choice was made for the task at hand at competitive prices. If this concept is implemented well, it can lead to significant improvements in accountability, quality and cost-effectiveness, providing benefits to clients, taxpayers and the broader community. However, to effect this reform change, the Hon. Bart Philemon, in his Policy Submission dated 21 October 2003, with a subsequent decision arising out of Special Cabinet Meeting No. 21/2003, Decision No. 92/2003, approved for the competitive tendering and contracting system to be designed and implemented in the DoF. The Minister pointed out in the submission that two distinctive features would arise from these reforms:
First, it means DoF and other agencies of government will have to clearly define the services to be delivered by the government. Second, it involves periodically opening up competition to external suppliers for the provision of goods and services (BP).

This is a common practice in countries that have introduced NPM type reforms such as the Australian and New Zealand public sectors. In the procurement reforms, AusAID was instrumental when it released the ‘Good Procurement Guide’ through the Central Supply and Tenders Board. Empirical evidence further suggests that AusAID advisors attached to the Central Supply and Tenders Board (CSTB) have had a significant influence on this particular submission. Theorising this from an institutional theory perspective, a number of institutional authors such as Meyer and Rowan (1977), Scapens (1994, 2006), Lounsbury (2008) and Mir and Rahaman (2007, 2013) have argued that management control practices are often institutionalised to gain legitimacy from external constituents, as is the case with the DoF. The implementation of this particular private sector management control tool revolves around whether it does in fact lead to better outcomes compared with direct public provision by the government through the DoF. Key issues that arose from the empirical evidence included the effect of implementing this management control tool on accountability; the quality, extent, source and sustainability of cost savings; the equity and distributional effects of this concept; and the sustainability of these services into the near future.

In fact, the design and implementation of this particular tool points to increased flexibility in service delivery (Ouchi, 1979, 1980; Hofstede, 1981; Gupta et al., 1994; Mol, 1996; Merchant, 1998; Modell, 2000; Johnsen, 2005; Pollitt, 2006) because there is a greater focus on outputs and outcomes rather than just inputs, allowing managers in the DoF to focus on strategic priorities and encourage suppliers to provide innovative solutions and cost savings in providing goods and services. In addition, a significant question relates to the extent to which these benefits—noting the costs associated with specifying, awarding and monitoring the contract, and potentially adverse effects on accountability, quality, public sector jobs, wages and conditions—affect the public or the community at large. Undoubtedly, the effect of implementing this tool at the district level and the LLG has had severe consequences because of the cost of delivering such services. Development partners or external aid agencies that were instrumental in
introducing such concepts failed to understand the environmental settings (geographical makeup) before this particular concept was designed and implemented in the DoF.

However, to link this management control tool to structuration theory, it can be viewed from the structuration perspective where agents communicate with and understand each other regarding the new tendering and procurement requirements. Signification structures within this management control system provide the semantic codes to use such as the various procurement decision limits and at what point in time to agents call for public tendering and outsourcing. The interpretive schemes in this context are the stock of knowledge of these new procurement procedures, skills and rules used by the agents and the need for them to understand the jurisdictional limits of the various supply and tenders boards in the country.

The evaluation of the implementation of management control systems has received mixed reactions from agents and divisional managers at various divisional levels, as well as from customers (citizens). Divisional managers at the headquarters, as well as those in provinces such as provincial treasurers, consider competitive tendering a success because there are different competitors who can comfortably compete on an equal playing field in headquarters and provinces. One provincial manager said that ‘competitive tendering is good so that we get value for money rather than just having one competitor’. Therefore, when such a tool is implemented at the national and provincial levels, there is justification for implementing such a concept. For example, taxpayers and ratepayers in capital cities and towns in the country and urban districts—for example, the Bulolo, Kainantu, Namatanai and Maprik districts—are keen to see public money being spent efficiently and equitably. Customers want better-quality services. Potential contractors in these locations want fair opportunities to compete on an equal playing field for significant markets. Conversely, public sector employees and their unions want to maintain the public delivery of services for the benefit of members.

Evidence from the field suggests that this has been one major factor that the colonial master could not contain when it decided to quickly allow PNG to attain its independence, as trying to deliver basic services to its customers or citizens has been problematic over the years (Kavanamur et al., 2004). If this was the motive, the question then is why introduce such a commercial concept now and think that it will
work in the DoF? The donors, led by AusAID, instigated an overhaul of the entire procurement system in the DoF by designing a ‘Good Procurement Guide’ as part of the reforms in this particular area, but they failed to justify its workability in the remote districts. The district treasurer of one of the most remote districts in the Eastern Highlands province argued that the concept has miserably failed them in the remote districts:

As a senior staff for Okapa district I see no benefits of competitive tendering and contracting because no provider would want to come and provide services in remote places like Okapa. In the remote districts the local government councils are basically providing all the basic services in the district because it is part of the Councils’ responsibilities. If Okapa was an urban district like Kainantu, I would be concern about the effect of outside competition on the local economy and its adverse effects on accountability, quality of service provided, wages for the local community, criminal and other social problems that may be created as a result of unemployment through the non-involvement of the community (JT).

An interesting development from the evaluation of this commercial type of contracting system highlighted that in the Australian and New Zealand public sector reforms, competitive tendering and contracting systems by public sector agencies were not holistically implemented as part of their public sector reforms (Evatt Research Centre, 1990). A closer review of the implementation of their management control systems revealed that although such practices may have been implemented at the federal and state level governments, the literature review indicated that in Australia, the local government councils have not quite implemented the concept in its totality, but on a selective basis. At the aggregate level, the Australian local government councils accounted for around 10–20 per cent of total expenditure that was contracted out by the early 1990s (Evatt Research Centre, 1990). That is, 80 per cent of the services were not contracted out under this competitive contracting and tendering system. These statistics may have changed by now, but its relevance to the evaluation in this thesis raises the concern that if advanced economies have not successfully implemented such a private sector concept holistically, why introduce the concept into a developing country’s civil service, such as the DoF in PNG? The successes and failures in the design and implementation of this management control system suggest the fundamental differences that remain between the private and public sectors, as pointed out by a number of researchers and academics (Mir & Rahaman, 2006, 2007, 2011; Jarvinen, 2009; Barton, 2009; Ohenmeng, 2010; Bracci & Llewellyn, 2012; Alam & Lawrence 1999; Alam &
Martin, 2005; Alam & Marwata, 2006; Irvine, 2011). The concept is a foreign concept suitable for Western societies, but it will not work in developing countries.

6.3.5 Establishment of Customer Orientation Unit in the DoF

One of the other private sector concepts designed and implemented in the DoF is associated with customer focus. The DoF, in its attempt to address the customers’ needs, established a customer orientation unit within the Cash Management and Expenditure Division. The task of this unit is to address various complaints raised by its customers (citizens) regarding the performance of the organisation or individuals or agents within the organisation. Complaints are usually raised on a face-to-face basis and, depending on the seriousness of each complaint, they can either be referred to the top level of management for punitive action against those implicated, or they can be referred to the audit unit for investigation before necessary action is taken. If divisional managers in the complaints unit are able to find solutions to the problems or complaints raised, then they do so immediately, otherwise the complaints are moved through the appropriate channels for decisions to be made later.

However, developing an effective customer service strategy for governmental organisations, as is the case with the DoF, is not easily done because of the cultural implications. How does the department manage customer service? Are there plans that the organisation follows? If the department wants to better handle customer service efforts, then it requires the support of the top level of management. The Secretary for Finance or CEO needs to create a culture of customer service within the department and ensure that it is clearly communicated to its stakeholders. In the private sector, customer service is perhaps the most significant aspect of any business because without customers, there is no business. Therefore, the CEOs of the best-performing companies in the private sector ensure that employees at all levels understand their customers and are given the tools to service them well. To ensure that private sector organisations are serving their customers well, they undertake market research using questionnaires to understand the satisfaction levels of their customers.

Moreover, in an attempt to theorise customer orientation in the DoF, it is important to understand the context of management accounting literature regarding the importance of
customer relationships. Langfield-Smith et al. (2012) raised the importance of collecting and analysing data to understand customers’ behaviours in organisations. If so, then behaviour and structure are intertwined; people go through a socialisation process and become dependent of the existing social structures, but at the same time, social structures are being altered by their actions and interactions (Giddens, 1984). That is, social structures are the medium of human activities as well as the result of those activities. Social structures not only restrict behaviour, but also create possibilities for human behaviour. It is not all about the restrictions that people encounter in unrolling their behaviour in space and time, but people also contribute to the creation of a certain time–space structure. Giddens’ (1979, 1984) structuration theory is based on the premise that the classic actor/structure dualism has to be reconceptualised as the duality of structure. The structural properties of social systems exist only in relation to forms of social conduct that are reproduced across time and space. The structuration of institutions can be understood in terms of how it comes about that social activities become ‘stretched’ across wide spans of time and space. In structuration theory, ‘structure’ is regarded as the rules and resources recursively implicated in social reproduction; institutionalised features of social systems have structural properties in the sense that relationships are stabilised across time and space.

The evaluation of this management control tool indicated that the tool was successful because it addressed the issues of good governance, accountability and transparency. A senior manager interviewed responded that ‘Since the establishment of this unit there has been a major decline at least by nearly 90 per cent of media coverage on complaints about individual’s performance and the organisation as a whole on our two daily newspapers’ (NH).

Divisional managers are well aware of their performances so they are held accountable for their actions. The basic premise for its success is that the tool has been modified at the implementation stage to allow for immediate solutions through the laying of physical complaints and face-to-face consultations for immediate solutions. A divisional manager pointed out that ‘Since the establishment of this unit the Department has received fewer complaints which are good for the department unlike in the past’ (NH).
In the private sector context, while customer relationship management is crucial, customer satisfaction should be determined through data collection and the analysis of data in order to understand customer behaviour patterns and needs, and to develop strong relationships with customers. As mentioned in various places throughout the analysis in this chapter, this particular tool has been successfully implemented in the private sector, which therefore signals the importance of both the private and public sectors in looking after their customers. Therefore, it can be said that there is no fundamental difference in the objectives of both the private and public sectors. Larbi (2003) pointed out that customer orientation has been one of the most prominent features of the public sector reforms in many developing countries such as Ghana and Malaysia, as well as developed countries such as Singapore and the UK. This suggests that the reform objectives of Western countries imported into developing countries by external aid agencies is not a bad thing if they are modified to meet the local need.

6.3.6 Decentralisation of financial management functions

Decentralisation has been mentioned in previous analysis, but only in an administrative context. The analysis in this section specifically relates to the decentralisation of financial management functions in the DoF. The establishment of effective and transparent financial management is at the core of any effort to reform the public sector. To be genuinely supportive of the decentralisation process, the basic characteristics of a system for decentralised financial management functions are essential. Under the current concept of private sector management control systems designed and implemented in the DoF, financial delegation is perhaps the most significant. Financial decentralisation empowers managers in decentralised units to dominate and control the allocative and authoritative resources (Giddens, 1979, 1984). The divisions both in the DoF headquarters and at the provincial and district treasury offices are cost centres rather than profit or revenue centres. Cost centre managers are held accountable for cost or expenditure appropriated under their divisional areas. Divisional managers, provincial treasurers and district treasurers and their accountants are cost centre managers (Merchant & Van der Stede, 2012). In such situations, a financial management delegation is the most significant management control tool and is a form of decentralisation where there is a transfer of specific authority and decision-making
powers to the decentralised units (divisional heads and provincial and district treasuries). Delegation is seen as a way of offering public goods and services through a more business-like organisational structure that makes use of private sector accounting techniques (Bellamy & Kluvers, 1995; Miah & Mia, 1996; Jacobs 1997; Brownbridge & Kirkpatrick, 2000).

In the DoF, the Secretary for Finance appoints designated positions for approving public expenditure for goods and services, as well as capital expenditure, under Section 32 of the PFMA. These positions are subsequently gazetted in the government gazette. This is a form of action-based control (Merchant & Van der Stede, 2012) exercised by the Secretary for Finance for controlling the behaviours of managers and their employees in the department—especially managers with decision authorities. Action-based control is a dominant management control tool in managing large, decentralised entities such as the DoF in empowering, motivating and controlling managerial behaviours (Ouchi, 1979, 1980; Merchant, 1998, p. 2; Anthony & Young, 2003, p. 4; Verbeeten, 2008; Merchant & Van der Stede, 2012). The decentralisation of financial management functions as posited above can be viewed from Giddens’ structuration theory. Giddens (1979, 1984) created a valuable framework of exploring the diffusion of this concept as new knowledge diffused across distance, time and space. In doing so, structuration theory helps conceptualise the introduction of this particular private sector tool at divisional levels in which decentralisation and diversity of practices are the norm. In particular, it draws attention to the (diverse) rules of signification and legitimisation that are used in the implementation, interpretation and enactment of new management practices. The evaluation of this MACS tool suggests that this tool is very successful because decisions are made in a prompt manner without having to go to Port Moresby for decision approvals. This success has been pointed out by a divisional manager:

The recent decision by the government to increase financial decision limits for divisional heads to the equivalent of half a million dollars is the biggest decision ever taken as part of the financial management reforms. This will allow for a lot of value for money expenditure decisions to be made promptly without worrying about Waigani to approve these decisions (NH).

The increase in Section 32 limits under the PFMA has made it possible for these managers to make financial decisions on the spot. The basic reason for its success is that there is no involvement of the aid agencies, and the tool has successfully been diffused
across business organisations in the private sector. Meyer and Rowan (1977) argued that organisations become isomorphic to gain control and legitimacy. Lapsley and Wright (2004) pointed out the need to diffuse management accounting information in the public sector in a more innovative manner if it is going to emulate private sector practices.

6.3.7 FMIP

The commencement of the FMIP project began in 1997 in a meeting arranged by the Secretary for Finance in the DoF requesting the assistance of all external aid agencies to assist the DoF in improving its financial management systems in the DoF. Following that meeting, in 1998, the aid agencies collectively agreed to support the government in what is now called the FMIP. This program is an integral part of the DoF’s initiative to improve financial management in the public sector. The FMIP is the umbrella program that acts as the vehicle to implement the government’s initiative of implementing improved financial management for the following objectives:

- establish appropriate organisation structure and fully resource it through necessary funding and recruitment processes
- develop a MTFMS with technical support from development partners
- provide a mechanism in accordance with the government’s financial management systems to channel development funds on the specific financial management capacity-building initiatives of the government and report on the benefits/outcomes for value for money
- create awareness of the project through regular newsletters and visits to build stakeholder relationships
- procure and implement a network system for necessary training to prepare and provide skilled personnel for the implementation of IFMS
- establish awareness to provincial administrators and secure support to participate in capacity-building project through their counterpart contributions
- roll out the IFMS to all national departments, provincial administrations and provincial and district treasury offices.

An evaluation of the above objectives highlights that the first five objectives have been met, with the last two points yet to be accomplished. It has been over a decade since the
commencement of the project, and it remains to be seen why the last two objectives have not been accomplished. However, it is clear that when an external aid agency influences the design and implementation of a project either directly or indirectly, by collusion or through collaboration they dictate the terms and conditions of the implementation (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977).

However, theorising the FMIP project with Giddens’ structuration suggests the application of Giddens’ (1979, 1984) signification structure, which consists of abstract structures, interpretive schemes and discursive practices. FMIP therefore introduces discursive practices such as the new concepts of the strategic planning and budgeting system, and the accounting and reporting system. FMIP is the operating vehicle that delivers robust financial management systems for the government. However, this project’s evaluation of the tool suggests that the program has not made any significant improvements in meeting its objectives since it commenced, primarily because of the influence and continued participation in the implementation of the MACS tool by donors (DiMaggio & Powell, 1993). The next section summarises and concludes the chapter.

6.4 Conclusion

This chapter introduced the two major triggers that led to the NPM type public sector reforms in the DoF in PNG. The first trigger was the enactment of the OLPLLGG. Under this legislation, administrative type reforms, or MCSs, were introduced, such as the issues of good corporate governance, accountability and transparency, as well as service delivery requirements. The MCSs that have been critically analysed and theorised in this chapter regarding the OLPLLGGs are: downsizing and retrenchments, the DSIP, contracting out of services, performance contracts, and institutional capacity issues. The second trigger of the reforms was the amendment to the PFMA, which led to the design and implementation of the private sector style MACS. The chapter then critically analysed and theorised the private sector style MACS in strategic planning and budgeting systems, accounting reforms and the appointment of FCs, the internal audit committee, the competitive tendering and contracting system, the establishment of
customer orientation in the DoF, the decentralisation of financial management reforms, and the FMIP.
Chapter 7: Discussions and Conclusions

7.1 Introduction

This chapter discusses and concludes the thesis. This thesis aimed to contribute to the research in a developing country context—that of the DoF in PNG. It sought to gain an empirical understanding of how MACS are considered part of the social and political context in which they operate as a result of the public sector reforms by using a case study of the DoF. The thesis explored the design and implementation of private sector MACS and their effects on the DoF as a result of their introduction. The thesis drew upon the theory of institutional isomorphism and its embeddedness (stability) rather than change in the DoF. The thesis also drew upon structuration theory to explain the structure of the reforms and how MACS in the DoF provide managers with a means of understanding the activities of their organisation and allow them to effectively communicate meaningfully about those activities in the department. A qualitative methodological paradigm was used to explore the phenomenon in the DoF through subjective and interpretive experiences, as pointed out by Burrell and Morgan (1979).

This chapter is presented in the following manner. It begins with a reflection of the research process, the key findings of the research and the contribution that the thesis makes to the body of literature. The chapter then outlines the theoretical underpinnings used in the study, before discussing the process of the institutionalisation of private sector style MACS in the DoF, followed by policy implications, and recommendations for future research. The next section reflects on the research process.

7.2 Reflections on the Research Process

This research process has been a long and painstaking journey. The researcher has learned to undertake interpretive research whereby the researcher interacts with the research organisation and attempts to capture the life and subjective understanding of its reality. The interpretive research was a very daunting and challenging task personally because of the level of understanding of the research organisation. As the researcher has
been brought up in an environment where accounting was treated as part of an objective reality, there was an assumption that there was an objective world separate from the researcher, whose job was to record or capture that reality. It was on such an understanding that the interpretations of individual actions were built throughout the research process.

However, undertaking the subjective and interpretive research was not an easy endeavour, especially when the researcher was attempting to understand the interviewees’ subjective understanding of the reality. The interviewees spoke freely about their past and present experiences, making comparisons regarding the design and implementation of the private style concepts in the DoF and the difficulties encountered as a result of implementing these MACS in the reform process. Some interviewees took the time to rationalise and make sense of the MCS changes that have been designed and implemented in the department, and they presented their critical views of the lack of support from the designers of MACS in the DoF to effect changes to resolve the problems they have encountered in their daily practices. Other interviewees were surprised to realise that some of the concepts implemented were in fact private sector style techniques used to enhance service delivery and improve public sector organisational performance.

The researcher was able to construct a subjective reality by interpreting the interviewees’ interpretations. The interviewees had different ways of viewing reality according to where they were and the positions they held at the time of the interview. For example, the interviewees who were affected by the design and implementation of the MCS (performance-based), which led to unintended consequences such as downsizing and retrenchments, viewed reality from a different perspective. These interviewees, who were represented by their union—the Public Employees Association (PEA)—were more concerned or otherwise skeptical of the reform changes because they affected the future of their members and families. They viewed this particular MCS as a foreign tool used by management to destroy the wellbeing of members. The researcher had to step outside of the agents’ frame of reference and take a critical view of their definition of the situation to make sense of the reality at that point in time. The agents’ subjective interpretation was later transcended to provide meaning.
At the time of the research, some difficulties were encountered with accessing the case study organisation. Initially, when the access was approved by the Secretary for Finance, he was serving the remaining months of his tenure. By the time the research commenced, his term had expired and there was speculation that the government, through the NEC, would appoint his deputy to replace him. Understanding the dilemma and the insecurity of employees in the organisation, as well as the likely consequences that the researcher was soon to be confronted with and the possibility of access being denied, the researcher requested to meet the Secretary (at the time, the Acting Secretary) and his deputy to reach a compromise so that access would be maintained even if one was to be replaced by the other. The officers agreed, and a memo to this effect was issued to divisional managers and their employees in the department by the Deputy Secretary responsible for operational matters to advise them to fully support the researcher in the data collection segment of the thesis on behalf of the Secretary, who was still in office but in an acting capacity. The memo circulated in the DoF and continued to provide access for the researcher to complete the data collection in the DoF. A copy of the memo is in Appendix vi of this thesis which was signed by the Secretary. After the data were collected, the Secretary for Finance was replaced by his deputy, as had been speculated, but the new Secretary reassured the researcher of continued support if required, or any other research that might be required in the near future at the DoF.

The data collection proceeded without any problems with observations, collections of archival documentation and interviewing. Interactions with interviewees were informal and on occasions, coffee breaks and luncheons with interviewees, were provided at the DoF cafeteria and at the Holiday Inn Hotel in Port Moresby. Some interviewees requested anonymity in fear of being held accountable for their comments in the interview process, and the researcher reassured them of the confidentially clause, which was agreed to before the interviews commenced and were recorded. Nevertheless, anonymity was maintained for all respondents in order to obtain greater and more critical views. There were a few occasions during the interviews when the interviewees requested that the MP3 recorder be switched off, especially when politically and culturally sensitive issues were being related to the researcher. However, in other instances, prominent interviewees such as the Prime Minister, former Prime Ministers or cabinet Ministers wanted everything to be recorded and their names quoted.
However, they had to be advised that research protocols and procedures would not allow the researcher to do so, but instead of quoting their names, pseudo names would instead be used in the analysis in the thesis. Generally, the research at the DoF was an enjoyable and memorable experience because of the level of support and cooperation received from the staff at the DoF and the acquaintances that the researcher made during that period. The researcher is indebted to the Secretary for Finance for organising interviewees from the provinces and districts to travel to Port Moresby on their own official engagement but to find the time to be interviewed by the researcher.

7.3 Key Findings of the Research

The research questions of this study were presented in Chapter 2, which also highlighted that the research in this study was conducted from 1995 to 2006. The empirical evidence suggested that there were two significant triggers to the commencement of the NPM type public sector reforms in PNG: the enactment of the new OLPLLG in 1995 and the amendment to the PFMA in 1996. These legislations became the foundation pillars of public sector reforms in PNG. The old Organic Law of 1976 was replaced because it was considered a foreign piece of legislation that appeared to be a replication of the Commonwealth of Australia and its federated states and local government councils that followed immediately after independence, which allowed for significant financial mismanagement as a result of the lack of capacity at the decentralised level to design and implement any form of management control reforms. Empirical evidence suggested that the replacement of the old OLP with the new OLPLGG was internally designed and wholly driven by the government that embedded into these pieces of legislations NPM type reforms associated with good governance, accountability, transparency, decentralisation and customer orientation. The motive behind the new OLPLGG was meant to have addressed the shortcomings of the old OLP.

Conversely, the PFMA was also amended to adopt the private sector style MACS in the DoF. Each of these MACS tools were introduced in Chapter 5 and critically analysed, theorised and evaluated in Chapter 6. In Chapter 5, apart from the administrative type MCS and the private sector style MACS introduced, a significant finding in this chapter
was the horizontal governance designed and implemented in the DoF subsequent to the
NPM reforms in 1995. The traditional vertical hierarchical structure, where the
command sits with the portfolio minister down to the CEO and the respective divisional
heads, saw a major shift to the way that the business of government is run in the DoF,
where accountability became the cornerstone of public governance. In the three
restructures of the DoF, horizontal governance was prominent. Horizontalisation
implies a shift from a more vertical ideal-type model of government to a more
horizontal model, where there is more coordination than subordinate, as the actors and
divisional managers are on an equal footing; more negotiation than command, as
instructions and decisions cannot be imposed; more symmetrical communication, as all
parties or actors are empowered and accountable to one another; and ample autonomy,
as self-regulation takes the place of externally imposed frameworks (Michel & Meijer,
2008).

Further, the findings revealed that the various MACS tools introduced in Chapter 5 and
critically analysed, evaluated and theorised in Chapter 6, highlighted that where these
tools were directly influenced or imposed by external aid agencies led by the
international financial institution of the World Bank, IMF, ADB and AusAID had
limited success or otherwise failed in the DoF. The implications foreshadowed—that
MACS tools designed and implemented in Western societies can be successfully
implemented in developing countries’ public sector reforms—is a misconception. Such
misassumptions have resulted in limited success in their implementation, not only in the
context of the DoF in PNG, but also in the developing world generally for reasons of
gaining institutional legitimacy only (DiMaggio & Powell, 1983, 1991; Meyer &
Rowan, 1997).

The findings also revealed that if culture and local environmental circumstances were
not taken into consideration in the design and implementation of these MACS tools, the
tools were bound to fail in their implementation because there were obvious differences
in the objectives between the private and public sectors. PNG has a diverse
geographical dispersion, where the majority of its customers (citizens) are located.
Therefore, the provision of enhanced service delivery requires strategic planning
through an appropriate delivery mechanism such as appropriate administrative and
financial management decentralisation. The findings in this research have been

Barton (2009), whose study was conducted in a Western society context, and that of the adoption of accrual accounting by the Commonwealth of Australia, advised that due to the fundamental differences in objectives, private sector MACS should not be heralded with too much praise as yet because these private sector concepts are not immune to problems. Some of these MACS were only implemented in the past couple of years, and it takes time to see their results come to fruition. However, Barton’s comments were based on the differences in goals and objectives rather than localised cultural differences. The contention by many researchers and practitioners suggests that elected governments have a duty to deliver—especially those from poor socio-economic backgrounds that otherwise do not have the potential to acquire these services in their own right. US President Abraham Lincoln (1863) once said: ‘The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do it all, or cannot do so well, for themselves in their individual capacities’.

The empirical evidence suggests that the reason for at least part of the failure of these MACS tools in the DoF is because of the pressure exerted from aid agencies, which led to limited success in the implementation of some of these techniques. Further, there is a failure in understanding the role of governments and the role they are expected to perform on behalf of their citizens (Musgrave & Musgrave, 1998; Boland & Fowler, 2000; Stiglitz, 2000).

However, the empirical evidence from the analysis, evaluation and theorisation in Chapters 5 and 6 revealed that private sector style MACS that have been internally designed and implemented in the DoF without the assistance of external aid agencies have proven to be successful. The basic premise is that local considerations have been taken into account at the design stage for success to be achieved. The empirical evidence in these chapters also highlighted private sector style MACS tools imposed by aid agencies in the DoF that had to be modified to suit the local needs and the environmental successes of the DoF and PNG as a developing country. It should be noted that this thesis considered the difference in goals and objectives between the public and private sectors. While private sector tools have inherent limitations, the
private sector MACS tools used in the thesis for analyses are not subject to limitations as such has not been documented by any studies.

Moreover, the findings highlighted that MACS tools were designed and implemented in the DoF where it was considered that there was nothing wrong, even though they were imposed by the aid agencies that had the influences and resources. It was more beneficial to the DoF to adopt such MACS because of the massive gains in implementing such management control systems (DiMaggio & Powell, 1983). Its success therefore suggests that there was no fundamental difference in objectives between private and public sectors organisations because they appear to have the same common desire to enhance their stakeholders. On the basis of the above findings in the thesis, the next section points out the contribution this study makes to the body of knowledge in this particular area of study.

7.4 Contributions to the Research

This thesis has contributed to practice and knowledge in three key areas:

1. by synthesising some theoretical underpinnings used in the thesis and applying them to a developing country context—more specifically, to the DoF in PNG
2. by highlighting the various private sector style MACS designed and implemented in the DoF as a result of public sector reforms in PNG since no studies have been undertaken in this area of research.
3. by making recommendations to government policy makers.

7.4 Theoretical Background Used in the Study

There were two theoretical frameworks used in this study to analyse and interpret the data: institutional isomorphism, as advanced by DiMaggio and Powell (1983), and structuration theory, as advanced by Giddens (1979, 1984). Institutional isomorphism was used to explore the design and implementation of private sector style MACS. Giddens’ structuration theory was used to explain the structure of the reforms and the MACS discourses used and diffused in the daily practices throughout the public sector.
in the design and implementation of MACS consistent with the research objectives. These theories are briefly summarised below, commencing with institutional isomorphism.

DiMaggio and Powell (1983) argued that under the process of isomorphism, organisations must have the same form and emulate each other because they are in similar environments. They distinguished between competitive and institutional types of isomorphism. The latter is the subject of this study on institutional isomorphism, and the authors argued that organisations have to appear legitimate to their broader constituencies and stakeholders in order to secure the resources they need for their survival. They pointed out that to gain legitimacy, organisations must conform or be seen to conform to what is expected of them. The three classifications of institutional isomorphism are: coercive, mimetic and normative. The focus of this thesis is coercive isomorphism, which stems from political influences and the problem of legitimacy in organisations. Coercive isomorphism might originate from all spheres of an organisational or political environment. Additionally, coercive isomorphism takes the shape of formal or informal pressure exerted on an organisation by external parties or other superior organisations they depend on, as well as the cultural environment within which an organisation operates. In most instances, such pressures might be perceived by organisations as a force, persuasion or an invitation to adopt a particular policy. Coercive isomorphism can either be internal or external to the organisation (DiMaggio & Powell, 1983). In the DoF, coercive isomorphism has been extensively used by powerful and resourceful external aid agencies imposing their MACS in the DoF, where it has had limited success or failed.

The second theoretical underpinning used in this thesis was Giddens’ Structuration Theory, which was used to understand the MACS in the DoF as part of the public sector reforms. The theory provided an understanding of the relationship between MACS and the interactions of agents within the DoF. Management accounting systems are viewed as a major signification modality. Management accounting provides managers with a means of making sense of the activities of the organisation, and it allows them to communicate meaningfully about those activities in the DoF. Structuration theory therefore suggests that social systems have three dimensions: signification, domination and legitimation. Signification creates meaning in social interactions, while domination
produces power and legitimation provides for the system’s morality. Signification is the abstract dimension of social life, where agents in the DoF communicate with and understand each other in their daily practices. Signification structure has interpretive schemes, which are the stock of knowledge, skills and rules used by agents in the department to draw on signification structures in order to communicate with each other. They consist of rules and procedures, manuals and other discursive practices to communicate with each other in their social interactions.

Domination structure is concern with the social system’s capacity to achieve outcomes to produce power. Power usually flows smoothly, and its far-reaching effects go almost unnoticed in the process of social reproduction. But in some cases, its effects are clearly visible and understood, as is the case in the DoF. The NPM reforms in the DoF have overarching influences and trigger consequences not only within the DoF, but also in the entire public sector. Giddens identified two types of resources or facilities of power: allocative and authoritative. Actors in the DoF use allocative resources to hold command over material objects. Authoritative resources are the capabilities to organise and coordinate the actions of actors. Management accounting and control systems are deeply implicated in relations of domination. They are vital authoritative resources in the hands of the upper management. Management accounting systems also carry the codes regarding who is responsible to whom and for what. These are major discourses for the domination structure, through which some participants are held accountable to others in the organisation. The domination structure brings into the domain of analysis in the concept of dialectic control in the DoF. This is where the relationship of dependence and autonomy is a two-way process, whereby superior managers have access to allocative and authoritative resources to exercise power over subordinate managers in the department. By the same token, subordinate managers have some power resources at their disposal to either support the top management or frustrate them, and such is very common in the annual budget process. Superior managers are always dependent on subordinates to a larger extent, and neither of these managers are autonomous in the process.

The legitimation dimension of social life includes the normative rules and moral obligations of a social system. It constitutes the shared set of values and ideals about what is important in a social system and what should and should not happen in a social
setting. It also designates what is considered immoral and what is to be trivialised. MACS are vitally involved in the oral constitution of managers’ actions and interactions. MACS play a crucial role in defining the moral constitution of the organisation under the reforms program. In the DoF, the PFMA lays down the rules, regulations and instructions on how to behave and what to do. What not do that may inflict unintended consequences for non-compliance to adhered values. Accounting systems in the DoF are seen as deeply implicated in the production and reproduction of values and morality. They are an important medium through which the legitimation structure can be drawn by managers to produce morally meaningful action for agents in the DoF. These structures are implicated in the design and implementation of the various administrative type MCSs and private sector style MACS in the DoF. The next section discusses the institutionalisation process of private sector style MACS in the DoF.

7.5 Process of Institutionalisation of Private Sector Style MACS in the DoF

The process of the institutionalisation of private sector style MACS in the DoF was aimed at integrating the fundamental values, objectives and private sector culture into the public sector through the legislative reforms that triggered the overall public sector reforms. As mentioned throughout the study, the OLPLLG triggered the first public sector reforms in PNG in 1995. The repealing of the old Organic Law and the introduction of the new OLPLLG was considered a significant reform initiative because it embedded private sector concepts of good governance, accountability and transparency, customer focus, enhanced service delivery and the decentralisation of public resource management at the provincial and district levels. The process of the institutionalisation of these private sector concepts through the OLPLLG and the PFMA was intended to translate these concepts into actionable guidelines applicable for the design and implementation of these techniques into the daily routine management accounting practices and activities of managers and their employees in the DoF.

The old Organic Law from 1976 was replaced because it was considered a foreign piece of legislation that appeared to be a replication of the Commonwealth of Australia and its
federated states and local government councils, which embodied weak characteristics and a lack of good governance, allowing for financial mismanagement as a result of the lack of capacity at decentralised levels to design and implement any type of reforms. Empirical evidence suggests that the replacement of the old OLPG with the new OLPLLG was internally designed and wholly driven by the government, which embedded NPM type management control systems. Some of the administrative type NPM reforms adopted in the DoF since the implementation of the Organic Law in 1995 are: downsizing and retrenchments in the DoF, contracting out of services, the DSIP, performance contracts, and institutional and capacity issues in managerial reforms. Each MCS tool was analysed, evaluated and theorised in Chapters 5 and 6. However, the OLPLLG and the amendment to the PFMA undoubtedly institutionalised the private sector concepts and practices into the DoF. These private sector style MACS are an integral part of the organisation and are now viewed by many as part of the cultural norms and daily conventions used by managers and their employees in their daily activities in the DoF.

The second trigger of the NPM type public sector reforms in the DoF was the amendment to the PFMA of 1996. The overall aim of the financial management reforms was to achieve better value for public spending. The PFMA of 1996 is considered the most important pillar of public sector reforms in PNG because of its embeddedness of private sector MACS. It complements the OLPLLG of 1995 and the PSMA of 1996. The key reforms associated with the PFMA and the financial management reforms include strategic planning, program and performance budgeting, accounting reforms and the appointment of FCs, audit committee, competitive tendering and contracting systems, customer orientation unit, separation of public accounts, decentralisation of financial management functions and the FMIP. Each of the MACS tools adopted in the DoF was supported by international aid agencies, but others were modified to meet the needs of the DoF. The institutionalisation of the private sector style MACS in the DoF was intended to integrate the private sector culture of good organisational performances, code of conduct and work ethics so that the DoF could be viewed in a similar manner as a private sector organisation.
7.6 Policy Implications for Policy Makers

The study period covered in this research was 1995 to 2006. The period 2006 onwards was considered a period of ‘consolidation’, where no new initiatives were taken up as part of the public sector reforms. It is therefore necessary that policy makers, and in this case, designers of private sector MACS in the DoF, review the effectiveness of each private sector tool to ensure that the intended outcomes of the reforms have been achieved. The private sector style MACS that were designed and implemented must be a continuous improvement program where regular assessments and evaluations are undertaken to ensure that the private sector culture is re-inculcated and is a continuous improvement program.

The next policy implication is for policy makers to negotiate effectively with external aid agencies responsible for imposing Western practices in developing countries such as PNG to provide leeway for the DoF to adjust or modify those practices so that benefits in implementing the MACS benefit both parties.

7.7 Recommendations for Future Research

This thesis was based on an embedded case study involving one government department in PNG. More embedded case study could be done in future involving other crucial agencies such as Department of Health and the Department of Public Works to explore how they are using private sector style MACS. Further research could also be undertaken at the provincial and local level governments to explore how they are using the private sector style MACS in PNG.
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Appendix i:

University of Canberra Human Ethics Approval
Dear Thaddeus,

The Committee for Ethics in Human Research has considered your application to conduct research with human subjects for the project entitled *Management Accounting and Control Systems in the Context of Public Sector Reforms.*

Approval is granted until 31/12/11 the anticipated completion date stated in the application.

The following general conditions apply to your approval.

These requirements are determined by University policy and the *National Statement on Ethical Conduct in Research Involving Humans* (National Health and Medical Research Council, 2007).

<table>
<thead>
<tr>
<th>Monitoring:</th>
<th>You, in conjunction with your supervisor, must assist the Committee to monitor the conduct of approved research by completing and promptly returning project review forms, which will be sent to you at the end of your project and, in the case of extended research, at least annually during the approval period.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discontinuation of research:</td>
<td>You, in conjunction with your supervisor, must inform the Committee, giving reasons, if the research is not conducted or is discontinued before the expected date of completion.</td>
</tr>
<tr>
<td>Extension of approval:</td>
<td>If your project will not be complete by the expiry date stated above, you must apply in writing for extension of approval. Application should be made before current approval expires; should specify a new completion date; should include reasons for your request.</td>
</tr>
<tr>
<td>Retention and storage of data:</td>
<td>University policy states that all research data must be stored securely, on University premises, for a minimum of five years. You and your supervisor must ensure that all records are transferred to the University when the project is complete.</td>
</tr>
<tr>
<td>Changes in contact details:</td>
<td>You should advise the Committee of any change of address during or soon after the approval period including, if appropriate, email address(es).</td>
</tr>
</tbody>
</table>

Please add the Contact Complaints form (attached) for distribution with your project.

Yours sincerely

Committee for Ethics in Human Research

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**Appendix i**

Michaela Dalgleish
Ethics & Compliance Officer
Research Services Office
T (02) 6201 5870 F (02) 6201 5466
E Michaela.Dalgleish@canberra.edu.au
Appendix ii:

Request for Access to the Department of Finance
Appendix ii

6 April 2010

Mr. Gabriel Yer
Secretary
Department of Finance
P.O. Box 710
WAIGANI N.C.D

My dear Secretary,

RE-ACCESS TO THE DEPARTMENT OF FINANCE- THADDEUS KAMBANEI

As you are aware I am currently studying for a Doctor of Business Administration (DBA) in Accountancy at the University of Canberra, Australia.

The DBA programme in Australia involves a major research study which is written up as a thesis and is an original contribution to the body of knowledge in the discipline of accountancy under the supervision of Associate Professor Dr Monir Mir.

My research interest is in Management Accounting and Control Systems (MACS) in the context of the public sector reforms in Papua New Guinea. I intend to explore these at all levels of the Department of Finance from the Headquarters, to Provincial and District Treasury Offices in the country. Hopefully, my conclusion will be useful to all those interested in accounting and management control systems in the public sector. It is hoped that this study of PNG’s accounting and management practices will be of great benefit not only to PNG but other developing countries in the world as well.

In order to undertake my research I need to have access to your department as the authority responsible for setting the public sector accounting standards and management control systems in PNG. As with all other doctoral students, I wish to assure you of my utmost professionalism in the conduct of my research and nothing else. I will in no way impede into the operations of your department and will not under
any circumstances whatsoever breach any protocols or confidentiality. I will, if requested, show you exactly what I am doing and what I have written up in the course of my research.

I will be undertaking a learning process that will not only enable me to be awarded the degree (DBA) but provide assistance and advice on how management accounting can aid the management of public sector organizations in PNG and elsewhere.

My degree programme is for duration of three years and the fourth year is optional in the event that my thesis is not completed within the three years. I intend to commence my research beginning July 2010.

I would sincerely request your assistance for access to your department and the staff both at Waigani and the provincial and district treasuries offices where most of my data will be collected.

Yours sincerely,

Thaddeus Kambanei

Doctoral Candidate
Business and Government
University of Canberra
Appendix iii:

Approval of Access from the Secretary for Finance
12th April 2010

Mr. Thaddeus Kambanei
Doctoral Candidate
Business & Government
University of Canberra
Australian Capital Territory
AUSTRALIA

Dear Mr. Kambanei,

RE - ACCESS TO DEPARTMENT OF FINANCE FOR RESEARCH STUDY

It was, indeed, pleasing to hear from you through your letter of 06th April 2010 regarding the above request.

I have read and considered your request and determined that the measure of your PhD studies, Doctor of Philosophy in Accountancy, specializing in organizational performance, accounting and management control systems in the context of the public sector reforms in PNG, is very appropriate and relevant to today's management and governance in PNG.

I also concur with you that your research would be of benefit to our public sector and am, therefore, giving you approval to have access to the Department during the course your research period. However, in order that your request can be facilitated in a smooth and convenient manner, I suggest you provide an outline of the research so that the relevant people and information can be made available for reference purposes.

My approval is given on the basis of my respect, trust and confidence in your personal and professional standing and integrity. We, in the Department of Finance, look forward to assisting you whenever possible when you return for the research segment of your studies.

Yours sincerely,

[Signature]

GABRIEL YER
Secretary
Appendix iv:

Consent for participating in an interview
Dear Participant,

RE-CONSENT IN PARTICIPATING IN A RESEARCH PROJECT

I want to thank you for taking the time to meet me today.

My name is Thaddeus Kambanei and I am studying for the Doctor of Business Administration (DBA) at the University of Canberra, Australia.

The doctoral program in Australia involves a major research study which is written up as a thesis and is an original contribution to the body of knowledge in the discipline of accounting. I am currently being supervised by Associate Professor Monir Mir (primary) and Professor Milind Synthe (secondary) in the Discipline of Accounting, Banking and Finance, Faculty of Business and Government.

My research interest is in management accounting and controls systems in the context of public sector reforms in Papua New Guinea. I intend to explore the design and implementation of these private sector style MACS adopted in the DoF as consequences to the enactment of the Organic Law on Provincial and Local level Government and the amendment to the Public Finance (Management) Act of 1996.

In order to undertake my research based on the approval granted by the Secretary for Finance dated 12, April 2010, I need to have your consent to participate in this project. Your participating in the project is voluntary and will involve an interview and you agree to allow me to retain the results for the purpose of this project. The interview should take between 30 minutes to an hour.

I would appreciate if you could read the following and consent before I commence the interview:

1. I consent to participate in this project, the details of which have been explained to me in this letter

2. I understand that after I signed and return this consent form it will be retained by the researcher.
3. I understand that my participation will involve an interview and I agree that the researcher may use the results as described for the purpose of his doctoral study.

I acknowledge that:

(a) The possible effects of participating in the interview have been explained to my satisfaction.

(b) I have been informed that I am free to withdraw from the project at any time without explanation or prejudice and to withdraw any unprocessed data I have provided.

(c) The interview is for the purpose of research

(d) I have been informed that the confidentiality of the information I provide will be safeguarded, subject to any legal requirements.

(e) I have been informed that with my consent the interview will be audio-taped and I understand that audio-tapes will be stored at the University of Canberra and will be destroyed after 5 years.

(f) My name will not be mentioned anywhere, or referred to, to any individuals or groups or in any publications arising from the research.

(g) I have been informed that a copy of the research findings will be forwarded to me, should I agree

I consent to this interview audio-taped Yes No

I wish to receive a copy of the summary project report on the research findings Yes No

Participant/Interviewee Name:

Participant/Interview Signature:

Date:
Appendix v:

List of Interviewees
### Appendix v: List of Interviewees

<table>
<thead>
<tr>
<th>Initials</th>
<th>Official capacity and location of interviews</th>
<th>No of times interviewed</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Elegants (Members of Parliament)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MM,</td>
<td>Elegant- National Parliament</td>
<td>1</td>
<td>1 hour each</td>
</tr>
<tr>
<td>BN</td>
<td>Elegant National Parliament</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>BP, AM</td>
<td>Elegant National Parliament</td>
<td>1</td>
<td>1 hour each</td>
</tr>
<tr>
<td>AK, BM</td>
<td>Elegant National Parliament</td>
<td>1</td>
<td>1 hour each</td>
</tr>
<tr>
<td>VK, MV</td>
<td>Elegant National Parliament</td>
<td>1</td>
<td>1 hour each</td>
</tr>
<tr>
<td><strong>Top Management (Secretary, Deputies &amp; FAS)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GY</td>
<td>Top management DoF, Office of Secretary</td>
<td>2</td>
<td>1hr 45 mins</td>
</tr>
<tr>
<td>GS</td>
<td>Top management DoF, Office of Secretary</td>
<td>2</td>
<td>45 min each</td>
</tr>
<tr>
<td>SP</td>
<td>Top management DoF, Office of Secretary</td>
<td>2</td>
<td>30 min each</td>
</tr>
<tr>
<td>JY</td>
<td>Top management DoF, FAS AFSD</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>JD</td>
<td>Top management DoF, FAS ECMD</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>MT</td>
<td>Top management DoF, FAS NTRD</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>JS</td>
<td>Top management DoF, FAS CSD</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>GK</td>
<td>Top management DoF, FAS P&amp;DFM</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>EG</td>
<td>Top management DoF, FMIP</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>RA</td>
<td>Top management DoF, FAS IT &amp; Communications</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>AS</td>
<td>Top management DoF, FAS Internal Audit</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td><strong>Middle Management (Assistant Secretaries)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LS</td>
<td>Middle management DoF, Accounting Frameworks</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>CA</td>
<td>Middle management DoF, Accounting Frameworks</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>SA</td>
<td>Middle management DoF, Accounting Frameworks</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>PN</td>
<td>Middle management DoF, Cash Mgt &amp; Expenditure</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>SN</td>
<td>Middle management DoF, Cash Mgt &amp; Expenditure</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>LA</td>
<td>Middle management DoF, Budgets</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>BN</td>
<td>Middle management DoF, Budgets</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>WI</td>
<td>Middle management DoF, Prov &amp; Dist Fin Mgt</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>JS</td>
<td>Middle management DoF, Prov &amp; Dist Fin Mgt</td>
<td>1</td>
<td>45 minutes</td>
</tr>
<tr>
<td><strong>Lower Management (Managers, Team Leaders)</strong></td>
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<td></td>
<td></td>
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<tr>
<td>NH</td>
<td>Lower management DoF, Expenditure Monitoring</td>
<td>1</td>
<td>45 minutes</td>
</tr>
<tr>
<td>PJ</td>
<td>Lower management DoF, Accounts Payable</td>
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<td>30 minutes</td>
</tr>
<tr>
<td>JT</td>
<td>Lower management DoF, Accounts Receivable</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>MW</td>
<td>Lower management DoF, Prov &amp; Dist Treasury Off</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>LS</td>
<td>Lower management DoF, Prov &amp; Dist Treasury Off</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>VK</td>
<td>Lower management DoF, Accounts Payable</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>BH</td>
<td>Lower management DoF, Accountant</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>DW</td>
<td>Lower management DoF, Accountant</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OW</td>
<td>Former employee DoF, Holiday Inn Hotel</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>Dr DK</td>
<td>Academic, Holiday Inn Hotel</td>
<td>1</td>
<td>30 minutes</td>
</tr>
<tr>
<td>MK</td>
<td>Constitutional office holder, Holiday Inn Hotel</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td>SE</td>
<td>Constitutional office holder, Holiday Inn Hotel</td>
<td>1</td>
<td>1 hour</td>
</tr>
<tr>
<td><strong>Total Number interviewed</strong></td>
<td></td>
<td></td>
<td>40</td>
</tr>
</tbody>
</table>
Key:

Elegants

- Former Ministers, former Prime Ministers, current Ministers and current Prime Minister and former CEOs.

Top Management

- First Assistant Secretaries, Deputy Secretaries, and Secretary or CEO in the DoF

Middle Management

- Sectional managers, Assistant Secretaries

Lower Management

- Managers below sectional managers

Others

- Important individuals
Appendix vi:

Copy of Memo to the Department from the Secretary for Finance
DEPARTMENT OF FINANCE
Office of the Secretary

Date: 7th June 2011

Ref:

To : Deputy Secretaries
    : First Assistant Secretaries

Department’s support to Former Secretary Research Study at ANU.

Based on the request of former Secretary Mr Kambanei, who is currently attempting his doctoral studies at Australia National University, I wish to advise your office that I have given my concurrence for his research work with the Department by way of conducting interviews with certain Divisions and Senior Managers commencing this week.

I request your Divisions to accord him all your support and assistance in disclosing data and information that will help the course of his research in Papua New Guinea with special focus on government’s policies and its financial execution thru the Department of Finance.

GABRIEL YER
Secretary
Appendix vii:

Sample of Open-ended Interview Questions
Sample of Interview Questions

The open ended interview questions provides a guide for interviewing managers and other stakeholders at the Department of Finance (DoF) in PNG regarding the design and implementation of MACS in the context of public sector reforms for the period 1995-2006. The interview questions are related to two significant pieces of legislations, the Organic Law on Provincial and Local level Government (OLP&LLG) and the Public Finances (Management) Act (PFMA) which introduced private sector concepts.

1. The Old Organic Law on Provincial Local Governments prior to 1995 empowered Provincial and Local Governments to design and implement their own accounting and management control systems. Can you describe why the Old Organic Law was changed and replaced with the New Organic Law on Provincial and Local-level Governments?

2. Are you aware if there was any influence either internal or external that was imposed or had influenced the changes to adopt the New Organic Law?

3. The new OLP&LLG mandated the Department of Provincial and Local Governments through the National Monitoring Authority (NMA) to monitor the implementation of the reforms by the various national government departments and agencies. Could you describe the role of NMA and explain if they have effectively monitored the implementation of these reforms?

4. Since the enactment of the OLP&LLG in 1995 the implementation in regard to the establishment of district treasury offices took a long while before it was implemented. Could you describe why this has taken so long to be implemented?

5. There has been a lot of amendments to the Public Finances (Management) Act of 1995. Can you explain these amendments and why were these amendments necessary? Were there any influences to allow for these amendments to take place?

6. The establishment of audit committees is a concept rooted in the private sector. The amendment in the PFMA introduced this private sector concept. Can you explain the reason for introducing such changes, and if there has been any influence internal or otherwise in allowing such changes to be enacted?
Appendix vii

7. The procurement of goods and services is now by way of competitive contracts, a practice commonly suited for private sector organisations. Could you elaborate on the reasons for introducing such private sector practices through the amendments in the PFMA? Can you explain why such changes?

8. Many of the district treasury offices are so isolated. To establish such offices are difficult. Describe how many district treasury offices have been established and the difficulties encountered in establishing these offices? Are these offices fully functional? If not, what are the limitations that you have in implementing such?

9. The OLP&LLG and the PFMA stipulates minimum qualifications of staff appointed to Provincial and District Treasury Offices to hold accounting and economics qualifications. Could you explain if these provisions have been complied with, and if there have been any instances of political interference in the appointment of any of these officers?

10. Many staff at the Provincial and District Treasury Offices have not undergone any formal training before the commencement of the public sector reforms in 1995. Please describe if that has changed and the type of training that has been provided, if any?

11. The government has now moved away from the traditional line item budgeting (input focus) to program and performance budgeting systems that has its focus rooted in the private sector budgeting systems which has an output focus. Could you explain the reasons for such a shift, and if the shift has achieved its intended purpose. If not, could you explain the reasons why?

12. Under the Development Budget the International Development partners such as the World Bank, International Monetary Fund, Asian Development Bank, AusAID, and other development partners have insisted for 10% government contribution appropriated in the national budget before funding assistance is sought from these institutions. Could you explain why this is the case?

13. Do you think the current government accounting systems “PGAS” is good/bad in controlling expenditures? Do you thing the accounting system used is tight enough to prevent any losses, embezzlements, misappropriation to occur? Please explain?

14. The current cash basis of accounting used in preparing the government’s consolidated financial statements does not adequately report the assets and liabilities of government. Can you explain if there is a need to improve this system?

15. It is understood that the governments accounting systems have not been rolled out into the provinces and districts. Could you please explain if these accounting systems are working effectively in the provinces and districts? What would you suggest should be done to improve these systems?
Appendix vii

16. The mission and goals of any public sector organizations should be very clear in measurable terms so that organizational goals are attained. Can you describe the mission and goals of this organization, and if there are in measurable and achievable terms? Please explain

17. Rewards of employees in the public sector should be commensurate to performance. Could you describe who determines the reward systems in the public sector and on what basis do they do so? Is this reward system based on performance or not? Please explain?

18. Motivating public servants to relocate to provincial and district levels is a difficult task. Can you describe how the government can attract these public servants to relocate to the provinces and districts?

19. The Financial Management Improvement Program has been around for quite some time. Can you describe how long it’s been around, its missions, and objectives? Has it achieved its objective? If not, why? and has there been any influence in not achieving this objectives?