

REFORMING THE PUBLIC SECTOR: DEMON ACCOUNTANTS AT WORK??

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ABSTRACT

This paper examines the reform of the UK's public sector in the period 1979 – 1997, from an accounting perspective. This includes consideration of the influences on public policy, which are predominantly from economic thought and management practice. It also examines the experiences of different segments of the public sector — central government, health, the utilities and voluntary organisations (as an 'alternative' public sector) — from an accounting perspective. This discussion of available empirical evidence presents a complex picture of the reform process, with the implementation of policies with significant potential roles for accounting, but with little evidence of accounting taking hold in the manner expected or suggested by some accounting research.

CONTEXT OF THE PAPER

The public sector of the UK, and that of many other advanced economies, has undergone significant reforms in the past two decades. These reforms have involved substantive structural changes, such as the transfer of ownership of state-owned utilities to private ownership, agencification in central government and the creation of quasi-markets for the delivery of health and social care. They have also entailed major changes in management thought and practice. This is most evident in the Griffiths proposals for general management in health care (Griffiths, 1983), but this observation also applies to management principles initiated in support of structural changes such as the creation of Executive Agencies in central government. This phenomenon of public sector

reforms has aroused considerable interest in many dimensions of society — pressure groups, policy-makers, political opposition, organised labour, commentators, users of public services — with responses ranging from approval to outright hostility. Insofar as accountants are involved, we might characterise this hostility as ‘demon accountants at work’ throughout society. In this paper, an assessment of some of these reforms in the 1979 to 1997 period is made from the perspective of accounting research and researchers and their assessment of the actual, potential contribution which can, could or should be made by accounting to inform, implement or expedite these reforms.

ACCOUNTING RESEARCH, THEORY AND PRACTICE

This perspective of the actual or potential contribution of accounting research and thought to the world of practice is a matter which has captured the attention of a number of academics, in recent years. Notable contributions to this debate have been made by Hopwood (1983), Baxter (1988) and Whittington (1995). The main thrust of Hopwood’s analysis is that the distinction between research and practice is unhelpful, particularly if it results in a polarisation of the ‘practical and the scholarly’. In his view the relationship of practice and research is not well specified, it is essentially ambiguous, but there may be an intermingling of practice and research.

This perspective contrasts with the trenchant views of Baxter (1988) who challenged the trend in accounting research away from accounting, by (a) focusing on problems which were not practical and (b) presenting research results in an inaccessible fashion. According to Baxter, this divergence between the worlds of the academic and the practising accountant is largely a function of the growing numbers of non-accountants in university departments of accountancy, whose research orientation is not towards practical accounting problems. This may seem, at first sight, to be adrift from the central thrust of this paper, but it is not. Baxter addresses the issue of this paper, but on a wider canvas.

This is taken up in the recent paper by Whittington (1995) in which he detects the formation of two distinct strands within current accounting research, both of which are displacing its more traditional focus on practical accounting matters. The first of these trends is that of the

positive accountants in capital market research who are, by definition, not interested greatly in the subject matter of this paper. The second strand is the trend for sociologically and politically informed research of accounting practice in society. This latter strand is highly pertinent to the present paper. Indeed, public sector accounting, in general, has become a major focus for critical accountants of this school (Power and Laughlin, 1992; Broadbent and Guthrie, 1992), as have specific sectors, such as health care (Chua and Preston, 1994). The concern expressed by such researchers is that of the pervasive, all-consuming influence of accounting and accountants in the public sector. This is portrayed as 'accountingisation' — the displacement of core values within this sector of the economy by the invasive influence of financial measures and imperatives. This particular theme is explored in this paper, firstly by examining the role of accounting thought in the emergence of the reforms and secondly, by considering available evidence on the impact of accounting practice within public sector and not-for-profit organisations affected by the reforms.

THE EMERGENCE OF PUBLIC SECTOR REFORMS: INTELLECTUAL FOUNDATIONS, PRAGMATISM AND ACCOUNTING THOUGHT

Contrary to the vision presented by some critical theorists of public sector reforms, the role of accounting thought has not assumed a dominant role in these various initiatives. The seminal influences on the formulation of public policy have been economic ideas and theories. It has been suggested by Boston, Martin, Pallot and Walsh (1996) that agency theory and transaction cost economics have had a significant role in the initiating of these reforms. However, these strands of economic thinking tend to problematise the reforms of the public sector introduced by UK governments in the 1980s and 1990s. For example, Lapsley (1993) illustrates the potential for moral hazard and adverse selection by purchasers and providers in the internal market for health care. Nevertheless, there are differing views on the importance of these ideas, in different contexts. For example, Boston (1996) attributes the origins of the New Zealand public sector reforms to economic theory, but within this, agency theory and transaction cost economics are cited as being of major importance. By way of contrast, Self (1993, p.167) detects the influence of imitating the practices of big business as the

dominant factor in the UK reforms. However, this writer favours the view that the major influences on the development of policy towards the public sector can be traced to: (a) property rights theory and (b) the theory of contestable markets, as expanded upon further below. These ideas provide the intellectual justification for the reform of the UK public sector, as devised from 1979 on, without the 'noise' associated with the new institutional economic analyses. However, in addition to, but not instead of, these influences, it should also be recognised that, as Self (1993) argues, a distinct view of management thinking pervades these reforms. This can be seen as a major mechanism for the implementation of these reforms, with important implications for the practice of accounting. Of these, while (a) has been most evident, it could be argued that (b) has had most effect and that 'managerialism' may endure as a puzzle which continues to attract critics of these public sector reforms and which challenges the ingenuity of the innovators in implementing these reforms.

The property rights theory can be seen as the seminal driving force behind the critical impetus for public sector reform. This school of thought favours the market and opposes public ownership. The basis of this theory has been expressed by Alchian (1965) as opposition to public ownership, as it denies the rights of individuals to use resources. This stresses the fundamental importance of members of the public, as owners of public undertakings, being unable to sell their share of that public ownership, with the major consequence that individual risk-bearing is reduced and there is greater dependence on state provision. The direct implication of this theory is that publicly owned corporations and organisations should be converted to private ownership i.e. the privatisation plank of the Conservative government's programme of public sector reforms.

However, the theory of contestable markets (Bailey, 1981; Baumol, Panzar and Willig, 1982) has also had a profound impact on the structure of the public sector. The basic concept of this theory is that economic efficiency is readily obtained in the public sector by giving access to markets in public services to potential entrants. Contestable market theorists see the threat of new market entrants as the single most effective means for ensuring maximum efficiency in service provision. The most obvious means by which these ideas have been implemented are compulsory competitive tendering (CCT) in local government and

the NHS and market testing in central government. There are also parallels with this economic thinking and the notion of the quasi-market in health care and social care, where the concept of potential purchasing opportunities was expected to provide leverage for efficiency gains in provider organisations, faced with the threat of alternative possible providers of their existing services.

The final strand of the intellectual foundations of this programme of reforms can be traced to management thought. This is often characterised as New Public Management (NPM), but this label is open to differing interpretations (Pollitt and Summa, 1997). The main point is the notion of management embodied in these reforms: highly rationalistic and instrumental and devoid of the complexities imbued in the processes of service delivery in the public services. One seminal writer in the management literature who espouses many of the ideas underpinning this view of what constitutes 'good management' is Peter Drucker (see, for example, Drucker, 1954). His contribution to the management literature resonates with the ideas of NPM — the stress on objective-setting, performance measurement and results orientation. This set of ideas provides one point of contact for accounting thought, and this is taken up further, below.

The above set of ideas shows that there was no single unifying theory underpinning these public sector reforms. This absence of coherence reveals the pragmatism which has underlined the government's programme of reforms. Also the predominantly economic ideas which have informed this programme of policy changes shows how, *prima facie*, accounting thought has played a subsidiary role in the formulation of the public reforms. A closer examination of the implementation of specific reforms reveals the tensions which have given rise to accusations of 'accountingisation' in the public sector, in which a disproportionate weight or influence is attributed to matters financial. The specific reforms considered here are:

- The privatisation of the nationalised industries ('out with the old')
- The reform of the NHS ('safe in our hands')
- The agencification of central government ('do unto ourselves')
- The reform of social care, particularly as this affected the voluntary, charitable sector ('there is no alternative').

OUT WITH THE OLD: PRIVATISATION OF UTILITIES

The privatisation of the nationalised industries was an obvious target for the reformers of the public sector. This was the traditional battleground over which successive governments nationalised, denationalised and re-nationalised the utilities. The principal thinking behind this privatisation programme was property rights theory. All the elements were there: the denial of rights to the public, as 'shareholders', to divest from nationalised industries; the erratic (financial) performance of these industries, heavily influenced by the control exercised by government ministers; the contribution to a dependency culture by low prices and cross-subsidisation. But what part did accounting play in all this?

At one level, there is an argument that a negative contribution was made to this debate over the future of these industries by 'social accountants' who, as proponents of measures of social profit or loss, failed to provide operational measures which captured the social costs and benefits of these industries and 'demonstrated' that a net social benefit arose from their continued operation as state industries. Also, within the state industries there is contrasting evidence of the impact of accounting on management practices. The famous study of the National Coal Board by Berry, Capps, Cooper, Ferguson, Hopper and Lowe (1984) showed that accounting had a limited impact on organisational life in this nationalised industry. This investigation revealed an organisation which adhered to physical production plans rather than financial imperatives. A contrasting picture was presented by Dent (1991) in his examination of the spread of commercial approaches to management in British Rail, with the new managerialism gaining an upper hand against the old public sector ethos and with a consequent increased importance for financial information. It is also interesting to note that this adoption of the so-called 'Big Business' model is attributed to the work of management consultants within British Rail who brought a distinct view of management practices to bear in their recommendations for change.

Subsequent to their privatisation, it would appear that the importance of accounting to the utilities has receded. There are now the pressures familiar to quoted companies of releasing their financial results to the stock market. There are also the pressures of meeting the demands of regulator bodies, such as OFWAT, for distinctive systems of current value accounting. However, for these privatised industries, the regula-

tor assumes a dominant role and the relationship of the regulatees to the regulator is critical to the success of these industries. In this regard, the call by regulators for performance indicators to be published by these regulated industries (as enshrined in the Competition and Service Utilities Act of 1992) will be recognised by nationalised industries watchers as a reversion to a situation which prevailed, before these utilities were privatised, following the White Paper of 1978 (HM Treasury, 1978). However, more importantly, there is the circumstance of 'private accounts' being used by these regulators (Carey, Cave, Duncan, Huston and Langford, 1994). These 'private accounts' are neither the regulatory nor the statutory accounts, but the regulators' own view of the regulatory contract which is heavily influenced by, for example, the heavily discounted share prices of the utilities at initial flotation to encourage the successful sale of these industries. Such 'private accounts' render accounting invisible, and highlight the discretion of the regulator to make judgements about demands he/she might make of regulatees (Lapsley and Kilpatrick, 1997). This contrasts with the process of accountingisation as depicted by its proponents, who stress the highly visible, all pervasive influence of accounting.

SAFE IN OUR HANDS: THE REFORM OF THE NHS

Much of the focus of recent attention on the NHS has been on one specific reform — the introduction of the internal or quasi-market in health care. However, this ignores the antecedents of this particular reform, in particular, the introduction of general management (Griffiths, 1983) and new accounting controls (DHSS, 1985 and 1986). These antecedents are important dimensions of how and where accounting has assumed importance in the NHS, but first, we examine briefly the theoretical foundations of the quasi-market. This concept of the internal market in health care is generally attributed to Enthoven (1985). It re-defined the former, vertically integrated, hierarchical relationships in health care organisations into two dimensions of the market: purchasers (health authorities and GP fundholders) and providers (hospital and community care trusts). The purchaser had the opportunity to place contracts outside the state provider sector, for example, with private hospitals or voluntary (charitable) organisations. These particular arrangements, while attributed to Enthoven, are heavily indebted to the ideas of the contestable market theorists (see above).

The advent of the market may have given a fresh significance to accounting numbers. However, it should be noted that earlier initiatives had limited impact in achieving this aim. The introduction of general management did not result in an upsurge of fresh managerial talent joining the NHS from other parts of the economy. Also, the practice of general management was not as envisaged. A number of studies revealed a reluctance to challenge the power of medical professionals, unless there were extreme financial exigencies; there was evidence of tentative and risk-averse behaviour; and the concept of the general manager as a single, authority figure was undermined by the operation of coalitions (see Lapsley, 1994 and 1997). Also, the explicit introduction of accounting controls aimed at increasing the efficiency of hospital doctors in the mid-80s and in subsequent years is well known as an accounting failure (Preston, Cooper and Coombs, 1992; Jones and Dewing, 1997). There are numerous reasons for this: the simplicity of accounting systems which never captured the nuances of medical decision making; the unyielding and cumbersome IT systems; and, the failure to appreciate the difficulties of designing appropriate systems. This scenario is replicated in subsequent studies of the applicability of costing innovations in health care, which show not only the complexity of devising operational systems, but also the relative invisibility of the accounting reports and numbers which are currently available in hospitals (King, Lapsley, Mitchell and Moyes, 1994).

These circumstances of the earlier reforms of the NHS do not support the concept of accountingisation; indeed, the reverse is true. The above evidence suggests barriers to the permeation of accounting throughout the NHS. Also, the concept of the internal market in health care is certainly a product of economics, rather than accounting thought. This market may have changed the influence of accounting. There is certainly some evidence of entrepreneurial behaviour on the part of some GP fundholders. But there is also a contrasting picture of GP fundholders in Scotland who sought to negotiate better health care for all the patients in their Health Board area (Lapsley, Llewellyn and Grant, 1997). This points to the differential impact of such reforms. It also raises the delicate issue of whether benefits can accrue from the use of accounting numbers, as in the illumination of cases of rationing, or whether all accounting effects, by definition, are deleterious. This matter is taken up further in the conclusion to this paper.

DO UNTO OURSELVES: AGENCIFICATION IN CENTRAL GOVERNMENT

The process of agencification of central government, i.e. the breaking up of large departments into separate agencies, with specific responsibilities and explicit financial controls, stems from a report 'The Next Steps' by the Efficiency Unit (Jenkins, Caines and Jackson, 1988). This might be seen as the process of accountingisation at work, as ever more civil servants found their professional lives bound by the needs of budgets, financial targets, performance measures and 'accounts' of their activities to the outside world. However, that particular version of events needs to be treated with some care. While Pendlebury and Karbhari (1997) suggest that the senior managers of Executive Agencies perceive their situation as better because they have more freedom and they sense improved accounting information and management practices now prevail in their organisations, they concede that this is only a partial picture. For example, this study does not capture the views of recipients. Also, Hyndman and Anderson (1997), in an interesting study of the use of targets in these agencies, discovered significant nondisclosure of their targets, and lack of distinction between key and other targets. This challenges the efficacy of a management system in which targets are central components of performance assessment.

The concepts underlying these reforms appear to owe more to management than accounting thought. Furthermore, this particular reform is a successor to those which failed to deliver the revolutionary changes sought by 'The Next Steps' report. Both of these dimensions are examined briefly, here. As noted above, one of the most influential writers on the instrumental view of management thinking has been Peter Drucker. His particular view of management was heavily coloured by his experience as a consultant at General Motors in the 1940s. This experience emphasised to him the benefits of the decentralised organisation structure (cf. agencies) and the role of management within the organisation as achievers of the organisation's aims. This particular concept of management appears to have been extremely influential in the framing of 'The Next Steps' report and its predecessors (Bromwich and Lapsley, 1997). The utility of this distinctive approach to management should be seen in the light of the failures of the FMI (HM Government, 1982) and Fulton (HM Government, 1968). In particular, a notable aspect of this repetitive behaviour by these reformers was

(a) the failure to take account of current developments in management thought and (b) the reiteration of a model of management which had already been shown to fail (McSweeney and Duncan, 1998).

This is the context against which the process of 'accountingisation' in central government should be seen. First, it was a subsequent, rather than a triggering device in the scheme of things. Second, it may have assumed the significance of a legitimating mechanism rather than its prescribed, instrumental, function. All of this suggests the defining characteristics of the accountingisation of central government, in this process of agencification, have still to be explored and demonstrated.

THERE IS NO ALTERNATIVE: REFORMS AFFECTING THE VOLUNTARY SECTOR

The voluntary, or charitable, sector is often viewed as an alternative to the public sector. This is a distinctive sector of the economy in which organisations pursue their aims with deeply held beliefs motivating their staff. These beliefs may be religious or founded on altruism and a concern for the welfare of their fellow man. In this sense, the charitable sector can be seen as a residual. While the public sector faces persistent financial cutbacks, the reduction of services and the pursuit of ever-elusive efficiency gains, there is always the charitable sector — the 'alternative' public sector, where the public sector fails. However, for the charitable sector, the past shapes the present and the future and, such is the construction of markets in health and social care, that the reliance of charities on public finance also makes them sensitive to changes in public funding.

This set of circumstances can be illustrated by the experiences of voluntary organisations which formed part of the markets in health and social care. There is the example of palliative care provided by charitable organisations which previously received a grant in aid of their activities from their local health board or authority, but which changed to a provider of health care, to be purchased by that health board or authority. However, a lack of financial sophistication precluded sensitively negotiated financial arrangements which reverted to the 'block grant' style of contracts (King, Lapsley, Llewellyn, Tierney, Anderson and Sladden, 1993). Similarly, voluntary agencies which provided resi-

dential care for the elderly competed in markets against private and state providers as part of a market in social care. Here they sought to attract custom from fund-holders within social work departments, the purchasers of care in this quasi-market. In a sense, this development should not be surprising. Smith and Lipsky (1993) in their analysis of the US voluntary sector, observe that contracting for the services which they provided was first introduced in 1967, followed by competition between voluntary and state sectors in service provision. Indeed, even with the demise of the market in social care, it is likely that such competitive pressures shall remain in social services where multiple suppliers of such services exist in different sectors of the economy and the local authority has a key role in acquiring such services. This observation is underlined by the behaviour of local authorities as budget holders in the so-called market in social care. In contract-setting, professionals adhered to their own value systems and preferred soft contracts which reflected the complexities of the cases for which they were responsible rather than tightly prescribed financially-driven formal agreements (Lapsley and Llewellyn, 1997). Also, other factors operated in the social services, with limited devolution of budgets to, and a reluctance to adopt such budgets by, social workers (Stalker, Taylor and Petch, 1994; Llewellyn, 1998).

The above ideas, again, resonate with the concept of the contestable market, as discussed above. However, to place these developments in perspective, the interrelationships of the state, private and voluntary sectors, on the one hand, and the state, as purchaser of services, on the other are under-researched. Furthermore, within the voluntary sector there is a lack of evidence of accountingisation, but occasional studies do reveal a limited interest in matters financial by management of charities (see e.g. Palmer, Harrow and Vincent, 1998). Indeed, research in which this writer has taken part (Lapsley, 1996) supports the ideas that the values of these charitable organisations persist, that financial struggle is a further characteristic of these institutions and that accountingisation has not taken place in the charitable sector.

CONCLUSION

In discussing the reform of the UK public sector, this paper distinguished between policy formulation and policy implementation. In policy formulation, while there is debate about which specific theories of economic behaviour have been seminal influences on the development of public sector policy, there is nevertheless a consensus on the importance of economic rather than accounting thought at the stage of initiating such policy changes. In policy implementation, a major vehicle adopted in the UK and in other reforming countries has been the new managerialism which is often labelled the 'New Public Management'. This development has been associated with the recommendations of management consultants as they traverse the public sector assisting with the implementation of more commercial approaches to management, displacing the tradition of administration in public sector institutions. This particular development is associated with the emergence of accounting practices as significant components of change management and, thereby, opening up the prospect of the 'accountingisation' tendency. This tendency can be seen as one which demonises the work of accountants. Are there 'demon' accountants at work, in the public sector? Well, this perspective presupposes all accounting is deleterious and negative in its effects. It also implies a particular motivation can be attributed to accountants implementing these reforms — again, essentially negative. However, if we review the evidence presented in this paper, we can detect a number of trends:

- There is a greater back-cloth against which accountants operate. This may take shape because of political action, but it is also inspired, by and large, by economic ideas, rather than accounting thought
- In the cases cited above, there may have been a back-cloth, but not a blueprint. In this sense, the practice of accounting may bring abstract ideas to life and, in contentious areas, attract criticism
- The process by which reforms arise and are implemented is not well understood. There are certain commonalities in the above examples, notably the reiteration of a 'failed' model again and again. This relentless pursuit of simplified models may result in severe criticism of accounting as the most visible part of such reforms, in many cases
- The concept of opportunity cost and the existence of rationing do not sit well with the ethos of the 'caring professionals', such as

doctors, nurses, social workers, educationalists, who are not trained to recognise the existence of finite resources and the need for careful evaluation of alternatives

- In the absence of accounting data, the resolution of conflicting demands over limited resources will be made by professional judgement. This may be opaque, and there is a potential for accounting to make such decisions more transparent
- As the above observations indicate, the potential for 'accounting-isation' — in which the substantive nature of the public service in question is subsumed by the needs and priorities of the 'accounting' — may differ, may not operate universally and is most likely in those areas of the public service where high levels of professional judgement are essential components of that service
- The extent to which the frailty of accounting numbers (manipulation problems, subjectivity and so on) may be seen as contributing to 'demonisation' must be seen against the robustness of alternative sources of information for key decision-makers
- The use of emotive language, such as 'sacred' and 'profane' (Power and Laughlin, 1992) (which is accounting?) may contribute to tensions, rather than demystifying the processes by which important resource allocation decisions are made.

Finally, and, perhaps most important of all, in the period from 1979 to 1997 we have witnessed profound changes of considerable complexity (both in intentions and effects) superimposed on an existing highly complex situation (the public sector pre 1979 was not an oasis of calm and reason, without any problems). The extent of these changes are so fundamental that we can characterise the public sector as undergoing continuous, unprecedented change. This may lead, ultimately, to the demise of the public sector, but evidence to date suggests that these changes have reshaped what was before — we have a New Public Sector. In this new public sector there is a potential for accounting to be at the forefront of making things work, by breathing life into abstract proposals. But here the challenge is to manifest a sensitivity in accounting which does not squeeze the life out of public services.

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