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**The role of global epistemic communities in enabling accounting
change: Creating a 'more business-like' public sector**

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The role of global epistemic communities in creating a ‘more business-like’ public sector

ABSTRACT

This paper explores the role of a small but influential *epistemic community* in enabling global accounting change for public sector entities. We show how, during a period in which government administrations globally were criticised on a number of fronts, this community problematised public sector accounting and management practices, creating a perceived need for a more ‘business-like’ public sector underpinned by ‘better accounting’. We also show how the community was also able to diffuse these ideas globally. In doing so, our study sheds light on how epistemic communities can shape the regulatory agenda by identifying and articulating the nature of the “problem” and by engineering and diffusing the appropriate solution.

Key words: epistemic communities, new public financial management, problematisation

1. Introduction

Since the 1980s there has been a clear shift in many countries toward what has become known as New Public Management (NPM) (Hood, 1995). This shift can be located within a broader movement to re-define public accountability and the role of public administration. Closely associated with this “new” public management is a range of accounting techniques known as “New Public Financial Management” (NPFM) (Guthrie, 1998; Humphrey & Guthrie, 1996; Olson, Guthrie & Humphrey, 1998). NPFM is used to refer to the collection of accounting techniques adapted from the private sector and applied to diverse public sector entities, and which include accrual-based budgeting and financial reporting, full costing, performance measurement and performance auditing (Guthrie, 1998; Humphrey & Guthrie, 1996; Olson et al, 1998). The general argument advanced by researchers in this area is that accounting is one of the technologies by which broader changes to public sector management philosophies and approaches have been enacted (Broadbent & Guthrie, 1992; Parker & Guthrie, 1993; Power, 1997b; Ryan, 1995). Yet in spite of the claimed internationalisation and revolution of public sector management approaches, there has been considerable variation in the specific NPFM-related reforms adopted by OECD countries (Olson et al, 1998). It is this variation that provides the focus for this study.

It is maintained here that a relatively small group of technical experts which includes accountants, consultants and auditors-general, have been influential in shaping the agenda for NPFM reform. These experts have successfully proposed an array of corporate management philosophies and approaches to solve the problems that were defined to exist in public sector organisations within specific locales. In exploring the activities of these experts, we find clear links between experts in the US, Australia and New Zealand. We find compelling evidence for example, that cash-

based accounting for government entities was being criticised roundly in the US at least as far back as the 1940's. We are equally convinced that strong associations also exist with experts in the UK and Continental Europe, although our evidence in this respect is more circumstantial, yet sufficient to support a call for further research.

Many members of the community advocating NPFM knew each other well. They frequently interacted at conferences, co-authored works and regularly made use of each others' written presentations and publications. We posit that they came to learn from each other and construct together the approaches and associated regulations that established and re-enforced the validity of their ideas. The result is the evolution of an epistemic community with supreme confidence in its ability to define a problem and an associated solution and the capacity to diffuse that solution across time and space.

Our main concern in this paper is to examine the development of the NPFM epistemic community and to elucidate the nature of its influence. We also explore the avenues by which the influence and the subsequent policies were diffused globally. Specifically, in the remainder of the study, the following research questions are addressed:

- (1) How and why did the community develop and by what means was it able to retain its shape over time?
- (2) What role did the epistemic community play in identifying and articulating the "problem" faced by public sector management and identifying the appropriate "solution"?
- (3) How were the proposed solutions diffused across time and space?

We do not seek to provide a definitive account of global NPFM reform. Rather, our aim is to explore the role of the NPFM epistemic community in the reform process. In doing so, our aim is to assist an enhanced understanding of the diverse

processes by which the accounting change can occur in specific settings (Hopwood, 1987).

The remainder of the paper is set out as follows. The next section introduces the primary theoretical inputs we use in our study - *epistemic communities* and *problematization*. These inputs comprise the key components of our research approach. This is followed by a discussion of the methodological considerations relevant to our study. In the section thereafter, we discuss three episodes in the development and diffusion of NPFM reforms. The final section contains concluding thoughts, comments on limitations, and suggestions for further research.

2. Theoretical inputs

2.1 Epistemic communities

John Ruggie appears to have been the first to coin the term ‘epistemic community’, using it to refer to ‘a dominant way of looking at social reality, a set of shared symbols and references, mutual expectations ...’ (Ruggie, 1975). Understood primarily as transnational groups of “believers” with shared values and a common policy project, the epistemic communities construct has been applied in various settings to interpret the role of small groups of technical experts in developing and implementing standards of ‘normal behaviour’. In defining some behaviour as ‘normal’, the epistemic community discourse implies certain behaviour to be ‘abnormal’ and in need of correction (Spalding, 2003). It is in this context that these communities have been widely attributed with influence in international policy development, coordination and diffusion (Haas, 1992; Laughlin & Pallot, 1998; Sebenius, 1992; Spalding, 2003).

According to researchers in this area, where certain individuals hold power to administer, regulate or influence in certain areas of the community, what they think,

the beliefs they form, and the way they embrace new ideas are crucial for understanding the policy decisions that are made (Adler & Haas, 1992; Haas, 1992). Uncertainty about the nature and seriousness of policy problems, cause-effect relations or the effects of policy options are often triggers for policy makers to consult epistemic communities, thus presenting major opportunities for these communities to proliferate their ideas (Haas, 1992; Meijerink, 2005). In such instances, epistemic communities can be influential in converting the ideas, perceptions and beliefs of those with legislative or non-legislative regulatory power to operationalise policy change, thereby creating the opportunity for change to occur.ⁱ Such communities can thus exert significant influence on both the development and diffusion of specific policies (Ryan, 1998; Young, 1995). Epistemic communities have a number of characteristics which Haas (1992, p.4) has described in the following way:

An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs which provide a value-based rationale for the social action of community members; (2) shared causal beliefs which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity – that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise, and (4) a common policy enterprise – that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence.

For Haas, crucial to the epistemic community is the shared causal beliefs of its members.ⁱⁱ Epistemic communities are not defined by formal institutional or organisational links and their members need not always be unanimous in their preferred solutions to specific problems. Rather, it is their common enterprise and vision that is germane to their power and influence (Adler, 1992; Antoniadou, 2003).

While a shared view of the world is a defining feature of epistemic communities, it is also conceivable that such communities may have a transient element, whereby experts who believe specific policy changes are warranted might add their voice to the cause for a particular policy project. Discussion, argument and mutual criticism can often contribute to shaping consensus within the community over specific concepts, surmounting interdisciplinary barriers and creating a common vocabulary (Adler, 1992; Rose, R. 1991). It is this consensus and commitment to shared ideals that allows communities to put forward solutions to problems which may be converted into advocated policies and programmes (Stone, 1996). This provides a robust mechanism in contested situations where alternative problems and solutions might be offered by others.

The roles that can be attributed to epistemic communities in identifying and resolving policy problems can vary according to the dynamics of the situation. These communities can occupy a unique and influential position due to their ability to convince policymakers that a 'problem' exists and their ability to put forward a seemingly appropriate solution (Adler & Haas, 1992; Laughlin & Pallot, 1998). Through argument and advocacy, the importance of the solutions for 'progress' or 'improvement' achieves a level of taken-for-grantedness which is rarely questioned, even though there is often no evidence supporting such benefits (Young, 2006).

Epistemic communities may be small in size but due to the strategic location of their members, in both national and international organisations, and their sharing of common values and beliefs, the influence of such communities can be disproportionate to their size (Adler & Haas, 1992; Carnegie & Napier, 2002). Such communities can also influence the diffusion of policies developed by means of diverse forums, which include communication with community members at national

and international conferences and via publications such as professional/industry outlets, academic texts and journals (Adler & Haas, 1992; Miller, 1991). The result, in the accounting domain, is the diffusion of particular accounting solutions across jurisdictional boundaries on a national, and even international level (Kingdon, 1984; Ryan, 1998).

Several factors at any time may explain the ability of epistemic communities to prevail in any instance of public policy debate or discussion. Foremost among these is the role they play in the discursive construction of particular policy problems (Walters & Young, 2008). This, in turn, often depends on their ability to criticise or *problematise* existing practice and their capacity to present a seemingly plausible solution to the problem identified. The *problematism* construct is discussed briefly next.

2.2 Problematism

According to Rose and Miller (1992), problems involving public policy choice can first arise through a process of *problematism* which can begin when existing practices are criticised as not 'ideal'. These practices may, as a result, be made to appear deficient in some way or ways, leading to the identification of a 'problem' for which an appropriate solution is required. In such instances, practices are put forward that are claimed to not only address the perceived defects, but extend substantially beyond them, offering something new and better than previously considered possible (Miller, 1991, 1998; Potter, 2005). Not all such instances result in policy change occurring. Likewise, the *problematism* process may be shaped by a multitude of factors in specific settings and should not be viewed as linear, or in isolation from the political, professional and social agendas of the actors involved (Alcouffe, Berland & Levant, 2008; Rose & Miler, 1992). This is particularly the case where those

concerned may stand to gain in some way from the problematisation of existing practices and the implementation of ‘new’ and ‘better’ alternatives. The ways in which proponents for change support their claims based on the advantages of the alternative/s has been the focus for a number of studies in this area (see for example, Alcouffe et al, 2008; Callon 1986). Notwithstanding, when the problem is made visible, the perception is created that something needs to be done and where the suggested solution is seen to be a means of achieving the desired end, specific policy change is likely (Miller, 1998).

Problematisation has been used in studies which focus on changes to the boundaries of the domains occupied by professional groups. For example, in accounting, previous works have explored the problematisation of both *existing* and *emerging* practices as a part of the professional project of the groups involved (e.g. Alcouffe et al, 2008; Covalleski, Dirsmith & Rittenberg, 2003; Fogarty & Radcliffe, 1999; Power, 1997a; Young, 1995). A common theme in these works is that ‘success’ in bringing accounting innovation is less dependant on developing technically ‘correct’ rules and procedures. Rather, the authors document the seemingly more powerful ability of those involved to establish, through discursive means, the appropriateness of particular advocated techniques and approaches and to encourage others to build on them.

Studies which apply the problematisation construct provide examples of the dynamic and discursive nature of professional domains such as accounting and how the boundaries of the domain can be shaped in specific contexts. Yet the means by which this occurs in specific organisational and social settings is complex and represents an area of policy innovation about which we know relatively little. Research which applies the notion of problematisation typically alludes to the

influence of technical experts holding particular world views in identifying and defining accounting problems and solutions in certain, almost rehearsed, ways. However, we are not aware of prior work which explores two aspects of the problematisation process in the context of accounting innovation. First, how do these groups develop and function in specific settings and what commits their members to the advocated policy platform? Second, how these specific ‘problems’ and the associated solutions are diffused across time and space is not clear. The notion of epistemic communities can be used to gain further insight into the problematisation process and to augment an understanding of the processes through which the accounting domain may be constituted and re-constituted (Potter, 2005). Notwithstanding the explanatory potential of this approach, detailed studies encompassing these perspectives that explore particular instances of accounting innovation are indeed sparse, thus offering scholars a range of ‘fascinating issues for research’ (Laughlin & Pallot, 1998, p.396).

3. Methodological and data choices

Our general methodological approach is to adopt an interpretive historical study in which we identify individuals and organisations associated with efforts to achieve public sector accounting change. This approach enables us to *explain* and *evaluate* from a holistic perspective and to understand the events concerned within the specific context in which they occurred, while also acknowledging that “history” need not be a story of continuous evolution or progress (Carson & Carson, 1998; Parker, 1997; Previts, Parker & Coffman, 1990a, 1990b). As a consequence, we are able to interrogate conventional arguments put forward by accounting regulators and others to justify and explain NPFM reforms based on notions of ‘progress’ and ‘improvement’.

Earlier efforts to explain the origins of NPM such as Hood (1995) and Olson et al, (1998) examined outcomes of reforms and looked for common patterns. In contrast to such approaches, this paper examines historical data extracted from private and organisational archives, public and confidential documents, reports and oral histories in order to ‘make sense’ of the connections between individuals and organisations influential in the adoption of NPFM reforms. Our data spans the period from the 1940s to 2007 and is arranged and analysed to elucidate the following three overlapping episodes in the growth of NPFM:

- (i) The early formation of an NPFM epistemic community who believed that a ‘more business-like’ public sector was needed;
- (ii) The role of the NPFM epistemic community in problematising existing accounting approaches within governments and in promoting and implementing an accrual-based solution; and
- (iii) The role of the NPFM epistemic community in the diffusion of NPFM developments internationally from about the mid-1990s.

We discuss the above episodes across several jurisdictions that are each notable as early adopters of at least some of the core NPFM technologies such as public sector accrual accounting for General Government Sector (GGS) organisations; costing systems; performance measurement; outsourcing; and, private sector financing. This allows us to examine episodes that were important milestones in the growth of NPFM since they signalled *actual change* as opposed to rhetoric regarding change (Ball, Dale, Eggers & Sacco, 1999; Carlin, 2005; Connolly & Hyndman, 2006).

The data sources used in the study are driven by the nature of the research questions and, as such, the data used differs between each episode. One of the most notable differences is that oral histories have been used in collaboration of documentary sources for episode 2 whereas primary and secondary documentary sources are used for the other episodes. The resultant history comprises three episodes

which are interconnected in various ways by a collection of individuals and organisations.

We begin our analysis in the following section with the first episode in the life of the NPFM epistemic community. Episode 1 shows the early formation of a group of individuals who developed the belief that a ‘more business-like’ public sector was needed. The episode traces the early development of the epistemic community which appears to have gained impetus from the events and conditions of the late 1960s and 1970s. After that, we present the empirics which enable us to explore the role of the community in problematising existing governmental accounting approaches, proposing an accrual-based solution and diffusing that solution internationally.

4. New Public Financial Management (NPFM) and epistemic communities: some empirical evidence

4.1 Episode 1: The need for a more business-like public sector

In this episode, claims of inefficient public sectors developed and persisted, and policy consensus began to develop which favoured privatisation, deregulation and decentralisation strategies. The episode sees the beginning of the emergence of the community at an international level and the crystallisation of a theme that became central to NPFM, the importance of performance budgeting which, in turn, depended on accrual accounting focused on outputs and achievements. While there was initially little to link community members directly, the belief in the need to improve the public sector by making it more ‘business-like’ provided the foundation for this group to have significant impact over the coming decades.

The middle decades of the twentieth century were characterised by, *inter alia*, discussion and debate around the merits of developing a global, coordinated approach to monetary policy among nations. A key development during the period was the historic Bretton Woods agreement (1944) which promoted explicitly international

monetary cooperation, exchange stability and avoidance of competitive currency devaluation and growth in world trade (Ainley, 1979). Also of note was the formation of a number of major global institutions which included the International Monetary Fund (IMF) and the World Bank, to assist with the economic development of developing countries.

By the mid 1950s, strains had emerged in this search for cooperative global economic order, both between the developed and developing countries, and between the United States and Europe, giving rise to the establishment of the OECD in 1960.ⁱⁱⁱ The OECD promoted policy harmonisation and economic growth for its member developed countries through liberalisation of international trade in goods and services (Ainley, 1979). It therefore provided a key forum for these developed countries to agree on trade and finance issues before taking them to the larger global institutions for consideration.

Against this background, a greater understanding of the emergence of the epistemic community advocating a more business-like public sector is possible. A number of concerns brought into public and organizational focus have been identified with respect to Episode 1. Those concerns or issues are shown in summary form in Table 1

Table 1: Summary of Episode 1 (refer Glossary for abbreviations)

Issue/Concern	Organisation or Individual	Period active & Main Region
War efficiency	Harvard research group	WWII; USA
Public sector performance	RAND Corp-Harvard: Anthony, McNamara, Mosher, Alain Enthoven	Post WWII to mid-1960's; USA
Performance budgeting	Advisors to Hoover Commission; GAO (Staats); RAND; Harvard; MIT	1947 - 1960's; USA
Sector neutral accounting	World Bank's IFC (Alain Enthoven); McNamara	Early 1960s ff: USA and western countries
Accounting as a central reform technology and economic driver	EEC; GATT negotiators; AICPA; Big 8; World Bank; IMF	1970s ff; Western democracies
Organisation of accounting services	IASC; IFAC; Big 8; FASB; OECD;	1970s ff; Western democracies
Worldwide public sector accounting	INTOSAI; ICGFM; Big 8-6; IFAC; AGA; ASA; GFOA; CIPFA; Staats; Adolf Enthoven; Bowsher	Late 1970s ff; Western democracies – esp. USA and British heritage countries

Table 1 notes the issue or concern to which identifiable organisations and/or individuals can be traced and the approximate period in which that occurred. Notable is the linkage of ideas and individuals and/or organisations behind those ideas that began to emerge from significant external events. The first significant external event was World War and its massive re-direction of expenditures and consequential peacetime efforts to arrange international cooperation designed to avoid the pre-conditions of future world war. Public administration in many countries was increasingly looked upon as inefficient and wasteful whilst the infrastructure of a global economic order was being erected. A systems-based approach to the analysis of government operations emerging from the US defence administrations and a link between planning, budgeting and performance elevated detailed financial information to become a crucial tool for analysis, and thus provided opportunities for accountants. Links emerged between the military and major universities, such as Harvard, and with premier accounting firms such as Peat Marwick and Arthur Andersen who sought to develop a 'more business-like' military which was assumed to be possible through the application of commercial accounting approaches. The central justification for the

performance budget was the long range planning of activities and tracking of achievements, thus implying accrual accounting. This is at the heart of what subsequently became part of NPFM. Performance budgeting was not new when advocated from the late 1940s, with similar initiatives traceable as early as 1912 (Mosher 1954). However, its re-emergence in the late 1940s post-war period of government budget reductions, particularly reductions of military expenditure, could be used to support claims for increased expenditure on weapons development and build-up even in the absence of open warfare. Cold war thinking translated into military strategy suggests a continuing demand for large military budgets to fund such a build-up. These changes also suggested a role for accountants that differed from the role accountants traditionally held. Economics and politics had become inextricably linked whilst accounting and budgeting developments sought within government (particularly the US Government) clearly carried with them the potential to impose bureaucratic control (see Anthony, 2003) as well as political implications (see for example, Appleby, 1948; Herring, 1938; Mosher, 1954). Notwithstanding their appearance of being technically superior, the accounting and budgeting techniques' political implications can be seen as an important part of the resulting linkages of ideas and the individuals and organisations behind them.

Laughlin and Pallot (1998) associated at least two epistemic communities with the emergence of NPFM, one being a 'more intellectual' community, drawing on public choice theory, new institutional economics and organisational economics. The other 'community', they argue, was 'more pragmatic' and involved private sector management consultants promoting ways to make the public sector into a 'look-alike private sector.' This pragmatic community included, but was not confined to, the transnational accounting firms. Laughlin and Pallot (1998) proposed that the influence

of these epistemic communities had increased over time, “eventually reaching major actors in the policy co-ordination process”. There is no suggestion that the members of these epistemic communities all agreed with each other but rather, discussion, argument and mutual criticism appeared to contribute to shaping consensus over the direction of reform required (Rose, R. 1991). Consistent with Laughlin and Pallot (1998), our Episode 1 identifies and locates a number of technical experts, both individuals and groups, some located at very influential positions in key organisations, who can be associated with these epistemic communities. In the ‘more intellectual’ group are those associated with Harvard, MIT and the RAND corporation, many of whom were economists, some with links to the highest levels of government. Such links for example, included the Council of Economic Advisers located in the Executive Office of the President and the Committee for Economic Development. In the ‘more pragmatic’ group, the consultants used to develop financial management systems in the US Department of Defense were doing so in the belief that global economic development and enhancements in efficiency depended on the export of business accounting techniques while also providing the consultants with significant business opportunities. At the same time, the possibility that international bodies, such as the UN might develop their own requirements for accounting clearly laid down a challenge for the accounting profession to retain control over accounting by proposing standards for international application.

It is within the context described in this section, that a more tightly composed epistemic community began to form, based on a shared belief as to what constituted “good” government accounting. Holding the community together appears to have been the view that public sector performance and accountability would improve if reformed to become more like the business sector (Mosher, 1954), and that accrual

accounting, based around performance budgeting, would materially aid achievement of that goal.

The more formal beginnings of the emergence of the international NPFM epistemic community can be traced to 1967 when the World Bank became interested in micro-economics and current cost accounting, and established a Department of Programme Evaluation and Control. Later that year, following controversy over his role as Secretary of Defense, Robert McNamara was appointed as president of the World Bank, which was beginning to promote micro-economic reforms in its member countries (McKinnon, 2003). Several member countries of the World Bank, including the United Kingdom, Australia and New Zealand attempted to introduce PPBS.

Under McNamara the World Bank's operations expanded and it, along with other major international aid agencies, including regional development banks and USAID, began to introduce and prescribe the use of PPBS-type techniques for aid projects. This occurred despite evidence that the project administration processes required were beyond the capacity of developing nations and, in some cases, beyond the capacity of the international aid agencies themselves (Rondinelli, 1976).

In the five years between 1969 and 1973, the volume of World Bank lending equalled the volume for the previous twenty-three years (McNamara, 1973). However, by 1975 the IMF, expressed concern about surpluses in OPEC countries and deficits in other countries and blamed these deficits on social welfare programs undertaken from the early 70s that had been financed with borrowings (Ainley, 1979). The IMF imposed lending conditions on borrowing countries, these conditions becoming known as the 'Washington Consensus.' The lending conditions endorsed 'trade' rather than 'aid' and 'private investment' rather than 'state money' as the preferred means for recovery (UN, 2007). The component of the reforms which

applied most directly to government favoured the privatisation of services where possible, thereby potentially offering businesses significant investment and trading opportunities in services which ranged from the generation and supply of electricity to health, education and social welfare. These ideas about economic development were accompanied by a perceived need for accrual accounting as previously advocated (Enthoven, 1965).

The World Bank also sought to influence Auditors-General internationally (McKinnon, 2003). In 1977, following its congress in Peru, the International Organization of Supreme Audit Institutions (INTOSAI), issued a formal position statement, adding the performance audit, focussing on the economy, efficiency and effectiveness of government operations, to the SAI's "traditional task" of auditing "the legality and regularity of financial management and of accounting" (Lima Declaration, http://www.intosai.org/Level2/2_LIMADe.html).^{iv} The rationale for this development was that the activities of the state had expanded into the social and economic sectors, and therefore beyond the limits of the 'traditional' governmental accounting frameworks which were cash-based. In such a setting, supreme audit institutions needed to adapt, to ensure the "orderly and efficient use of public funds" and "the proper handling of public finances and the effectiveness of the decisions of the responsible authorities" (Lima Declaration, http://www.intosai.org/Level2/2_LIMADe.html, preamble). Following this Lima Declaration, auditors-general seemed to become more active in promoting public sector financial management change based on accrual principles (McKinnon, 2003).

In 1978 the International Consortium on Governmental Financial Management (ICGFM) was established to "promote the improvement of public sector financial management and the training available for the professionals performing that task –

government accountants, auditors, budget officers and other officials entrusted with the responsibility of keeping records of how public funds are handled” (ICGFM, 1998, p.1). At the time, the international professional bodies were regarded as either too narrowly focused on existing governmental accounting systems (e.g., INTOSAI), or as purely private sector-oriented with insufficient expertise to assume a role in the development of public sector accounting (e.g., IFAC). National professional organisations associated with the establishment of the ICGFM included the Association of Government Accountants (AGA) in the United States, the United Kingdom’s Chartered Institute of Public Finance and Accountancy (CIPFA), the Australian Society of Accountants (later renamed CPA Australia), and the Municipal Finance Officers Association of the US and Canada, later renamed the Government Finance Officers Association (GFOA). The Auditor General of Canada, James J. Macdonnell, and the Comptroller General of the United States, Elmer B. Staats, served as the first Honorary Co-Chairmen of the ICGFM. Adolf Enthoven was among the other leaders of this group (ICGFM, 1998).

Enthoven (1983) argued that his proposed system would be useful for economic analysis, policy and planning and for improving the investment environment. In his view, evaluation of governmental financial information on a coherent current cost basis would encourage capital investment, while enabling international development organisations, such as the World Bank and regional development banks, to assess the viability of projects and programs.^v This certainly appears to have been a palatable message in an era where global macro-economic policy was being scrutinised more carefully than ever. There was also support for Enthoven’s views from within the World Bank, which at the time was openly encouraging borrowers to revalue assets and seek full cost recovery for World Bank-

funded projects (Mould, 1983). Evidently, the World Bank believed accounting provided “one of the best means of measuring economic performance We consider from an economic development point of view, the development of current cost accounting at the micro and macro level to be urgent and vital.” (Mould, 1983, p. 85).

Arthur Andersen & Co was also prominent in the efforts to bring accrual accounting to governments. During the late 1970s, Charles A. Bowsher was the managing partner of Arthur Andersen’s Government Services Program in Washington DC. In that role, he was responsible for several publications advocating financial management change according to accrual principles and he chaired the AICPA’s Federal Government Executive Committee (Bowsher, Schoenhaut & Fine, , 1980). New York city’s fiscal crisis of 1975 provided an opportunity to advocate and implement reforms at state and local government levels, developments in which Arthur Andersen was subsequently involved (Bowsher, 1983). In 1981, Bowsher succeeded Elmer Staats as Comptroller General of the United States, thus acquiring the formal policy-making power to prescribe accounting requirements in federal agencies.

Staats addressed the 1982 International Congress of Accountants, where the theme was “the considerable influence the accounting profession can exert on world problems” (Schiro, 1983, p. 109). Although by then he was the former Comptroller General, Staats (1983, p. 11) identified four recent changes in governmental auditing and called for the auditing profession to “develop international accounting and auditing standards, improve accountability by international organizations, and improve training and development opportunities for government auditors.” Topics

covered at this Congress included the potential contribution of the accounting profession to economic policy (ISAR, 1985).

Following this 1982 Congress, IFAC adopted a five-year work plan intended to strengthen the “worldwide accountancy body” (Schiro, 1983, p. 110). This work plan included “liaison with accountants and recognised governmental bodies involved in accounting for government and providing assistance in monitoring and contributing to research in this important area of practice” (Schiro, 1983, p. 111). In 1986, when IFAC established a public sector accounting and auditing committee known as the Public Sector Committee (PSC), the first chairman of this committee was Ken Dye, the Auditor-General of Canada and prior partner of Grant Thornton Chartered Accountants. The work plan also aimed to coordinate the resources of international lending agencies such as the IMF, the World Bank, and its allied agencies (Schiro, 1983, p. 110).

In summary, by around 1987 the NPFM epistemic community had formed strongly, including at an international level. Government financial management reforms were advocated widely based on accrual principles and comprised part of what would ultimately become known as NPFM. Although introduction of both PPBS and CCA had been attempted and either failed or rejected, commitment to performance budgeting, measurement and audit was still believed necessary for a more efficient and accountable government sector, and accrual accounting was needed to achieve this. The emphasis began to shift to the general need for accrual accounting rather than the specific accrual-based techniques used in performance budgeting and measurement.

Firms, such as Arthur Andersen, that had been involved in the earlier efforts to bring accrual accounting to the US military, continued to seek the wider adoption of

accrual accounting in governments, including in New York city (Bowsher, 1983). In addition, key appointments such as that of Arthur Andersen's Charles Bowsher to US Comptroller General seemed likely to assist these efforts by upgrading Bowsher's power from that of an advocate to the power of prescription. Further, INTOSAI's advocacy of performance auditing and efforts to extend the role of auditors-general to include economy, efficiency and effectiveness seemed to generate activity from auditors-general who became promoters of accounting reforms. While significant accounting reform had not been achieved by this time, the epistemic community was, by this time, clearly operating at an international level, and seeking to apply its proposed reforms in other jurisdictions. One such jurisdiction was the Australian State of New South Wales where the radical adoption of 'full'^{vi} accrual accounting would achieve political and bureaucratic acceptance within a relatively short time frame. That adoption forms the core of what we describe as Episode 2 in the life of the NPFM epistemic community as shown next.

4.2 Episode 2: The early adoption of public sector accrual accounting: 1977-1993

An important episode in the momentum of the NPFM movement was the unequivocal decision to move from cash accounting to "full" accrual accounting for the General Government Sector (GGS) of the New South Wales Government (NSWG) in Australia in 1988. That decision, together with the New Zealand Government's slightly earlier and similar decision, provided ammunition for NPFM reform advocates in their arguments regarding the feasibility and desirability of change. Thus, this section explicates the roles of particular individuals and organisations in the NSWG decision and it does so by relying on the work of Christensen (2002, 2005) and Christensen and Skærbæk (forthcoming). That work

provide a history of this change with particular attention to the prominence of international consulting firms. Thus, this section concentrates on the task of tracing specific individuals and organisations so as to identify the connections therein plus their reliance on concepts and work generated during Episode 1.

NSW is a state within the Australian federation that comprises six states, two territories and one national (Commonwealth) government. It is the largest state in terms of population and economy and has the longest administrative history. Whilst its decision to adopt accrual accounting was made in 1988, this followed a period of eight years in which growing, but still sparse, discussion of accounting reform can be found. In that discussion the auditors-general (both State and Commonwealth) in Australia had begun to variously advocate accrual accounting change, even though the organised accounting profession appeared to show little interest in public sector accounting or its reform (Ryan, 1998). Table 2 summarises the empirics of this section by showing the individuals identified as being active in the early adoption of accrual accounting.

Table 2: Episode 2 actions and individuals (refer Appendices 1 for abbreviations and 2 for roles of individuals)

Action	Organisation or Individual	Chronology
A-G advocacy for PSAA	Australian (State and Federal) and NZ A-GOs; Ian Ball	Early 1980s – mid-1990s
PSASB creation; sector neutrality discussion in the profession	Humphry	Early 1980s
Promotion of PSAA: delivering capital city seminars	Arthur Andersen (Egol; Regan)	November 1987
Promotion of PSAA: seminar for senior public servants	NSW Public Accounts Committee; Arthur Andersen (Aust)	March 1988
Writing response to Enquiry re PSAA	Arthur Andersen (Aust)	July 1988
Implementation consultancies	Big 6-8	1989-93
Secondment of staff to PS agencies	Big 6-8	1990-93
Pro-bono Partner contribution to NSW TAAP	Big 6-8	1988-93
Post-decision PSAA explanation/justification	Big 6-8; senior public servants (Shand; Humphry; Nicholls; Scullion)	1988-1990s
Advocacy for public sector accounting profession activity	Big 6-8; Humphry; N. Walker; IFAC PSC (Ball); Dye; DioGuardi;	1980s-2000s

The Auditors-General had been supportive of accrual accounting for some years (Ryan, 1995) and further came from New Zealand. In New Zealand the Auditor-General Fred Shailes, who in his previous position in the Treasury had been involved in the effort to introduce PPBS, advocated in his 1978 report the adoption of accrual accounting (Green & Singleton, 2009). Further support for accrual accounting in government came from Ian Ball, writing for the New Zealand Planning Council (1981) at the time. However, prior to 1987, support for accrual accounting seemed limited to auditors-general as sometimes voiced in INTOSAI gatherings, and sometimes supplemented by support from some active and high profile public servants seeking accounting reform.

The auditors-general also began to develop formal arguments in favour of GGS accrual accounting (Humphry, 1986) and in 1981 the Commonwealth Auditor-General (Steele-Craik) chaired a Task Force consisting of the NSW (Jack O'Donnell) and Victorian (Brian Waldron) Auditors-General and four others to further develop public sector relations with the accounting profession. In all, during this period, there seemed to be “a general reach for an accounting solution in government” (Chua & Sinclair 1994, p.678), with various forces advocating accrual accounting reform at work in several jurisdictions across Australasia.

The Task Force, with its high profile auditors-general and its support for reform, appears as one of the earliest Australasian efforts to institutionalise a closer connection between accounting practices and approaches in both the public and private sectors. This coincided with similar calls from other epistemic community members from across the Pacific, such as US Comptroller General Bowsher (1983) who was urging CPAs to get involved to “help revamp governmental financial management systems.” Although there was evidence that the Task Force recognised

the distinctive nature of performance and accountability issues facing government, its flavour was sympathetic with NPFM change that was to later dominate.^{vii} The Task Force argued for a separate standard-setting body for the public sector, drawing criticism from the other main Australian accounting association, the Institute of Chartered Accountants in Australia (ICAA) with the aid of Professor Robert N. Anthony and Touche Ross National Director Graeme Macmillan (Chua & Sinclair, 1994). However, the ICAA soon recognised that “diplomatically government accountants had to be asked to find their own solutions” (Michael Sharpe, Coopers & Lybrand Senior Partner, cited in Chua & Sinclair, 1994, p. 699). Thus in 1983 the Public Sector Accounting Standards Board (PSASB) was established to address issues related to public sector accounting and to develop and implement accounting standards for public sector entities. The first Chairman of the PSASB was Dick Humphry (later Auditor-General of Victoria). The creation of the PSASB was seen as one of the outcomes of the Auditors’-General interest in public sector accounting reform. These events also appeared to prompt reaction from the organised accounting profession who began to promote ‘sector neutrality’ – which entailed addressing accounting issues for public and private sector entities within the same regulatory framework. This was to become an important part of the strategy advocated within the emerging, and transnational, epistemic community. At around this time, the Auditors-General sought to develop further their views and advocate accrual accounting for all government activities by undertaking a number of advocacy-type initiatives during the 1980s. The Australian Commonwealth Auditor-General was a regular participant in INTOSAI meetings and joined with his (all male) state auditors-general to regularly discuss matters of interest. This linkage exposed the Commonwealth and State

Auditors-General to developments outside of Australia and thus formed a means of idea transmission within the Australasian 'branch' of the epistemic community.

In hindsight, the most significant development outside Australia was the interest by Arthur Andersen in USA public sector accounting reform. Their development of USA whole of government statements in 1976 and 1986 was to have a significant impression on epistemic community members in Australasia. The recognition that accounting reform offered opportunities for gain was also made by the largest accounting association (the Australian Society of Accountants, now CPA Australia) and the international consulting firms with an accounting DNA (Christensen, 2005). The earliest evidence of explicit argument by international consultants in favour of public sector accrual accounting in the Australian context is lobbying by Arthur Andersen in 1987. In conjunction with the ASA, Andersen organised and actively promoted three (repeat) seminars in the main Australian capital cities of Sydney, Canberra and Melbourne arguing that accrual accounting can work in government. These seminars focused on two influential and highly regarded speakers and known advocates of accrual accounting in government: Morton Egol (Arthur Andersen USA Partner and Director, Government Services Division) and Ned Regan (New York State Comptroller). Both speakers outlined how accrual accounting had been implemented in the New York State public sector and argued that the reforms had delivered substantial benefits that NSW could also emulate. By also drawing on Andersen's USA whole of government statements, Egol's and Regan's presentations created the sense that such reforms were inevitable and crucial for enhancing governmental accountability, even though how such benefits would eventuate was not made clear (Moore, 1988; Ryan, 1995, 1998; Christensen, 2005). Following the seminars, press reports largely echoed the calls made by Egol and

Regan with headlines such as ‘Great sales pitch for accrual accounting’ (Herald Business, 4 December 1987, p.21) and ‘US expert tells govts accrual is superior’ (Sydney Morning Herald, 2 December 1987, p.42).

Egol’s and Regan’s presence at the Andersen/ASA seminars was no accident but, instead, was part of the strategies of persuasion and influence of what was by now an established epistemic community with a particular world view of what was needed to reform government accounting. With respect to NPFM developments, the archives reveal that Sydney-based Andersen staff Ian Plater and David Hunter^{viii} corresponded with senior public sector staff and politicians (NSW Public Accounts Committee Archive, 1987). Plater and Hunter also corresponded with Ian Ball who, by then, was director of the Financial Management Support Service group established at the New Zealand Treasury to implement the financial management reforms.

IFAC’s PSC had met in Melbourne around this time and Ian Ball had attended this meeting as an observer. At that meeting, he had described the changes under way in New Zealand (Ball, 1989). On 23 March 1989, the day after the Public Finance Bill proposing to legislate New Zealand’s accrual-based financial management reforms was tabled in Parliament, Ball wrote to Ken Dye (then Canadian auditor-general and chair of IFAC PSC), thanking him for the opportunity to attend the Melbourne IFAC PSC meeting and enclosing a copy of the bill. At the same time, Ball forwarded a copy of the bill to a number of individuals and organisations across Australia in influential positions, namely: (i) six senior staff members within Australian state governments (Graham Carpenter, Comptroller-General of Victoria; John Reardon, Assistant Under Treasurer of the Queensland Treasury; Jon Hickman, Deputy Under Treasurer of the Tasmanian Treasury; Barry Sargeant, Assistant Under Treasurer of the Western Australian Treasury; David Shand, First Assistant Secretary of the

Financial Management and Accounting Policy Division, Commonwealth Department of Finance; Don Nicholls, New South Wales State Treasury); (ii) all of the then big six accounting firms in Wellington (including to Ian Plater of Arthur Andersen & Co, in Sydney); (iii) without personal addresses, to KPMG Peat Marwick, Price Waterhouse, Coopers and Lybrand, Deloitte Haskins & Sells, and Ernst & Whinney^{ix}); and to (iv) the New Zealand Society of Accountants, and three other individuals (Ball, 1989). This type of ‘for your information’ communication to apparently disparate individuals and jurisdictions highlights the diverse and less-formal means by which epistemic communities can diffuse important ideas in specific settings. The effort taken to do so also evidences a desire to promulgate change that was influencing the epistemic community members’ actions.

Arthur Andersen can be implicated in much of the early activities to advocate accrual accounting in government, claiming itself to be “a pioneer in promoting the adoption of accrual accounting in Washington” (DioGuardi, 1992, p.33). USA Andersen partner, Joseph DioGuardi, noted later that Andersen as a firm saw a need for the US Government to move to accrual accounting - largely in an effort to recognise its growing liabilities.^x This was an early indication of what would become a central theme in the reform process – that by bringing to book previously unrecorded assets and liabilities, accrual accounting would enable a more accurate financial position to be reported, depreciation could be accurately calculated (whereas previously it was not recognised), leading to a better indication of financial performance and position and more informed decisions by stakeholders. It was argued that “there is recognition that this is a subject of some importance that could potentially change the way the world works” (Egol, 1987, p.4) but with recognition that the fight had not been won: “if you implement reform here in Australia, you will

not only achieve benefits for your nation, but hopefully, influence those who are resisting the changes necessary to bring discipline to democracies elsewhere in the world” (Regan, 1987, p.8). The reference to a world view was no accident since the consultants brought to the parochial NSW situation an appreciation of the international forces for change. In the period 1987 to 1993 (implementation of accrual accounting by the NSWG) the activity of international consultants in NSW with respect to NPFM was remarkable for its sudden increase in volume. Within the relatively small (at least on a global scale) NSW jurisdiction and in the short period from 1987 to 1993 at least 10 instances of publicly acknowledged activity by international consultants have been found, including by: Andersen (4); Coopers & Lybrand (2); Price-Waterhouse (2); Ernst & Whinney (1) and KPMG (1).

During this period, the problematisation of existing government accounting, which was cash-based, continued and whilst a number of arguments were advanced, increasingly decision usefulness was invoked. Specifically, cash systems were criticised for not encompassing non-cash expenses such as depreciation as well as for not enabling the timely recording of accrued revenues and accrued expenses. Table 3 provides examples of how and by whom cash-based accounting was problematised during this period^{xi}.

Table 3: Instances of cash-based accounting problematisation

Epistemic arena	Member	Extract
Professional bodies: AARF; CPA Australia; ICAA	Sutcliffe, 1985, p.29	Objectives of financial reporting which require the disclosure of information useful for an assessment of financial status, performance and compliance call into question the appropriateness of the cash basis of accounting
	Greenhall et al, 1988, p.50	Financial reports prepared on a cash basis are simple to compile and may provide information of relevance ... However, such reports do not disclose information about the costs of services provided (necessary for any assessment of performance) nor do they provide an accounting for assets (apart from cash) and liabilities of the local government
	Carpenter, 1986, p.16; see also MacMillan, 1985, pp.47-9	The strong reliance upon cash based accounting and reporting as currently applies suggests that all of the State's resources are not necessarily being effectively managed. In addition, full program costs are not available publicly
Office holders: Doff; State & Territory Treasuries; Auditors-General/Australian National Audit Office/Joint Committee of Public Accounts	Humphry, 1987, p.123; 1986, p.10	What we presently focus on [under cash accounting], because there is really no other information, is the cash deficit which, of course, is very important, but does not measure the movements in our net wealth
	Robson, 1987a, p.7; 1988, pp.9-11	<p>I consider the specific issues are that pure cash based accounting and, to some extent, modified accrual accounting result in the reporting of incomplete information and can:</p> <ul style="list-style-type: none"> • lead to the misallocation of resources; • not adequately disclose the size of assets and liabilities; • cloud the full cost of programs and cost fluctuations in program costs from year to year; • impose burdens on future taxpayers by deferring the bringing to account of liabilities such as long service leave and employers' deferred superannuation contributions; and impose burdens on future taxpayers, by charging in full each year, the costs of assets purchased rather than capitalising such expenditure and spreading costs over their useful life to bring to account each year the cost of using the assets employed
	Shand, 1988, p.45	The problems with only having cash accounting systems make a clear case for accrual accounting for government entities and can be listed as follows: The costs of operating the program are not clear. Thus performance cannot be fully measured
	NSW Treasury, 1989, p.1	Because accrual accounting brings to account all items as they are earned or consumed, the real cost of government undertakings, including the utilisation of physical non-current assets in the form of depreciation, can be ascertained much more accurately than when a cash accounting system is in place

As is evident from Table 3, much of the criticism came from those in influential positions in key organisations. As the extracts indicate, those involved consistently focussed on the asserted inability of cash-based accounting to capture the total costs incurred by diverse public sector organisations and the claimed inadequacy of such systems for reporting the periodic performance of the relevant entities. As a consequence, even though cost control is not the sole purpose served by the preparation of financial reports for public sector organisations, cash-based systems of accounting were widely asserted to be unable to meet the accountability requirements and the specific information needs of financial report users. Such criticisms, in turn, enabled general purpose financial reports, traditionally prepared by profit-seeking entities in the private sector, to be put forward as the appropriate solution, even though how the ‘new technology’ would enable the benefits was not yet clear, and without the consideration of a range of implementation issues. In so doing, the epistemic community appeared to offer a formal and robust means, for achieving what was coveted as a widely desirable transformation of extant public sector financial reporting to general purpose financial reporting.

Taken together, the problematisation of cash accounting and the advocacy activities of the epistemic community members amounted to ushering in a large-scale accounting ‘revolution’. That ‘revolution’ (Ravenscroft & Williams, 2009) downplayed the traditional accountability role of accounting in favour of an emphasis on (hoped-for) decision-usefulness. Ravenscroft and Williams (2009, p.770) describe “the displacement of accounting’s centuries-old root metaphor of accountability by the metaphor of information usefulness, and situate that displacement within neoliberalism, a broader political movement that arose after World War II”. Whilst accountability had “clearly been the social and organizational backbone of accounting

for centuries” (Ijiri, 1975, p. 32), the direction of accounting research increasingly focused the association of accounting measures with security prices as a ‘natural’ function of accounting (Ravenscroft & Williams, 2009). Thus one decade later and at the same time that cash accounting was being problematised in the public sector, the FASB was asserting that the first objective of financial reporting was to present useful information to investors, creditors and other users so they could make “rational investment, credit and similar decisions” (FASB, 1978, p.16, cited by Ravenscroft & Williams, 2009, p. 776).

The promotion and implementation of accrual accounting in NSW can be seen as an episode in which the epistemic community, characterised by the belief that public sector accounting should mirror private sector accounting, came to move from advocacy to action. The fledgling (and inaccurate) advice to ‘learn from others’ experience’ (Egol, 1987) when implementing NPFM, could now be converted to a reality based on jurisdictions with similarities to both the Westminster and American systems of government (New Zealand and NSW). In these countries, the epistemic community appeared to begin with the Auditors-General, but did not progress its cause until the international consultants became active. The consultants’ activism had its foundations outside Australasia and the next NPFM episode discussed here illustrates how the epistemic community reverberated back from Australasia in order to spread its ideas across additional national borders.

4.3 Episode 3: consolidation and spread of NPFM: 1993-2007

The third episode outlines events and identifies some of those involved in exporting the business model of accrual accounting in the public sector to the rest of the world. Until 1992, in Australia there was some separation between the standard-setters for the business and public sectors, but this was about to end. A report to the

OECD's Public Management Service (PUMA) explained two parallel developments in Australia: the May 1992 report of a joint Federal/State working party seeking to "enhance and harmonize financial reporting across jurisdictions" (PUMA, 1993, p. 22), and an exposure draft on "Financial Reporting by Government Departments" issued by the Australian Accounting Research Foundation (AARF) which "recommended that departments prepare financial reports in accordance with Statements of Accounting Concepts and Australian Accounting Standards" (PUMA, 1993). With respect to Federal Government accounting (which had then not followed NSW in adoption of accrual accounting), this report concluded that:

The nature and quality of financial reporting by commercially oriented areas of the public sector and Government Business Enterprises is considered to be of a high standard. Work underway to apply similar accrual standards to departmental reporting practices will further enhance resource management and accountability for these elements of the public sector (PUMA, 1993, p. 26).

In June 1993, the AARF discussion paper was also sent to New Zealand, including to key Treasury staff (Thomson, 1993) where, in the same month, Roelof Voormeulen, then chairman of the IFAC public sector committee, had his views published that:

... accounting is accounting and auditing is auditing, and ... the techniques, whether they are used in the private or public sector, are the same. I can't see why the accounts of government, which is *no more than a huge business*, should differ from the accounts of companies (Voormeulen, 1993, p.37, emphasis added).

Shortly afterwards, the AARF and the New Zealand Society of Accountants issued revised conceptual frameworks that they called 'sector-neutral', and commenced the setting of accounting standards for application to both sectors. In both countries, the accounting standard-setters adopted a closed approach to accounting standard-setting on matters that particularly affected the public sector. Senior accountants from the Treasury became increasingly active in accounting standard-setting in both jurisdictions. In Australia, financial reporting policies were formulated

in a “corporatist manner within the institutionalised relationships between the State bureaucracies of Treasuries and Departments of Finance and the PSASB” (Ryan, Dunstan & Stanley, 1999, p. 176). Under the chairmanships of three prominent members of the NPFM epistemic community^{xii} work was undertaken to develop Australia’s first accounting standard requiring accrual-based financial reporting using a private sector model. Similar developments were underway in New Zealand.

This shift to sector-neutral accounting standards coincided with the outcome of the Uruguay Round of the GATT negotiations. With trade negotiations having expanded to include international trade liberalisation of services, it was apparent that the range of services provided by governments represented major opportunities should those services be liberalised and privatised. Their accounting reconceptualisation as government outputs to be planned for, costed and procured using PPBS-type technologies embedded within the accrual accounting requirements has the effect of blurring any distinctions between goods and services and commodifying all government activities as outputs for purchase under contract (Mintzberg, 1996).

Accountants contributed indirectly to these negotiations. For example, Arthur Andersen & Co was a “close adviser” of the US Trade Representative, while the European regional accounting body, FEE, was similarly closely linked with those talks (Tabb, 2004, p. 305). Indeed, the FEE, which organised a seminar on the Uruguay Round negotiations in 1990, sought *inter alia* “to demonstrate the contribution which the accountancy profession can make to the successful liberation of trade in services in terms of wholehearted support for the concept of liberalization; [and] the contribution which international trade in accountancy services makes to the process of development” (FEE, 1990, p. 2).

Accountancy services were amongst the first to be liberalised under the General Agreement on Trade in Services (GATS), thus providing global opportunities, especially for the multinational accounting firms. Following the creation of the World Trade Organization (WTO) in 1995, the declaration emerging from the WTO's 1996 meeting in Singapore recognised IFAC and the International Accounting Standards Committee as the “setters of international standards for the accounting profession” (Fujinuma, 2003). According to the President of IFAC, “by the time the governments of the world created the World Trade Organization, we [IFAC] had already been hard at work for almost twenty years and were ready to lead the process of harmonizing financial reporting, auditing, education and professional practice in general” (Herrera, 1997).

In 1996, Ian Ball, former Treasury official responsible for implementing the financial management reforms in New Zealand's government and a key figure in accounting standard setting in New Zealand, became chairman of the IFAC's Public Sector Committee (PSC), an appointment which was regarded as an honour for New Zealand's accounting professional body, by then the Institute of Chartered Accountants (Pryde, 1996). The PSC had just commenced a multi-year project to “look at the various types of accounting used by governments (from cash to full accrual and between), provide recommendations on how these bases should be implemented, and then also make an in-depth study of how International Accounting Standards could be integrated into public sector systems” (ICANZ, 1996). Funding for this project of around US\$1 million came from the World Bank, the IMF and the United Nations Development Program (UNDP) (ICANZ, 1996, Walker, 1997). It soon turned into an accounting standard-setting initiative encouraging ‘increased use by governments’ of International Accounting Standards (IAS), the name then given to

IFRS. The idea of developing specific standards to govern accounting for the public sector was dismissed as being “extremely expensive and would duplicate much of the work which has already been done in the private sector” (ICANZ, 1997).

At around the same time, closer ties between IFAC and INTOSAI were forming, with INTOSAI granted formal observer status at IFAC’s PSC meetings in 2000 (Olsen, 2007). The push for accrual accounting and budgeting in government was also coming from institutional sources in Asia. In its 2003 report, the Asian Development Bank sought to examine the relevance of accrual budgeting and accounting in government for its developing country members. The report drew much on the implementation experiences in countries such as New Zealand and Australia and proceeded to overtly advocate the benefits of the technology for implementation in the economies of developing economies in the region.

It soon became evident that IFAC’s public sector accounting standards (IPSAS) seem to be only a step along the road to the application of a single set of accounting standards (IFRS) world wide as indicated by a then-member of IFAC’s PSC:

Of course, we now have two sets of International Standards in the accounting arena – we would prefer just one. Nevertheless, basing the Public Sector Standards on the International Accounting Standards significantly increases the possibility that, at some point, they too may be merged. Just as we needed time to reach this point, so too we need to allow time for that to occur in the international environment. (Simpkins, 2000, p.93).

More recently, following the appointment of Ian Ball as chief executive, convergence of IPSAS with IFRS has become part of IFAC’s adopted strategy (IFAC, 2007). It might, therefore, be noted this development is not unlike Adolf Enthoven’s ‘economic development and accountancy’ proposals from 1965 (see Episode 1).

Understanding the development of global accounting and auditing standards, and the consequential pressure on national standards setters, extends beyond the scope

of this paper. However, other scholars, notably Humphrey, Loft & Woods (2009), Arnold (2005) and Suddaby, Cooper & Greenwood (2007), have demonstrated linkages between the Big Five, WTO and IFAC in promoting a common regulatory schema as part of the international financial architecture. It is argued here that an appreciation of the desire to converge public sector accounting developments with IFRS, and of the membership of the epistemic community demonstrated above, can be helpful in understanding other aspects of transnational accounting developments.^{xiii} We turn next to the broader appreciations that arise from our work.

5. Concluding comments

It would be relatively simple to attribute the content of recent NPFM reforms in countries such as Australia and New Zealand to broad movements in public sector management philosophies such as ‘new public management’, ‘economic rationalism’ or ‘managerialism’ (Parker & Guthrie, 1990; Pusey, 1991; Rose, N. 1991; Yeatman, 1987; Zifcak, 1994). After all, such broader movements have been linked to substantive debates regarding public administration that date back centuries (Hood, 1995).^{xiv} Such themes might indeed influence broadly the nature and content of accounting reforms undertaken. However, simply to explain specific changes that occur by reference to these broader factors tells us little about the nature and timing of specific reforms adopted in particular countries (Guthrie & Parker, 1998). Likewise, broader explanations do not enable explanations of why advocates in countries such as Australia and New Zealand appear to have been more fanatical than those in other countries in their respective approaches to reform (Pusey, 1991). Thus, such broader explanations fail to throw light on the process and other necessary ingredients required to effect reforms as widespread and as influential as have been the post-1970 NPFM reforms.

The discussion here has identified three episodes in the growth of an epistemic community that believed public sector accounting should mirror private sector practice. That this should not be regarded as a purely technical accounting development is apparent from the recognition that politics and economics are intermingled, and from the wider political context within which these reforms have developed. These episodes are unique to the NPFM epistemic community in terms of the individuals who are shown to be active and the timing of the episodes. There is, nevertheless, worth in understanding the identity of these individuals and their various linkages since NPFM can accordingly be better understood. However, there is perhaps a more valuable worth here: providing an empirical illustration of the birth, growth and workings of an epistemic community and the means by which an epistemic community can problematise some element of the status quo in enabling change. Episode 1 illustrates the emergence of activity amongst essentially disconnected individuals who at the commencement of Episode 2, could only be associatively linked in the hindsight and empirics provided by Episode 2. The growth of organisations, such as transnational coordination agencies and international consulting firms, began to offer opportunities for the ‘stars’ who emerged from Episode 1 to coalesce. Thus, by the mid 1980s, clear and strong links had emerged as illustrated through various communications and actions such that the epistemic community was identifiable. That community was then significantly strengthened by implemented change such as was shown in Episode 2 and formed the base from which the developments shown in Episode 3 emerged.

The emergence of scientific management via application of economic techniques using program and performance techniques seems to have been a key driver in the initial development of this epistemic community. The increased

influence of economists brought with it the ‘values and outlook’ that accompany their education, including ideas about the superiority of markets and business arrangements (Nelson, 1987, 50). In post World War II United States, these views and approaches became increasingly influential and while initial application occurred in the military wider use was advocated and, clearly, viewed favourably. In this early stage the epistemic community was very small, but nonetheless influential, with links between Harvard and RAND, via current and former military personnel. John F Kennedy’s election increased the influence of this group and brought them into the Department of Defense, Kennedy himself having both a military and Harvard record. In these early stages, the focus of attention was on performance budgeting or PPBS as the Department of Defense variant was known. Although it depended on accrual accounting and legislation required the application of accrual accounting “when practicable” the priority was performance budgeting and accrual accounting seemed to be treated as a secondary matter.

A second set of interests apparent in the earliest days of this epistemic community viewed economic development as the development of international business opportunities and viewed the use of business accounting practices as necessary to generate investor confidence. The links between the two sets of interests included fraternal links (the Enthoven brothers) as well as institutional links via the World Bank. From this set of interests emerged the idea of a single accounting system for businesses and governments alike as well as performance budgeting (Enthoven, 1969). This set of interests also flow into the international trade efforts.

In these very early stages, apart from the desire for performance budgeting and accrual accounting consistent with business accounting, there are few pointers to the NPFM movement that would emerge subsequently. Even at this early stage, though,

from a small core of economists and consultants, the growth pattern of the epistemic community seems to take in the form of an orb spider web pattern, with a few initial linking radial threads followed by circular threads linking the radials. Following the perceived international failure of PPBS, the priority for reform seemed to shift to accrual accounting and efforts to mobilise Auditors-General in support via INTOSAI, thus adding another radial thread to the web. Additional linking threads bring in the newly created ICGFM and by this means bring in professional accounting bodies thus offering benefits and opportunities to the accounting profession.

Within the United States, the FASB's failure to gain acceptance of a single accounting standard setting framework for businesses and governments alike, seemed to halt progress there, at least temporarily. IFAC, however, took it up as an international project with the creation of the PSC, supported by the World Bank and IMF. By this time, the elements of the NPFM movement had become apparent, with the World Bank and IMF both pursuing the Washington Consensus with its clear preferences for smaller governments, privatisation and international trade liberalisation, including trade in government services as well as a single accounting system for governments and businesses alike. In answer to our first research question, then, while scientific management seems to have provided the initial impetus for development of the epistemic community, the underlying business-oriented thinking of the economists involved and efforts to liberalise international trade seems to have helped shape its continued spider web style development thus helping the epistemic community to both grow and increase its strength.

The role played by the epistemic community in identifying and articulating the "problem" faced by public sector management initially involved advocating performance budgeting to address perceived problems of extravagance and waste thus

mobilising efficiency and effectiveness responses. In those early days the existence of an epistemic community was not apparent but had become so by the time the efforts to introduce performance budgeting seemed to stall. As the priority for reform shifted to focus on accrual accounting, key members of the epistemic community challenged cash-based accounting and sought involvement and support from those in a position to do something about it. A transnational group of “believers” with shared values and causal belief models was becoming significant and, with the support of international consulting firms and major institutions such as the World Bank, IMF and OECD, highly influential. This still fairly small but growing epistemic community comprised economists, accountants, consultants, auditors-general and other key advocates of reform who actively problematised the then existing cash-based public sector accounting systems. The alternative, business-style accrual-based accounting was proposed as the ready-made solution to the problems that were portrayed to exist. To some extent the role played by some of these believers involved over-selling – for example, the claims made in Australia that accrual accounting had been implemented successfully in New York were subsequently found to be inaccurate. While accounting has typically been ‘sold’ as neutral and purely technical, it also offered business opportunities for those promoting it, including the consultants and members of the accounting profession who stood to gain both financially and in status and power. Key members of the epistemic community who advocated and introduced NPFM in Australia and New Zealand have subsequently become active internationally in such major institutions such as the World Bank and IMF, and increased IFAC’s status and power.

Our third research question asked how the proposed solutions were diffused across time and space. The expanding spider web structure of the epistemic

community shows how that occurs. We have established clear linkages between epistemic community members located in the US, Australia and New Zealand. It is likely that such linkages extended into the UK and Continental Europe, especially through, for example, the OECD's WP-3 and the FEE although our evidence is more circumstantial. This constitutes a limitation of the paper and an opportunity for future research.

We are aware that a paper of this nature creates several worthwhile avenues for further research and we mention two examples here. First, an obvious opportunity exists to explore more deeply the role of large consulting firms in engendering global accounting change. We find here that such firms appear to have been influential in NPFM. Notwithstanding, 'when' and 'why' these firms transformed themselves from merely providing required corporate service and advice to customers, to advocating change and influencing its implementation are research questions worthy of further attention. Second, just as the NPFM epistemic community has been influential in bringing about public sector accounting change globally, it is likely that similar communities have also shaped other global accounting changes occurring relatively recently. The move to the widespread adoption of International Financial Reporting Standards is a good example, as is the development of a role for accountants in reporting information about natural resources such as Greenhouse Gas emissions and water resources. Using the framework developed in this study is likely to prove fruitful in understanding the role, if any, played by epistemic communities in these instances.

This paper has attempted to enhance our understanding of the role of technical experts in bringing about global accounting change. It is hoped that other studies will

follow in order to assist in developing a more comprehensive understanding of how this can occur – beyond simply the case of NPFM reform.

Appendix 1: Abbreviations

AARF	Australian Accounting Research Foundation
ABS	Australian Bureau of Statistics
AGA	Association of Government Accountants
A-G	Auditor-General
A-GO	Auditor-General Office
AICPA	American Institute of Certified Public Accountants
ASA	Australian Society of Accountants (later Australian Society of Certified Practising Accountants and later CPA Australia)
CIPFA	Chartered Institute of Public Finance and Accountancy (UK)
DoF	Department of Finance (Australia)
FASB	Financial Accounting Standards Board (USA)
GAO	General Accounting Office (from 2004 Government Accountability Office)
GASB	Governmental Accounting Standards Board
GATT	General Agreement on Tariffs and Trade
GFOA	Government Finance Officers Association
GFS	Government Finance Statistics
GTE	Government Trading Enterprise
IASC	International Accounting Standards Committee
ICGFM	International Consortium on Government Financial Management
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSASB	International Public Sector Accounting Standards Board
MIT	Massachusetts Institute of Technology
NPFM	New Public Financial Management
NPM	New Public Management
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PASAB	Public Sector Accounting Standards Board
PSAA	Public sector accrual accounting
SA	South Australia
TAAP	Treasurer's Accounting Advisory Panel (NSW)
WPonGFI	Working Party on Government Financial Information

Appendix 2: Individuals' roles

Name	Roles/titles	Main jurisdiction/Period active
Anthony, Robert	Harvard Business School academic; Dept of Defense Comptroller (USA)	USA & international/1960s-1990s
Ball, Ian	Senior Treasury official, NZ; IFAC CEO	New Zealand & international/1970s - present
Bowsher, Charles	Arthur Andersen Partner (USA); US Comptroller General	1960s-late 1990s
Carpenter, Graham	PSASB Chair; Victoria Treasury senior accounting officer (Aust)	1980s-1990s
DioGuardi, Joe	Arthur Andersen Partner; Congressman	USA/1980s - present
Enthoven, Adolf (brother to Alain)	Academic; World Bank consultant; ICGFM Vice-President Research	USA/1950s-2000
Enthoven, Alain (brother to Adolf)	RAND analyst; Deputy Assistant Secretary Defense (Systems Analysis)(USA)	USA/1950s-1960s
Dye, Kenneth	A-G Canada; IFAC PSC Chair; Partner Grant Thornton; ICGFM 'early supporter'	Canada; international/
Egol, Morton	Arthur Andersen Partner	1970s-1980s/USA
Graham Carpenter, Humphry, Richard	Comptroller-General of Victoria A-G Victoria; Director-General NSW Premier's Dept.; Chair, PSASB	1970s-1980s Australia/1970s-1980s
Hunter, David	Arthur Andersen Partner (Aust)	Late 1980s
McNamara, Robert	Price Waterhouse (USA) accountant; Harvard Business School academic; Secretary of Defense USA); World Bank President	1940s-early 1980s
Nicholls, Don	Senior NSW Treasury Official; Secretary to 3 Commissions of Audit in Australian States	NSW and Australia; 1970s-1990s
Plater, Ian	Arthur Andersen (Aust) Partner; Member TAAP	1970s-1980s
Regan, Ned	New York State Comptroller General; consultant to FASB Chairman	1970s-1980s/USA (New York State)
Shailes, Fred	Senior NZ Treasury official; NZ A-G	NZ/1970s-1980s
Shand, David	Senior Treasury official (Aust); PSASB Chair; IMF advisor; World Bank; ICGFM Director	Australia and international/1970s-2000s
Sharp, Michael	Coopers & Lybrand Senior Partner (Aust); member, TAAP	Australia/1970s-1990s
Staats, Elmer	Comptroller General (USA); Honorary Chair ICGFM; GASB Member;	1950s-2000
Walker, Neil	Senior Victorian Treasury official	Australia/1980s

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ⁱ Such translation can occur when existing approaches and techniques are criticized (*problematized*) and a seemingly appropriate solution is advanced. According to Miller (1991), in accounting, innovation is likely to occur when particular accounting practices are tied to broader, desirable goals such as enhanced accountability and more efficient resource allocation. Where this occurs, particularly across an array of diverse forums, the proposed innovation becomes more difficult to argue against.

ⁱⁱ The definition and associated explanation offered by Haas has occasioned some controversy. For further reading, refer Antoniades, 2003; Radaelli, 1999, 1998.

ⁱⁱⁱ The Kennedy Round of GATT negotiations conducted between 1964 and 1967 showed similar tensions. The European countries were becoming more integrated, and consequently more threatening to US trade dominance, while the developing countries sought relief in the form of mandated protections from the full force of liberalized trade (Ainley, 1979).

^{iv} For further reading, refer section 4 of the Lima Declaration.

^v During the mid-1970s efforts were made in the US, United Kingdom, Canada, Australia and New Zealand to introduce a form of CCA, but this was rejected by the business community in each country (Pong & Whittington, 1982).

^{vi} Several different forms of accrual accounting are said to exist, distinguished by different approaches to reporting of elements such as assets and liabilities. “Full” accrual accounting is the label often given to the form of accounting which requires the financial valuation and disclosure of all assets and liabilities pertaining to the entity.

^{vii} The argument for closer relations with the private sector was welcomed by the consulting firms who then began to invite Auditors-General and other supportive public sector accountants to address various events – see for example Richard Humphry’s 1983 address to the Coopers & Lybrand Accounting & Education Conference.

^{viii} David Hunter was the most senior Australian Arthur Andersen Partner with carriage of public sector activities but he has declined to cooperate with research regarding Andersen connections to NPFM.

^{ix} That the letters to the Wellington firms should not be addressed to any person seems odd because each firm was involved in advising on the financial reforms. Deloitte, for example, in their submission on the Public Finance Bill, stated their involvement). David McDonald, later became the New Zealand Auditor-General, was the Deloitte partner involved.

^x In his presentation to the Andersen/ASA seminars, Egol repeated USA data from the Andersen notional ‘USA National Balance Sheet’ in which future social security liabilities were capitalised and noted that as a proportion of total government expenditure, defence spending had fallen to record low levels.

^{xi} These and other extracts reproduced here are presented to reflect the context in which the relevant report, lecture, commentary or article was prepared and delivered. For example, at the time of making his address, Graham Carpenter held the position of Comptroller General, Department of Management and Budget, Victoria. The address was given as the *Annual Research Lecture in Government Accounting* (1986), sponsored by the Australian Society of Accountants (now CPA Australia), which explains the classification of this extract in the manner shown.

^{xii} Richard Humphry, David Shand and Graham Carpenter were the 1st three chairs of the PSASB. Humphry brought his A-G experience from Victoria and subsequently became the head of the Premiers Department in NSW as accrual accounting was being implemented; Shand went on to work in the accounting policy field for the World Bank; and, Carpenter became A-G for the Northern Territory in Australia leaving his Victorian and Queensland State Treasury positions.

^{xiii} Indeed, some of the epistemic community members identified here had roles in in IFAC, WTO and/or multinational accounting firms with respect to global trade developments such as GATS and the subsequent companion ‘Disciplines on Domestic Regulation in the Accountancy Sector’ (Arnold, 2005).

^{xiv} For example, disputes between the “legalists” and the “Confucians” in Chinese administration date back more than 2000 years. The roots of NPFM can be said to be found in these fundamental debates.