

# CIGAR: OBJECTIVES, SUBSTANTIVE AND METHODOLOGICAL ISSUES

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# 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 (2002), "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 (GA) policies and practices.
- Scientific objectives of CIGAR:
  - To **describe** – to find concepts to represent observed phenomena, i.e. national GA policies and practices;
  - To **explain** – to find the causes of the international differences in GA policies and practices at a point in time;
  - To **predict** – to find the causes of future international differences in GA policies and practice.

# 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 environment and larger  
political and economic environment)
- **Content:** Accounting and financial reporting  
policies and practices

Source: Chan/Jones/Lueder (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
  - Objectives
  - Accounting Recognition and Measurement
  - Financial Reporting
  - Contents of Financial Reports
  - Information Dissemination

# GA Policy and Practice

- Practice = how GA is actually done.
- **GA practice** is a part of government financial operations in the larger organizational, political, economic and social context.
- **GA policy** = government's choice from the available alternative GA methods.
- 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).
- GA innovations are a function of
  - Stimuli,
  - Contextual variables of producers & users of GA info.,
  - Behavioral variables of producers & users of GA info.,
  - Implementation barriers.
- Prediction: innovation will likely occur when favorable conditions outweigh 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 acctg. 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

- Structural and behavioral variables explain occurrence of innovations; possibility of feedback.
- Lack of specification of weights and tradeoffs of the explanatory variables.
- 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.
- CIGAR literature: mostly conference papers
- 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

# 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

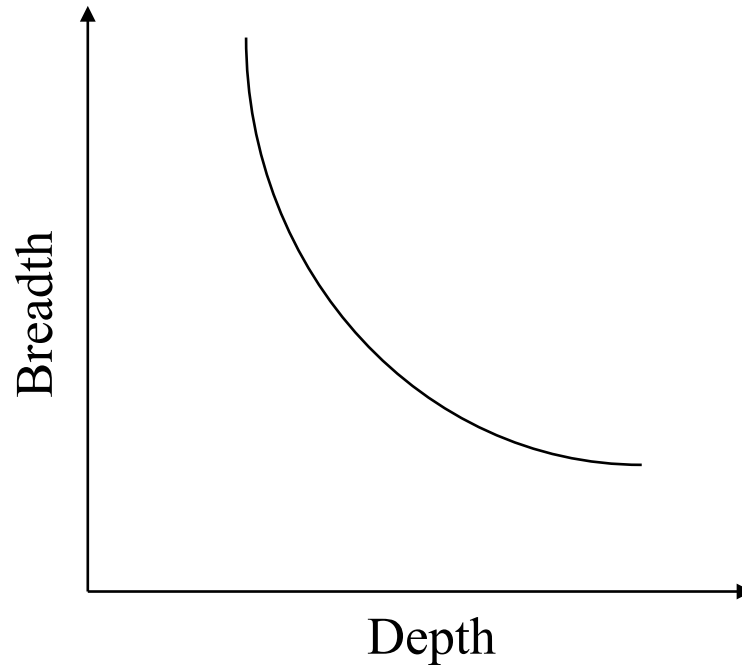
## Case-oriented

- 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 2<sup>nd</sup> 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: GA is affected by Env.	II: Env. has no effect on GA.
Dissimilar	III: Env. has no effect on GA.	IV: GA is affected by Env.

# 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 rules and outputs reflect 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 measured and reported?
  - Subunits in government, and/or
  - Government as a whole
- With What? When?
  - Budgets before fiscal year,
  - Interim reports due the year,
  - Financial reports at year-end: With or 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