

CIGAR: OBJECTIVES, SUBSTANTIVE AND METHODOLOGICAL ISSUES

James L. Chan

University of Cagliari

2008

Issues to Address

- How can a nation's government accounting (GA) system be described?
- How does a nation's political and economic environment affect its GA system?
- What GA innovations have occurred in Western countries?
- How can GA innovations be explained?
- What are the substantive issues in CIGAR?
- What are the methodological issues in CIGAR?

Background Readings

- *** Chan/Jones/Luder (1996), "Modeling Governmental Accounting Innovations: An Assessment and Future Research Directions."
- ** Chan (2000), "Professor Lüder's CIGAR Contributions and Critique: Building a Discipline."
- ** Chan, "CIGAR Methodological Issues and Strategies."

Objectives of CIGAR

Scientific vs Practical

Scientific Objectives of CIGAR

- The focus of **CIGAR**: the international similarities and differences in government accounting policies and practices
- Scientific objectives of CIGAR:
 - To **describe** – to find concepts to represent observed phenomena
 - To **explain** – to discover causes and effects at a point in time
 - To **predict** – to discover causes and effect at different points in time

Practical Objectives of CIGAR

- To understand GA in terms of
 - Content of GA
 - Context (environment) of GA
- To evaluate GA practices
 - Choose “good” or “best” practices as benchmarks
 - Perform gap analysis: “what is” vs. “what ought to be”
- To improve GA practice
 - Conduct pilot projects to determine feasibility
 - Disseminate innovations

Comparing and Reconciling Science and Practice

- In search of
 - Timeless truths
 - Global generalizations
- Scientists hold neutral attitude
- Scientists try to be objective
- Scientists are content with the intrinsic value of knowledge
- Scientists seek peer recognition
- In search of
 - What works now
 - What works here
- Practitioners are committed to values
- Practitioners advocate causes (policies)
- Practitioners use knowledge to achieve desired results
- Practitioners seek sponsor's approval

How to Describe a Nation's GA?

Goal: Accurate and parsimonious
description by replacing observations
with concepts

Characterizing a Nation's GA System

- **Context:** Institutional Framework
[organizational and larger political and economic environment of GA]
- **Content:** Accounting and Financial Reporting Policy [and/or practice]

Source: Chan/Jones/Luder (1996), Appendix, pp. 17-20.

Characterizing a Nation's GA System

- **Institutional Framework**
 - Professionalism and independence of government accountants vs. political, legal and administrative control)
 - Private-sector influence (of business accounting standards) vs. insulation and autonomy of GA laws and regulations
 - Functional integration with budgeting vs. separate and independent accounting regulations or standards
 - Centralization vs. decentralization in terms of the authority of the national government to set and enforce standards throughout the country

Characterizing a Nation's GA System

- Accounting and Financial Reporting Policy
 - Objectives
 - Accounting Recognition and Measurement
 - Financial Reporting
 - Contents of Financial Reports
 - Information Dissemination

[Note: This list will be refined later.]

GA Policy and Practice

- Practice = how GA actually done
- **GA practice** is a part of government financial operations in the larger organizational, political, economic and social context
- **GA policy** = among the different ways of doing GA, the options chosen by government
- GA practice is influenced by
 - Availability of alternative GA methods
 - Incentives, feasibility, etc. that influence selection
 - Actual GA policy chosen

CIGAR Issues

- Issues related to a model of innovation adoption
- General issues in CIGAR

CIGAR Issues

- The Concept of a “Paradigm”
 - A standard model or theory that identifies problems and evaluates solutions, or issues and their resolution, such as the Lueder contingency model of GA innovation adoption.
- Substantive Issues
 - controversial topics on theories and concepts
- Methodological Issues
 - Problems with ways of building or testing theories

A Paradigm

- The Lueder Contingency Model (Fig. 1 in Chan /Jones/Luder, 1996)
- Government accounting innovations a function of
 - Stimuli
 - Contextual variables of producers & users of GA info.
 - Behavioral variables of producers & users of GA info.
 - Implementation barriers
- Prediction: innovations occur when favorable conditions overcome implementation barriers

Substantive Issues Regarding the Lueder Model

- Innovation = new and better way
- GA innovation = a more informative GA system
- Issue: What is a more informative GA system?
- Issue: GA system seems characterized only by accrual, a measurement method.
- Accrual accounting is assumed to be an innovation
- **Accrual** as a substantive issue
 - Lack of clear definition and consensus on accrual
 - Insufficient rationale and evidence that accrual is better than the cash basis

Methodological Issues Regarding the Lueder Model

- Issue: The model ambiguously implies a “cause and effect” relationship between
 - the structural and behavioral variables as explanatory variables, and
 - the occurrence of innovation as the dependent variable
- Issue: Unclear weights and tradeoffs of the explanatory variables
- Issue: Inadequate description of the process of adopting accrual accounting

General Substantive Issues in CIGAR

- Unclear delineation of the boundaries of “government” and “accounting”
 - **Government** in relation to the public sector
 - **Accounting** in relation to budgeting and auditing
- Inadequate theorizing about the **causal relationships** between GA and its environment

General Methodological Issues in CIGAR

- How to characterize a nation's GA?
- How to generalize the findings of CIGAR discovered in Western countries?
- How to balance “context” and “content” ?
- How to trace the process of change in GA?
- How to track the consequences of GA changes?

Scientific Objectives of CIGAR

- The focus of CIGAR: the international similarities and differences in government accounting policies and practices
- Scientific objectives of CIGAR:
 - To describe – to find concepts to represent observed phenomena
 - To explain – to discover causes and effects at a point in time
 - To predict – to discover causes and effect at different points in time

The CIGAR Literature & Network

- The CIGAR literature is a subset of the GA academic/research literature dominated by
 - unrelated studies of individual countries' GA
 - in native languages
 - according to national academic norms
- The CIGAR literature
- The CIGAR community, conferences and workshops, and doctoral seminars

Lueder's Critique and Strategy of CIGAR

Need More of ...

- Conceptual studies
- Analytical studies
- Multinational comp.
- Systematic studies
- Common definitions and designs
- Collaborative research

Need Less of ...

- Exploratory studies
- Descriptive studies
- Single country studies
- “Accidental” studies
- Different definitions and designs
- Individual research

Recommendations

Personal suggestions
to young scholars

A Journey from Exploratory to Conceptual Analysis

- Eventual goal: a general theory that relates GA to its probable “determinants”
- “General” in the sense of being valid under a variety of environments around the world
- Theory: policy makers in an accountability relationship rationally weigh the costs and benefits of adopting GA policy alternatives that are favorable to themselves

Costs and Benefits of Government Accounting

- **Political costs and benefits:** the redistribution of **power** between, for example,
 - A particular country and international donors/lenders
 - A Government and the people
 - National and local governments
 - Legislature and the executive branch
 - Budgeters and accountants
- **Economic costs and benefits,** such as
 - Investment in people and information technology
 - A lower interest rate due to a better bond rating

Two Major Approaches to Comparative Research

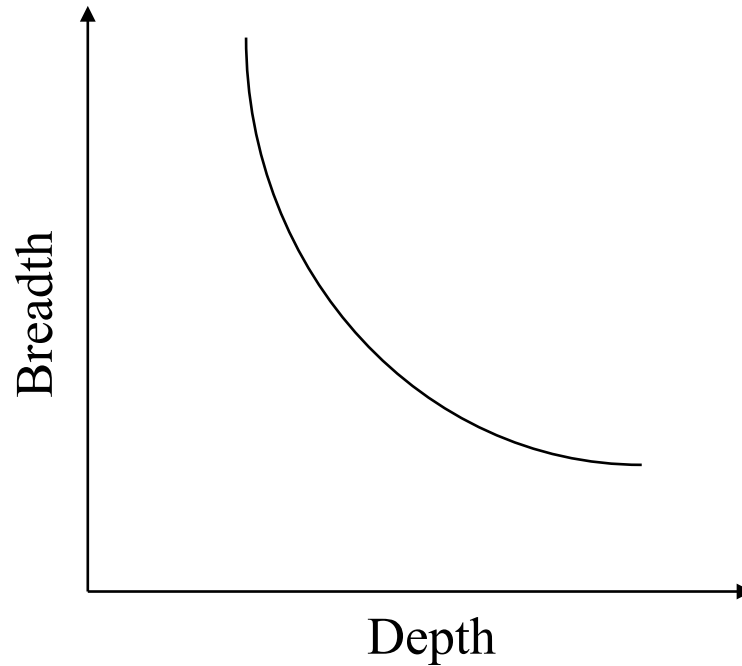
Case-oriented

- To provide a rich description of the content and context of GA in two or a few countries.
- Focus: how GA evolves in content and in relation to its environment.

Variable-oriented

- Toward establishing the causal relationships between GA and its “determinants” such as its environment.
- Focus: the relationships of variables measured over multiple cases at a point in time (cross-section) or over time (time series)

Fundamental Dilemma: Breadth vs. Depth



Making the Most of a Dilemma

- The dilemma due to:
 - The necessity of a large N for meaningful statistical analysis.
 - The limitations of case studies.
- Objective: to increase the number of observations regardless of research approach
- Constraints: time, money, access and others
- A realistic way out: focused comparisons with a small number of countries

Virtues and Limitations of N=1 Studies

- Virtues:
 - Lower cost due to easier access and language proficiency in addition to native's insights about culture
 - Indepth description and analysis
 - Rich contextual description
 - Tracing processes and events over time: each historical period resembles a case
- Limitations: Uniqueness resulting in weak
 - Generalizability of findings
 - Replicability of findings

Even When $N = 1$

- Still comparison, but not international comparison
- Comparing **different levels of government** and possibly types of GA standards, as in the U.S.
- Comparing **different time periods** in a single country, for example, China:
 - Before 1911: Qing Dynasty
 - 1911-1949: Republic of China
 - 1949-late 1970s: pre-reform People's Republic
 - 1980s to present: reform period of People's Republic

The Importance of Comparison

- Scientific skepticism: questioning the representativeness of any country (case)
- Conflicting objectives of research and practice:
 - Scientific research thrives on diversity in search of variability to find a pattern (connecting the “dots”).
 - Professional accountants/organizations push for uniformity.
- Concern: premature global GA homogenization
 - Inadequate factual information about diversity
 - Inadequate justification for good, better, best practice

Moving from N=1 to N=2

- Usually the one country is the researchers' home country
- Strategic decision on 2nd country:
 - Common but indefensible choice: easy data collection
 - **Very similar** (e.g. U.S. and UK), or
 - **Very dissimilar** (e.g. U.S. and China).
- With respect to:
 - **GA** as source of **dependent variables**, or
 - The **environment (ENV)** as source of **independent variables**

Moving from $N=2$ to $N=3$

- Binary comparisons ($N=2$):
 - Most alike: e.g. U.K. and U.S.
 - Most unlike: e.g. China and U.S.
 - Use and limitations of binary comparisons
- Tripartite comparisons ($N=3$):
 - For example: China, U.K. and U.S.
 - Advantages and limitations of tripartite comparisons.

Range of Possibilities for Comparison

GA \ Env.	Similar	Dissimilar
Similar	I	II (most dissimilar ENV)
Dissimilar	III (most similar ENV)	IV

Possible Relationships

- I: ENV influences GA: **fixed relationship**
- II: ENV has no effects on GA
- III: differences in GA due to variables other than ENV
- IV: GA and ENV are related, but positively or negatively?

What Variables to Study?

- Shifting from holistic descriptions to identification of **critical variables**
- Practitioners' view: GA a tool to promote accountability
- **Researcher's hypothesis: GA as manifestation of accountability**
- **Research questions: who reports what to whom? Why? When? How? With what effects?**

Focus on Accountability Patterns

- A GA system's orientation reflects the pattern of accountability:
 - **Managerial accountability**: subordinates report to superiors in the executive branch
 - **Legislative accountability**: the executive reports to the legislative oversight bodies
 - **Public accountability**: the government (in part or in whole) report to the public

Accountability-driven GA Models

- Focus on a small number of important differentiating criteria
- Whose Financial Performance Is Reported?
 - Subunits in government, and/or
 - Government as a whole
- What? When?
 - Budgets before fiscal year, and (?)
 - Interim reports due the year, and (?)
 - Financial reports at year-end:
 - With budget comparisons, or
 - Without budget comparisons.

Study the Process

- “Thick” description is the competitive advantage of focused case studies.
- In addition to identifying causes and effects, case studies should provide detailed documentation about, for example
 - the GA system
 - the organizational, political and economic context
 - the process of maintaining the status quo or changing the GA system
- Reminder: make sure that the description is guided by an explicit theory

Building a Positive Theory

- Scholars' task is to build and test **positive theories**
- A useful theoretical framework: GA reflects accountability relationships
- Behavioral assumption: **self-interested rational actors**
- **Key ideas:**
 - A GA system lasts so long as it is compatible with the incentives in the accountability relationship of a country.
 - A corollary: Changing the incentive structure may lead to changes in GA.

Conclusion

- Case studies are necessary preparatory steps for variable-oriented CIGAR
- Intermediary steps: $N=2,3,4,5,\dots$
 - case studies with a common theoretical framework.
 - Comparable case studies
- Variable-oriented comparison is needed to build and test positive theories of international GA similarities and differences

Thank you!

Please send comments and
suggestions to
jimchan@uic.edu