Chapter 6

The Influence of Accounting Information in the Re-Election of the Mayors in Portugal

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ABSTRACT

The changes recommended by the New Public Management (NPM) in public accounting have given special attention and importance to the evaluation of mayor’s performance by citizens/voters. Thus, this study aims to assess the impact of accounting information on the re-election of Portuguese mayors. Taking the agency theory as a point of departure, we start from the following research question: Does the accounting information disclosed by the municipalities influence the re-election of Portuguese mayors? The research methodology used in this study is the quantitative type, through which a multivariate analysis of data was performed on 308 Portuguese municipalities, in the period 2005-2008, based on the election results of 2009. The results from the binary logistic regression show that some indicators of accounting nature have impact on the re-election of mayors in Portugal, namely, the components of financial accounting and municipal revenues.

INTRODUCTION

The reforms verified in the accounts of public sector organisations, based on the ideas advocated by the NPM movement, began in the 1970s, taking place in different countries, and were characterised by the incorporation, in public entities, including the local authorities sector, of new approaches/management
practices of the private sector, in particular, decentralisation, focus on results and the measurement of financial performance. The NPM movement is also related to the concepts of performance, economy, efficiency and effectiveness.

The changes brought about by the NPM in public entities, specifically in their accounts, have increased the demand for better quality of information for decision making, as well as a greater transparency and responsibility (accountability) in public management, allowing citizens/voters to obtain information about how public resources are being managed and used by public officials (mayors).

Accounting is a tool that allows citizens/voters to assess the performance of public officials (mayors), and can be used to communicate the economic effects inherent in the decisions made by politicians (Ingram & Copeland, 1981). Consequently, citizens/voters are likely to be influenced in their vote, during elections, when the objective of mayor is the reelection.

This study is part of the positive approach to accounting, whose purpose includes the understanding, prediction and explanation of existing accounting practices (Riahi-Belkaoui, 2004). According to Riahi-Belkaoui (2004), the main idea inherent in the positivist approach to accounting is associated with the development of research hypotheses on the indicators that have an impact on accounting practices, and with an empirical test which assesses the veracity of these assumptions. This author states that the fundamental problem associated with this approach is the assessment of the extent to which accounting procedures affect the cash flows of entities, and, hence, the choices made by managers regarding such procedures.

The positive approach to accounting assumes that managers are rational beings, who act to maximise their utility, and utility is related to compensation and welfare managers, opposed to the assumptions of agency theory. In other words, in a public organisational environment, and in the presence of an agency relationship, where there are conflicts of interest between the principal (citizens/voters) and the agent (mayors), mayors seek to act in their own interest, with a view to maximising their own welfare, which might lead to agency problems, where the costs charged to the principal (citizens/voters) are agency costs. Thus, accounting should monitor the actions of the agent (mayors) on the one hand while reducing agency costs on the other hand.

According to Veiga & Veiga (2007, p. 49), “the Portuguese municipal sector provides a good example of the information asymmetry between policymakers and voters …”, and the local authorities are the main policy-makers at the municipal level, responsible for the “… allocation of resources and investment distribution” (Veiga & Veiga, 2007, p. 49).

In this context, and based on the assumptions of agency theory, this research aims to assess whether the accounting information produced and disseminated by the Portuguese municipalities has an impact on the re-election of mayors. To do so, we start from the following question: Does the accounting information disclosed by the municipalities influence the re-election of Portuguese mayors?

In the empirical study, we performed a multivariate analysis of data on 308 Portuguese municipalities, for the period from 2005 to 2008 (an election cycle), based on the results of the 2009 municipal elections. The results, using the technique of binary logistic regression, show that some accounting information affects the re-election of Portuguese mayors, in particular, indicators of financial accounting and municipal revenues.

Apart from the introduction, this paper consists of 5 sections. Section 2 is devoted to literature review, in which we provide a discussion of the NPM movement, public accountability, agency theory, and a presentation of some empirical studies that focus on the relationship between accounting information and election results. In Section 3, we present the methodology of the study, specification of the problem