

CREATING PUBLIC VALUE BY SIMPLIFYING PROCESSES? A PATH IN AN UNEXPLORED TERRITORY

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Abstract The paper considers the effects of administrative processes on the creation of public value. Administrative activities absorb a relevant part of public institutions' resources. We analyze the accounting routines and procedures of some Italian public institutions: it emerges that recent reforms boosted complexity by requiring public organizations to generate a growing volume of accounting data. Moreover, controls made by external authorities have intensified. According to the literature, complexity generates costs: we show that in the public sector this negative consequence does not only affect the institutions themselves, but it also extends to the stakeholders. The paper is based on case studies that the authors could personally observe. In the conclusions, we analyze the main factors that contribute to generate complexity and their effects on the creation of public value. The stakeholder theory is adopted as theoretical background, considered that public value refers to all the subjects that are affected by the administrative action.

Keywords:

efficiency,
support
activities,
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public
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stakeholders

1 Introduction and purpose of the paper

As a consequence of neo-liberal policies in many countries, the direct intervention of public administrations in the delivery of services to the taxpayers has narrowed: in many contexts, public institutions have taken off the role of service providers reserving to themselves the role of regulators. Administrative processes other than the delivery of services range from the definition of rules and contracts to the so-called support activities (i.e. planning, budgeting, accounting and reporting, human resource management, procurement and facility management): considered the great volume of resources absorbed by these processes, their efficiency and the effectiveness have gained relevance for the legitimacy of public institutions. Even in the organizations that deliver services to citizens, such as hospitals and universities, administrative processes absorb a far from irrelevant amount of resources.

An important body of literature argues that to gain legitimacy, public institutions must create public value (M.Porter & M.r. Kramer, 2011) and be accountable for their performance in terms of economy, efficiency and effectiveness. The issue of effectiveness has inspired the public management literature in the last 30 years, giving rise to an important research streams on performance measurement and performance management. On the other hand, efficiency has been considered with respect to cost measurement and the need of a shift from cash to accrual accounting. We consider, however, that the debate on the accounting system does not exhaust the issue of efficiency: measuring the costs of the public services doesn't necessarily make public institutions more efficient. The leading actors in the debate on public administrations' efficiency have been researchers in law, political sciences and econometrics (Agasisti, 2017; De Witte & Lopez Torres, 2017): efficiency has been, first of all, object of study at field level. The paper explores the issue of public administration's efficiency at institutional level, from the perspective of public management studies. Through the examination of some administrative processes, we argue that efficiency in this area is not just an issue concerning the costs of public services: it has an effect on several aspects, that involve different stakeholders of public institutions. Hence the growing importance of the theme.

2 Literature and methodology

The paper considers the issue of the efficiency of accounting routines as an example of support activities. Different research streams can be identified with regard to the accounting systems of public institutions. A first research stream stems from the shift from cash-based to accrual-based accounting systems promoted by New Public Management (NPM) inspired policies: research in this field has focused on the technical aspects of the accounting system (Carlin, 2005; Christiaens & Rommel, 2008; Ella et al. 2011), mostly with the purpose of evaluating the adequacy of accrual accounting for public institutions and the move toward IPSAS.

A second important body of literature considers the process of emergence and change of management accounting routines: in particular, the institutionalist theory (van der Steen, 2011) and the contingency theory have been adopted to explain the change of management accounting practices as a reaction to external stimuli. Routines are interpreted as a set of recurrent, situated practices; Burns and Scapens (2000) define routines as “the way things are actually done” and as “procedures habitually in use”. Thus, for the purposes of this paper the concept of “procedure” is used as a synonymous of routine. The idea of routine somewhat overlaps also with the concept of process: it is therefore necessary to clarify the aspects that allow to distinguish the two concepts. According to ISO 9001 (2015), a process is “a set of related or interacting activities, which transform inputs into outputs”, while a procedure is “a specific way to carry out an activity or a process”. Thus, two main differences between procedures and processes can be identified. First, procedures are based on rules that are either developed internally (i.e. by the organization itself) or are imposed by third parties: these rules define how the process must be carried out. However, one process may be accomplished according to different procedures. Second, a procedure can be narrower than a process: in fact, a procedure can refer to a single activity while a process is a set of related activities.

The academic debate has focused on the logic underlying the structure of the accounting systems and on the change of management accounting routines: however, little attention has been given to the efficiency of processes and routines performed for the functioning of the accounting system. Public management studies raised the problem of public administrations’ efficiency, but little attention was given to this issue with regard to support activities. Little has been said on possible

strategies to enhance the efficiency of processes carried out by public institutions. We consider routines and processes that support the budgeting, accounting and reporting system of some public institutions as an example of a broader group of “support activities”. The functioning of the accounting system, regardless whether cash or accrual-based, implies the carrying out of activities (how things are actually done). Activities give rise to costs. There is a lack of knowledge on what the sources of costs and inefficiencies are in the support activities performed in public institutions and on the possible strategies to improve efficiency. In this paper we assume that there is a direct relation between the complexity of procedures and the consumption of resources: this assumption underlies great part of the management accounting research (Cooper and Kaplan, 1988). Reasonably, the simplification of processes and routines would enhance efficiency.

Simplification of public administration is by no means a new theme: for over a decade, it has been the keyword with regard both to the evolution of the legislative system and to the relation between citizens and public administration. According to Ferrari (2018), simplification is “*a kind of slogan that summarises a series of trends all related to the democratic principle exalted by a new context of participation and translated into cooperative-contractual formulas, local autonomy which varies in degree from country to country depending on the level of vertical separation of power, horizontal subsidiarity (...), competition and the market, efficiency which is not just enterprise-oriented but is tempered by the need for forms of solidarity...*”. Simplification may concern different areas: the regulatory system, the intensity of the intervention of public administration in the society, the relations between PA and citizens and enterprises (Gobba, 2020) and the role of technology in this relation (computerization), the reduction of paper documents... Notwithstanding the relevance attributed to simplification, often the processes and the routines adopted in support activities have become more and more complex: budgeting, accounting, reporting and auditing activities reflect this trend. A recent study of the Policy Department for Structural and Cohesion Policies of the European Parliament on the simplification of procedures within the European Structural and Investment Funds confirms that “*the problem is essentially one of the costs incurred in the process of financial control and audit versus the benefits this produces*” and that “*at the present moment, significant simplification has yet to be realized*” (Ferry & Polverari, 2018). We argue that researchers in public management may play an important role for the definition of simplification strategies for processes and routines at institutional and infra-institutional level.

3 Case studies' description

Despite the fact that technology today facilitates the collection and management of an increasing volume of data and information, the complexity of support activities in public administration has increased in the last decades: complexity depends on the number of subjects involved in the processes and procedures, as well as on the volume of relations among them (Collison & Jay, 2012). Thus, a procedure that requires two signatures of different subjects working in different departments in order to authorize a transaction is more complex than a procedure where one subject can authorize the same transaction through a specific business application. The effects of complexity on the costs of support processes are plausibly negative: each adjunctive activity requires resources, i.e. expenses. There is a direct relationship between complexity and costs of administrative processes: moreover, when activities performed do not add value to the addressees, complexity gives rise to inefficiency, i.e. consumption of resources not generating any added value. In this section we describe some examples of processes and procedures that we had the opportunity to observe in the accounting department of some public institutions.

The first case considers an agency for services to persons (ASP), which is a peculiar form of public institution in Italy: the ASP considered here aims at delivering hospitality and care to visually impaired persons. Care services range from professional training to recreational activities, physiotherapy, visual re-education, improvement of personal autonomy and schooling support. Each looked after person receives customized services for his/her specific needs. The institution is relatively small: it has 120 clients and 60 employees. This ASP still uses commitment accounting, although the shift to accrual accounting was decided two years ago; the total incomes in the budget for the year 2020 amounted to € 5.3 millions.

The institution has several legal disputes with suppliers, due to unpaid invoices. The decision not to pay the invoices depended on formal mistakes in the documents: the administrative procedure adopted internally provides that two persons check each invoice before proceeding to the payment, in order to verify the respect of 30 conditions. The institution gets electronic invoices: in Italy, since 2007 (law n. 244) all suppliers of public administration must use electronic invoicing. The documents are prepared as xlm files according to a specific layout known as "PA invoice": usually, an electronic invoice occupies four times the number of pages of a paper

document. Thus, reading an electronic invoice is more complex. Suppliers transmit the electronic invoices to the “Interchange System” (IS) through accredited channels (i.e. file transfer protocol, web-services) or by certified electronic mail. The IS gets the e-invoices, check the files and feed it into the institutions’ bookkeeping system and in the meanwhile delivers the document to the Department of Treasury. After the feed is accomplished, the invoices must go through the institution’s business process to be paid; once the institution gets the invoice, it can reject it. In the case considered here, the ASP didn’t pay the invoices for three main reasons:

- 1) The absence of the CIG code, i.e. an alpha-numerical code that identifies the tender. The code is created by the public institution at the moment of the request of supply. It has a twofold purpose: to control public administration’s financial flows and to support the Agency for the Control of Public Contracts in its anti-corruption activity. Suppliers that are not used to work for public institutions often are not aware of its importance and don’t put it on the invoice. According to the decree 66/2014, however, this code is compulsory and public organizations cannot go on with the payment of the invoices lacking this element.
- 2) Wrong code of document identification: another code is requested to indicate whether the document is an invoice, a credit note, a debit note or any other sort of document.
- 3) Wrong rounding of the amount of the invoice, so that it results bigger than the total value agreed in the contract.
- 4) The supplier is not in a regular position with the payments to the national or sectorial agencies that manage retirement contributions: in this condition, public entities cannot pay suppliers. Of course, this rule further augments the supplier’s financial distress and its inability to pay the contributions.

The administrative procedure adopted by the ASP provides that both the accountant and the head of administrative department check the respect of 30 conditions in the invoice before proceeding to the payment. This “double check” routine has been adopted considering that a quite high number of invoices lacked some elements or evidenced other kinds of mistakes: the great number of data that have to be included in the invoice has increased the complexity of this document, but suppliers do not always have the competencies to manage it. One should consider also that the ASP may benefit from delayed payments to the suppliers, since the time period to collect

cash from some looked after persons and from other public institutions (i.e. the Region) is quite long: therefore, the ASP does not pay invoices even if the mistake is merely formal. Non-payments had two main consequences: first, the increase of legal expenditures due to the disputes with the suppliers. The second consequence regards the canteen service: the supplier lowered the quality of the meals, thus destroying value for looked-after persons.

The complexity of routines has increased also because of the growing mass of information required from the accounting and the reporting systems. The accounting system of the Italian local and regional governments' is a clear example of that: since 2009, with the law n. 42, accrual and commitment accounting have to be integrated. Before this reform, these institutions did not use accrual accounting. The new system allows to record all transactions according to the two logics, thus producing information on residual financial resources as well as on incomes, expenses and margins. The reform had two main purposes: the availability of information on the cost of public services and the adherence to the international trend toward the adoption of accrual-based accounting. Actually, cost control has proved to be merely ceremonial (Caccia e Steccolini, 2006) and it didn't produce appreciable effects on political and managerial decisions; moreover, the elective bodies vote a budget that is based only on commitment (and cash) accounting, and in the reporting phase too the town or regional councils do not consider the balance sheet and the income statement. This raises the question whether the new compulsory and highly complex accounting system really adds value for policy makers, managers and citizens.

The choice made by the legislator for Higher Education Institutions is different: in 2010, law 240 imposed to substitute the previously dominant commitment accounting with accrual-based accounting. Implementing the reform took five years and absorbed a great volume of financial and human resources. Also in this case, the main stimulus for introducing accrual accounting was cost control and the measurement of universities' economic sustainability. Academics, however, consider the profit-inspired logic of accrual accounting detached from the context of universities: what they are truly interested in is the residual value of financial resources available on research projects. For most projects the economic performance is simply not relevant, since research activities are not expected to generate profits.

The introduction of accrual accounting should have allowed universities to pay more attention to the use of resources, i.e. cost control. However, only very few universities have adopted managerial accounting and, *de facto*, the cost of teaching or research programs is barely correlated to the outcomes of institutional activities (Busetti & Dente, 2014). In the university that we had the opportunity to observe, the administrative routine requires that the administrative staff of the departments prepares an accrual-based budget for each research project that academics submit to financing institutions. This routine was introduced as a preventive control to avoid the incurrence of losses from research projects, something that sometimes had occurred previously. The project budget has to be made according to specific rules defined by the central administration of the university and, of course, it doesn't comply with the budgeting rules set by the funders. Thus, even if only 10% of the research projects submitted get the grant, the departments' staff has to prepare two different budgets for each research proposal: one for the funders and the other for the central administration of the institution. It is not difficult to imagine that this routine has entailed a considerable burden in the workload of the administrative staff of the departments. The research office of the university's central administration has also the task of verifying the suitability of all budgets, i.e. that the total income from the project allows the coverage of general expenses of the university for at least 20% of the total value of the project (excluding teaching and academic staff cost, that is included separately in the budget). Projects that do not meet this condition simply cannot be submitted. Moreover, once the grant is obtained, to avoid that the reporting of ineligible expenses results into losses for the university at the end of the project, the central administration does not allow departments to use the value covering the general expenses, thus limiting the activity of the departments.

4 Discussion and conclusions

The debate on the simplification of public administration dates back to the '80s, with the advent of New Public Management, that raised the need for efficiency and effectiveness improvements: however, research streams have focused mostly on the relationship between P.A. and citizens as well as on the simplification of administrative and fiscal legal systems.

Our analysis of some administrative routines reflects the daily experience of many practitioners within the P.A.: it suggests that simplification must also take place within public entities and in the relationship with other categories of stakeholders, such as suppliers. The situations observed show that the complexity of procedures stems from some elements, namely the need for controls (which is typical of administrative law) and the volume of information requested to manage organizations (which is typical of management studies). Several analysts see an inherent tension between basic private management techniques involving competition, speed, efficiency, individual accountability and responsiveness to consumers, and the slow, detailed, egalitarian and equitable approach inherent in administrative law (Guyomarch, 1999). We examined case studies referring to the Italian context, but the issue of the tension between legal control and efficiency extends also to other legal systems: presumably, different approaches are adopted in different contexts to manage this conflict, thus suggesting the need for comparative research. According to our analysis, administrative controls are required by internally defined routines (as in the case of the budget of research projects), or by hierarchically superordinate entities (electronic invoicing aims at preventing corruption and at controlling the financial flows of P.A.): this kind of inspective controls is supposed to generate public value by preventing errors, opportunistic behaviors and wrong decisions. However, little consideration has been given to the costs generated by administrative controls; the same can be said with reference to the proliferation of data that accounting systems have to produce. In the managerial accounting literature, inspective controls are classified as boundary systems (Simons, 1995); their effects on the efficiency of public administration deserve attention. At least three main effects have to be considered: a) the consequences of inspective controls and requests for new information on the organization's efficiency: each control as well each information required absorbs time and human resources, lengthens processes and delays the achievement of the expected results; b) staff motivation: the case of university's routine clearly shows that controls on research projects' budgets demotivate the administrative staff of the departments and has generated a long-lasting conflict between the departments and central administrative offices; c) the effects that inspective controls and adjunctive information have on the stakeholders: what is supposed to generate value for hierarchically superordinate institutions may produce negative consequences for other subjects (like the case of the ASP demonstrates) or may increase costs with no noticeable benefits (like in the case of the integrated accounting system of local governments).

The juridical-administrative analysis is not sufficient to approach the problem of public administration efficiency; nor it is the managerial approach. The cases discussed here suggest that the setting of administrative procedures must consider the fairness and correctness of activities, as well as their efficiency and effectiveness. It is necessary to start an interdisciplinary dialogue to develop solutions that balance opposing needs. The stakeholder theory (Mitchell et al., 1997), may represent a common ground for researchers in management and researchers in administrative law to analyze the effects of processes and procedures on different groups of stakeholders and to observe how public organizations react to opposing pressures exerted by them.

The paper wants to suggest that public management scholars have the opportunity and the burden of a contribution in this field, answering various questions that involve the work of many public officers. What factors boost complexity in administrative routines? What factors enable (or hinder) the simplification of process and routines? Is it possible to assess the cost of complexity in administrative processes and routines? Is there a relationship between the complexity of routines and organizational well-being? What role do interactive control systems and process reengineering (Ongaro, 2004) play in the simplification of processes and procedures? What are the effects of opposing institutional pressures on the design of administrative routines? What is the importance attributed to the issue of simplification and efficiency of processes by public managers?

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