ANALYSIS OF PUBLIC MANAGEMENT CHANGE PROCESSES: THE CASE OF LOCAL GOVERNMENT ACCOUNTING REFORMS IN GERMANY

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In Germany, financial pressure and a lack of efficiency have caused the need for several reform processes in the local governments of German municipalities. These local governments are facing a growing contradiction between decreasing levels of financial support and increasing responsibilities. In order to address this tension, municipalities are starting to change their accounting systems by implementing accrual accounting and output-based budgeting. Starting from a description of reform processes in German municipalities, we use the concept both of the resource-based view and of dynamic capabilities in order to observe the implementation of these new accounting standards. Based on six case studies, our empirical findings show that the idiosyncratic adaptation of new standards in municipalities leads to a diversity of outcomes in the implementation process. Finally, the future prospects of further public financial management reform processes in Germany are presented.

INTRODUCTION

There is a growing body of evidence in several countries that public services must be made more effective. Reform processes in countries such as Australia, the UK, New Zealand and the US started early in order to react to global competition and economic downturns. For the most part, these reform processes were comprised of a combination of privatization and changes in managerial structure that were brought about by implementing management systems and processes used in the private sector (Teo 2002; Davis 2003; Pollitt and Bouckaert 2000).

In Germany, too, financial pressures and a lack of efficiency have caused the need for reform processes. Due to the decentralized structure of German public services, these reform processes involve both the privatization of former state-owned companies such as German Telekom, German postal services and the German railway company, and reforms, under new public management, in federal and local government. Local governments in Germany, which play an important role in providing public services, are facing a growing contradiction between decreasing levels of financial support from the federal government and increasing responsibilities. In
order to address the problem of this widening gap, politicians concentrate on modernizing structures of local government by forcing local management to generate new strategies and implement modern instruments of governance in public administration (Naschold and Daley 1999).

As a part of this strategy, new public financial management is currently being implemented in several local governments. German municipalities are starting to change their accounting systems. The aim of these pilot projects is twofold: first, to gain experience in the suitability of accrual accounting and output-based budgeting for local government in order to determine their efficiency; second, to identify the dynamics of change during the process of implementation, that is, expectations, change management, opposition and conflicts. The latter, the dynamics of change, represents our research project. Starting from a resource-based view, we use the concept of dynamic capabilities (Eisenhardt and Martin 2000) in order to observe routines followed by managers altering and recombining resources to organize the implementation of these new accounting standards. We make the assumption that the success or failure of the implementation of accounting standards in public management is not only a question of choosing adequate management instruments but can, in part, be explained by the specific dynamics of the implementation processes themselves. We are not only interested in identifying and utilizing specific resources, but also in the existence or development of capabilities supporting the implementation process.

RESEARCH FIELD

Reforming public administration in Germany

Only in the early 1990s did Germany start to reform at the local government level. This can be contrasted with the fact that in many cases, other nations began their own public management reform ten or more years earlier (Kettl 2000). Thus Germany can be seen as a late reformer. With regard to financial pressure and an increase in tasks for the governmental sector in general, problems of administrative activity became visible at the level of local governments. A set of reform activities was therefore outlined as the New Steering Model (Neues Steuerungsmodell), which can be thought of as ‘the German variant of New Public Management’ (Jann 1997; Wollmann 2000; Reichard 2003, p. 348). The New Steering Model is based on the managerial approach of reforming public management undertaken by the city of Tilburg in The Netherlands and was devised in the early 1990s (KGSt 1993). It was then intensively promoted by the KGSt (Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung), the largest local government association in Germany (KGSt 2003). As a result of this managerial model of reforming public administration, many reform activities, such as the implementation of budgeting, output or product orientation, total quality management and cost accounting, have taken place. Although the New Steering Model for modernizing local governments was configured as a whole, specific parts only
were implemented in various local governments. This partial implementation of the (normative) modernization concept was to lead to resistance in its adoption as well as many implementation problems. Many scholars have stated that most of the reform processes were unsuccessful; information about the reasons why implementation failed is relatively sparse (see Budäus and Finger 1999; Pollitt and Bouckaert 2000). One argument for the resistance to reform initiatives is the historically developed structure of German public administration, one that leads (due to, for example, tradition as well as political influences) to specific reform activities only (see Wollmann 2000; Jann 2003). To explain this, we provide a short overview of the organizational context of public administration in Germany in the section that follows.

The organizational context of German public administration

The complexity of the German system of government can be characterized by different tasks, responsibilities and competitive political influences. Germany is a federal republic consisting of 16 federal states (the Länder). Each state is divided into districts (Bezirke). These districts are further subdivided into counties (Kreise), involving smaller local governments, and large cities, which are independent from the counties (see figure 1). This explains to some extent the difficulty of changing this complex institutional system (for a detailed description, see Pollitt and Bouckaert 2000; Reichard 2003).

FIGURE 1 Structure of the German system of government
As has been said, in our research project we focus on the implementation of accrual accounting in local governments. German municipalities are now required by government to change their accounting systems. The aim is to gain experience in the application of budgeting and accounting standards in order to determine their efficiency and to identify the capabilities of municipalities to implement these instruments. Since this implementation process involves several hierarchical levels and different tasks, we are also interested in the dynamics of collective leadership (see Denis et al. 2001), especially on the level of local public administration. In Germany, a mayor heads each local government. He or she is both an elected mayor and the chief executive officer of the local administration. Local administrations are mostly divided into departments. Most of the offices run by each department are organized to provide services for citizens, for example, social services offices or the building authority, the authority in Germany which issues building permits. In addition, a few management offices exist, such as finance or human resources. Due to the fact that every department and every office must change its budgeting and accounting standards, the implementation of budgeting and accounting standards is not simply a project involving the financial department, but affects every office.

CURRENT REFORM TRENDS: IMPLEMENTATION OF NEW PUBLIC FINANCIAL MANAGEMENT IN GERMAN MUNICIPALITIES

There are three main goals in modernizing public financial management in Germany: first, to create more transparency in the financial situation of a local government; second, to support the administration in controlling the short-term impacts of resource allocation in financial terms; and, finally, to encourage local politicians to adopt new, more strategy orientated decision making (Pollitt and Bouckaert 2000). Reaching these goals will dispose of some negative aspects of the ‘publicness’ (Boyne 2002) of local governments. Current trends for reforming public management in Germany focus on accounting reform (Reichard and Bals 2002), a move towards accrual accounting and output-based budgeting. This orientation towards private sector (accrual) accounting can be found more or less globally (for example, see Kettl 2000 for countries of the Commonwealth; Lüder and Jones 2003 for Europe). Former financial reform activities in Germany were based on the cameral accounting system which has been the common standard in the German system of government up until now (see Monsen 2002 for further details of cameral accounting). Seen as ‘an important tool in making government more transparent’ (Kettl 2000, p. 36), accrual accounting will become the new accounting standard in some of the German states (Länder). Because there is no Germany-wide regulation for accounting standards at the level of local governments, the states are free to make their own decision as to which accounting standard to prescribe at local government level. Although there are moves to refine the existing cameralistic accounting system in some German states, the mainstream discussion is directed towards accrual
accounting. Three different accounting concepts for the local level are currently being discussed and implemented in local pilot projects in different states (Budäus et al. 2003):

- ‘New Local Budgeting, Accounting and Reporting System’ (Neues Kommunales Haushalts- und Rechnungswesen (NKH/NKR)) in the states of Baden-Württemberg and Lower Saxony;
- ‘New Local Financial Management’ (Neues Kommunales Finanzmanagement (NKF)) in the state of North Rhine–Westphalia;
- ‘New Local Accounting, Reporting and Steering System’ (Neues Kommunales Rechnung und Steuerungssystem (NKRS)) in the state of Hesse.

Nevertheless, in spite of there being only three concepts, there are ongoing endeavours to approximate these concepts into general framework agreements across the state level, organized by a working group of the conference of the ministers of interior (Ständige Konferenz der Innenminister) (see, for example, Budäus et al. 2003). In November 2003, the conference of ministers of the interior decided to develop a new local budget law towards resource- and output-oriented accounting (IMK 2003). There have also been different pilot projects throughout Germany to implement accrual accounting in local governments as a new standard of public accounting (Reichard and Bals 2002). In the following section we deal with the specific case of the state of North Rhine-Westphalia, which is implementing the concept of ‘New Local Financial Management’ (Neues Kommunales Finanzmanagement (NKF)).

The Concept of ‘New Local Financial Management’ (NKF)

Development of NKF

In 1999, the federal state of North Rhine–Westphalia initiated a project for developing new budgetary legislation to introduce output-based budgeting and accrual accounting as new standards for local government accounting (Innenministerium des Landes Nordrhein-Westfalen 1999). Given the federal system in Germany, the federal states regulate frameworks for budgeting and accounting in municipalities. Within these regulations, however, the municipalities can autonomously allocate financial and human resources.

The ministry of the interior of North Rhine–Westphalia decided to launch this project in cooperation with selected municipalities supported by an external consulting firm. In Germany, the legislative procedure normally entails a ministry initiating and drafting a law which is then passed by the parliament. In this project, however, the participating municipalities formulated a proposal for the ministerial draft by developing and modifying a concept of accrual accounting. The collaboration amongst municipalities, consultants and the ministry was established to generate best practice and experience in order to prepare a new law according to the needs of municipalities in North Rhine–Westphalia. The selection of the six participating municipalities was driven by the intention to cover the spectrum of different municipalities in the state of North Rhine–Westphalia, involving smaller
county-dependent local governments (figure 2, Cases A, B and C) and large cities, which are independent from the counties (Figure 2, Cases D, E and F). (A seventh pilot project is now ongoing in one of the counties (Kreise), but due to the specific context of the case (of a county) and connected problems of the comparability of counties and municipalities, this case is not presented as part of our study.) Discussion of the seventh case, Kreise, can be seen in Budäus et al. 2003; discussion on the general reform of counties in Germany can be seen in Hill and Klages 1995. The concept of NKF for local governments, moderated by external consultants, was developed in an inter-organizational project (see figure 2) and completed in 2000.

Thereafter, the participating municipalities started to implement and test the system in selected pilot offices, modifying and improving the concept up until mid-2003. The ministry of the interior then started the legislative procedure and introduced the law into parliament in 2004. The law came into force in 2005. As of this date, every municipality in North Rhine–Westphalia has to introduce the NKF within the next four years. As a result of this process, the developed concept can be seen as a cross-organizational accounting standard for local governments (see figure 3). The close inter-organizational cooperation necessary in order to develop a new accounting system led to a new common standard of financial management in local governments in North Rhine–Westphalia.

The elements of the NKF
Although information exists from its application in other nations about the implementation processes of accrual accounting and output-based budgeting (Christiaens 2001; Thompson 2001; Lüder and Jones 2003; Gurd and Thorne 2003), Germany’s federal authorities try to develop and implement their own accounting standards. According to the German code of commercial law (HGB) and international accounting standards, the NKF is based on rules of private-sector accrual accounting and customizes these methods for governmental use (see Modellprojekt ‘Doppischer Kommunalhaushalt in NRW’ 2003 for a detailed description of the concept). The former cameral

![FIGURE 2  Structure of the inter-organizational project](image-url)
accounting system (Monsen 2002) displayed only monetary values; this led to an inefficient use of resources and to little comparability amongst different municipalities.

The decision to develop and implement the NKF is warranted by its following advantages over cameral accounting (Modellprojekt ‘Doppischer Kommunalhaushalt in NRW’ 2003, p. 26):

- Representation of the complete revenues and resource-consumption;
- Representation of the complete assets;
- Integration of shares in associated companies;
- Unification of the accounting system in the whole organization; and
- Output-based budgeting.

There are strong arguments for basing the NKF on rules of private sector accounting, especially perhaps because of the integration of shares in associated companies and the possibility of using standard accrual accounting software. In addition to private-sector accounting whose core components are the Balance Sheet and the Statements of Operations, the NKF includes, like the other concepts currently being discussed, Statements of Cash Flows to control the current liquidity as a third component (see figure 4).

One of the strongest innovations of the NKF concept is seen in resource-based and output-oriented budgeting. Municipalities have to define *products* which are the output of administrative actions. The former input-oriented financing did not consider revenues and expenses
but only receipts and payments. Through output-oriented budgeting, then, political decision-making could change towards the more effective and accurate financial planning of administrative tasks. Additionally, by allocating budgets for products, local administrative managers can autonomously decide how to effectively use the allotted budgets. Further, by valuation of their assets, municipalities are able to set up accruals and to deduct for depreciations. Hence, long-term financial planning becomes possible and financial transparency will increase. The development of this new legal basis for municipal accounting is based on the assumption that municipalities will generate and use further controlling instruments such as cost and activity accounting, as well as reporting, in order to increase the efficient use of their resources and to enhance financial transparency. A first draft of the new legal basis has been published by the municipalities involved in the pilot so that it can function as a base for the legislative procedure (Innenministerium des Landes Nordrhein-Westfalen 2003, pp. 49–110).

Implementation of the NKF in pilot municipalities: implementation processes as a research field
During the development of the NKF, the pilot municipalities introduced this concept in their administrations partly to gain experience in implementation and in the actual usage of the concept. While the development was a collective project of all pilot municipalities, each municipality was independent in implementing the concept in its own organization. Thus, a huge variety in organizational project structures, different process management, and implementation strategies occurred. The idea was to gain as many different experiences as possible in order to obtain role models for the effective implementation of the NKF in the other municipalities in North Rhine–Westphalia. It will be mandatory that all municipalities in North

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**FIGURE 4 Components of the NKF**

![Components of the NKF](source)

Rhine–Westphalia implement the concept after legislation is passed. There is actually very little information available about the processes of implementing new public management in German local governments. In addition to widespread practitioner experience, the concept of micro-politics has offered rather sparse explanations (see, for example, Bogumil and Kißler 1998; Göbel 1999). Research into accounting reforms in the public sector is offered by contingency analysis (see Lüder 1992; Monsen and Näsì 1998). The contingency approach, however, displays a perspective of influencing factors that is static and the concept of micro-politics emphasizes the tactics, power and influence of involved actors (Crozier and Friedberg [1979] 1993; Bosetzky and Heinrich 1994). In sum, there is a lack of description and interpretation in terms of implementation processes. In our analysis we start with the assumption that the success or failure of the implementation of accrual accounting in public management is not only a question of choosing adequate management instruments but can, in part, be explained by the specific dynamics of the implementation processes themselves (Gioia et al. 1994, Gioia and Thomas 1996). We are not only interested in identifying and utilizing specific resources, but also in the existence or development of capabilities supporting the implementation process. In order to observe the routines of managers in altering and recombining resources to organize the implementation of new management instruments, we use the perspective of the resource-based view and the concept of dynamic capabilities (Barney 1991; Grant 1991; Lado and Wilson 1994; Eisenhardt and Martin 2000).

THEORETICAL REFERENCES

Resource-based view and change processes in public organizations

The interconnectedness of environmental forces and strategic choice is a prerequisite to formulating strategies and implementing new modes of financial management. Additional critical issues, such as the availability of resources and organizational capabilities, also have to be considered. With regard to the resource-based view (Barney 1986; Barney 1991, 2002), the success of organizational change is deemed to be rooted in identifying and utilizing specific resources in order to gain successful implementation. Indeed, the resource-based view has become relevant to several research fields (see Barney 2001 for an overview). In very few studies, however, are attempts made to analyse change processes related to the resource-based view (see, for example, Freiling 2001; Ridder and Hoon 2003). In examining the consequences of the fundamental rationale of the resource-based view for research into organizational change (for an overview see Pettigrew et al. 2001), one can see that organizations must first possess or control specific resources in order to reach a new level of performance. Second, organizations combine and utilize these resources in common and/or in unique ways. Finally, they either possess or have to build capabilities over time. Such applications of resources can represent best practice, yet even best
practice is implemented in path-dependent modes with regard to history, experience and social complexity. This paper argues that this specific view will deepen the understanding of change processes in public management since the resource-based view focuses on the strengths and weaknesses of public organizations in adapting processes of reorganization (Ridder and Hoon 2003). The resource-based view supports the investigation into the generation and existence of capabilities in order to explore how these capabilities alter resources in firm-specific ways (or not) and lead these resources to higher performance (Eisenhardt and Martin 2000). In order to focus on our research questions and analyse change processes in public organizations, the following sections demonstrate our basic terms and analytical framework.

Do resources matter in change processes?  
There is no generally accepted definition of the term resources. In the literature the term has assumed several meanings; despite this, there is a fairly widespread understanding that the term refers to the strength of an organization. Edith Penrose (1980 [1959]) was the first to interpret firms as a collection of productive resources. These resources can be categorized as physical resources and human resources. Physical resources consist of tangible elements such as real estate, buildings, equipment and raw materials. Resources that are human can be classified according to skills, as qualified or unqualified, and according to technical, administrative and managerial applications. Wernerfelt (1984) interpreted resources as being either a strength or weakness of a firm: for example, the brand name, technical skills, qualified human resources and efficient production processes. Barney (1991) combined the term resources with the term capital in order to refine it as financial capital, physical capital, organizational capital and human capital. Using the term isolating mechanisms, Rumelt (1984) described the barriers of transfer, imitation and substitution of resources across firms. It is based on the assumption that all firms have a specific historical development, which creates different structures and cultures. Resources are thus identified and administered in different ways according to institutions and to the preconceptions of managers. A second barrier of transfer and imitation is known as causal ambiguity. A firm that creates specific combinations of resources makes it difficult for other firms to identify the causes and effects of its combinations and they therefore fail to detect the firm’s sources of success. Finally, social complexity is regarded as an additional barrier to imitation. As with the above argument, the source of success cannot be identified since it is fundamental to modes of teamwork and communication amongst managers, as well as between managers and their employees. Hiring a manager from another organization in order to imitate success will not succeed if the manager’s contribution to the initial firm’s success has been overestimated or if the skills of the manager have been effective only in his former team or context. In addition, there is no guarantee that management tools
can be adapted successfully across organizational fields (for example from the profit to the public sector) since these factors will shape the application in a specific way due to the aforementioned isolating mechanisms.

**Capabilities as a source of heterogeneity in organizations**

Resources alone, therefore, are a necessary basis of change, but the resource themselves are for the most part utilized in a specific manner. One important distinction is made by Edith Penrose (1980 [1959]), who put forward the argument that the uniqueness of a firm stems from the distinction between resources and services:

> The important distinction between resources and services is not their relative durability; rather it lies in the fact that resources consist of a bundle of potential services and can, for the most part, be defined independently of their use, while services cannot be so defined, the very word >service< implying a function, an activity. As we shall see, it is largely in this distinction that we find the source of the uniqueness of each individual firm. (Penrose 1980 [1959], p. 25)

In this respect, this distinction clarifies that not only specific resources are necessary to gain successful change, but there also has to be an organizational capability in order to deploy these resources.

Looking at the literature generally, several authors put their emphasis on comparable distinctions between resources and deployment of resources (see Rugman and Verbeke 2002 for an overview). Dierickx and Cool (1989) highlight the important aspect that not all assets can be bought, for example, reputation, quality, trust and dealer loyalty. Firm-specific components are accumulated internally and transferred into firm-specific skills. This transfer has to be identified as a process where a consistent set of policies develops stocks of resources in required assets over a period of time. Amit and Schoemaker (1993) point out that those resources available, either owned or controlled by a firm, require to be converted. Firm-specific organizational processes are necessary to combine resources with capabilities in order to gain strategic assets:

> **Capabilities**, in contrast, refer to a firm’s capacity to deploy Resources, usually in combination, using organizational processes, to effect a desired end. They are information-based, tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm’s Resources. They can abstractly be thought of as ‘intermediate goods’ generated by the firm to provide enhanced productivity of its Resources, as well as strategic flexibility and protection for its final product or service. (Amit and Schoemaker 1993, p. 35; italics in the original)

Additionally, Makadok (2001) points out that the term capabilities highlights the importance of an alternative rent creation within the firm and suggests the following definition: ‘a “capability” is defined as a special type of
resources – specifically, an organizationally embedded nontransferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm’ (Makadok 2001, p. 389, italics in the original).

**Dynamic capabilities: the iteration of commonalities and idiosyncrasies**

Eisenhardt and Martin (2000) refine this construct and describe dynamic capabilities as antecedent organizational and strategic routines by which managers alter their resource bases, integrate several resources together, and recombine them. They define dynamic capabilities as:

> the firm’s processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die. (Eisenhardt and Martin 2000, p. 1107)

In contrast to the aforementioned unique and idiosyncratic character of capabilities, Eisenhardt and Martin suggest that we distinguish between dynamic capabilities, as processes that emerge from path-dependent histories of individual firms, and dynamic capabilities that are associated with effective processes across the firm: ‘In popular parlance, there is “best practice”’ (Eisenhardt and Martin 2000, p. 1108). These commonalities across firms have three implications: first, there are multiple starting points and paths to develop capabilities; second, these routines have to be substitutable – i.e. authentically fungible; and finally, imitability is not relevant because firms utilize capabilities in specific and different ways.

Although the specifics of any given dynamic capability may be idiosyncratic and path-dependent, best practices exist for particular dynamic capabilities across firms. The interrelatedness of resources and capabilities has been demonstrated by Nahapiet and Goshal (1998). They argue that the competitive advantages of a given firm, as based in the unique constellation of its resources, can be seen in the mutual influences of intellectual and social capital. For instance, assume that a firm has created a recruitment system enabling the firm to procure human resources. These resources include a rich body of facts, concepts and frameworks (individual explicit knowledge). These human resources then have the ability to shape and enhance these skills through technical and practical experience (individual tacit knowledge skills). This intellectual capital has to be combined, applied and exchanged in order to gain advantages. Nahapiet and Goshal name this combination social capital; it involves, first, a network of relationships; second, personal relationships based on interactions, trust and respect; and finally, shared representations, interpretations and meanings. Even if firms understand that the interaction between intellectual and social capital is a source of competitive advantage, firms must nevertheless recognize that there are compelling differences between themselves: how they create and
influence their networking opportunities; how they motivate and support employees; and how they provide structures in order to exchange knowledge and the capability to combine information and experiences (Nahapiet and Goshal 1998; Adler and Kwon 2002).

FRAMEWORK AND METHODS

Basic framework and research questions

The interrelatedness of resources and capabilities is not only related to markets and competitive advantages, but, as discussed above, to a growing body of literature which supports the assumption that the terms of the resource-based view are appropriate to investigating processes of reorganization. In addition, we argue that one gains a better understanding of reorganization in public organizations using these above developed concepts in a basic framework (see figure 5).

Although the term ‘resources’ is not particularly well defined, the various meanings have one element in common – that resources are the strength of every organization. These resources have to be identified, procured and improved (Rumelt 1984; Dierickx and Cool 1989; Amit and Schoemaker 1993). They arise from value, rareness, inimitability and non-substitutability. There is a widespread understanding that not only must resources be bought or controlled, but they must also be developed, deployed and utilized. The fundamental philosophy is that resource picking (Makadok 2001) deals with the question of how organizations come into possession of resources. Even at the beginning of a change process in public organizations, critical resources (for example, financial resources, technical resources, human and organizational resources) have to be identified in order to find out whether they are constitutive for developing cross-organizational

FIGURE 5  Basic framework
standards and for supporting the application of accrual accounting and output-based budgeting in local governments. The term resource, therefore, enables us to analyse critical inputs such as human, financial and technical resources, and consultation about public organizations’ change processes.

In addition to the above, the term ‘dynamic capability’ highlights the importance of an alternative utilization within public organizations. In times of change, public organizations have to adopt commonalities. These commonalities encompass the best practices developed across organizations. Our basic assumption is that even organizations themselves make different uses of resources in order to change their organizational and strategic routines. With regard to the specific isolating mechanisms mentioned above, public organizations have different structures and routines to some extent and their managers have specific experiences, expectations and routines in combining and altering the resources. Although public organizations may gain the same resources to implement cross-organizational practices, we expect that managers of these organizations will start from different points and follow their own specific routines (idiosyncrasies). We therefore interpret these idiosyncrasies as the antecedents of change in public organizations.

As a result, the use of the term dynamic capabilities emphasizes the ability of an organization to deploy resources as an iteration of commonalities and path-dependent idiosyncrasies. So we are not only dealing with the question of critical resources, but with an investigation into the question of what types of best practice are developed in public organizations and how antecedent organizational and strategic routines restrict, refine or support implementation processes. In accordance with Eisenhardt and Martin’s concept, we expect that the ‘extension’ of new public financial management is the result of the development and application of cross-organizational standards (for example, accrual accounting; output-based budgeting) on the one hand, and of idiosyncratic adaptation (for example, expectations and political interests; management system; use of resources – i.e. modelling) on the other hand. In order to identify altering and recombining cross-organizational resources, our study focuses on the different uses of cross-organizational resources, as well as on the specific strategic and organizational routines of public management: for example, codified goals, project management and resource allocation. The extension of these new practices encompasses the adaptation of new strategic and organizational routines and should be interpreted as being a result of the implementation process. Managers and employees change their expectations about cost and benefits within their individual organization. Thus, an important aspect is what might be called internal ‘bandwagon’ behaviour whereby individual decision-makers adopt a strategy or a technology because of social pressures caused by the organizational units that have already adopted (or will have to adopt) these practices.

Finally, then, as a result of what has been discussed above, we are interested in the processes of collaboration between the project management,
executives and employees, and we investigate the acceptance of NKF within the organizations. We assume that commonalities will be modified by expectations, organizational idiosyncrasies and interests of key stakeholders, as well as by experience, motivation and acceptance by employees (Burgelman 1996; Dutton et al. 1997).

**Methods**
Our empirical study deals with the implementation of NKF in six pilot municipalities. Since a state-wide extension of the financial management system is planned, these six pilot projects were chosen to test implementation under different conditions. Examples of these conditions include: the size of local governments, their affiliation to districts and their unique experiences in applying modes of the new public management (see table 1).

The empirical study is based on six case studies, including 57 semi-structured interviews (Eisenhardt 1989; Miles and Huberman 1994 (see figure 6). We conducted interviews with personnel from the ministry of the interior – as the ministry in charge – external consultants, and project managers from the inter-organizational project group responsible for the development of the NKF (commonalities) (phase I). In addition, in order to gain insight into the modes of implementation (idiosyncrasies), we conducted interviews in the participating municipalities with local authorities, executives responsible for the implementation process and employees applying the new methods. Documents were also analysed and meetings attended to increase the validity of the findings (phase II). Due to the fact that the reform process is still ongoing, only a little can be said about the long-term effects that emerge from it. In phase III, begun in 2004, we started conducting further interviews to confirm these findings.

**EMPIRICAL FINDINGS**

**Developing and applying commonalities**
As delineated above, the intergovernmental project group developed a cross-organizational standard of accounting. Nevertheless, the wide range of experience in different implementation strategies can be attributed to the

**TABLE 1 Participating pilot municipalities**

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* reorganization and complete conversion to NKF
autonomy of the municipalities themselves in implementing the new concept. Each municipality generated its own goals, in each case taking contextual factors (for example, resources, division of services, tasks and power, experience) into consideration. In addition to the inter-organizational project structure, each municipality built up its own local project structure in order to implement the NKF, something which led to a variety of different implementation experiences.

According to the experience of the municipalities’ use of resources, the inter-organizational project group generated best practices for each participating pilot municipality. These can be delineated as follows:

- **Recruiting and training human resources**: it was realized that one of the most critical resources is expertise in how to generate and apply the NKF in municipalities. The inter-organizational project group therefore decided that a prerequisite to successful implementation would be hiring and training experts in accrual accounting.

- **Software and technical support**: another critical resource is a well-defined application standard. The inter-organizational project group therefore decided that cooperation with software providers would be necessary in order to develop software that would assure the possibility of common data processing for the NKF. This standard should enable each municipality to change its current software applications according to the NKF.

- **Project management and process planning**: a third critical resource is the organization of project management necessary to develop and implement NKF. The inter-organizational project group therefore decided to document best practices that enabled the implementation of NKF (for example, project organization; waves of implementation). The ministry decided to fund the implementation process with budgets.

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**FIGURE 6  Data collection**

<table>
<thead>
<tr>
<th>Phase I, II: development of a new concept of financial management, expectations about application</th>
<th>Phase III: experience of implementation and adaptation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry, consultants (n=3)</td>
<td>Ministry, consultants</td>
</tr>
<tr>
<td>Project management department of finance</td>
<td>Project management department of human resources</td>
</tr>
<tr>
<td>(n=22)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>(pilot-) offices, employees (n=32)</td>
<td>(pilot-) offices, employees</td>
</tr>
</tbody>
</table>

November 2001 – November 2004
In the following section we present the empirical findings of idiosyncratic adaptation in the pilot municipalities with regard to the implementation of accounting standards, as well as the best practices developed and recommended by the intergovernmental project group. Figure 7 presents an overview of the results. With regard to the resource-based view, we start with the existence and application of resources within the pilot municipalities; we then present findings according to the strategizing within the municipalities themselves; finally we present the empirical results concerning the process of adaptation.

An examination of gaps in resources
As the resource-based view indicates, resources and capabilities are essential for the successful implementation of new practices. We therefore conducted an investigation into critical resources within the implementation process in public organizations. In profit organizations it can be observed that failures in reorganization processes often are caused by the inadequate adaptation of more or less well planned reorganization processes (see Majchrzak and Wang 1999). In the observed (public) municipalities our findings show that since there are crucial gaps in resources, the success of the implementation process is jeopardized from the beginning.

In order to implement the NKF, the ministry of the interior offered fixed financial support for the pilot phase. The participating municipalities accepted the offer and were requested to add their own financial resources. Facing the reality of implementation, they realized that they needed more financial support than expected and that they had themselves to bear the burden of adding more financial resources. Tension therefore increased between the restricted budget and unanticipated financial demands. As it is

![FIGURE 7 Empirical findings](image-url)
planned to extend the use of the NKF to every unit of the municipalities, this reveals two main problems as outlined below.

First, financial resources have to be reserved in order to implement the NKF within municipalities. However, there is no estimation of what budgets will be required. Considering that implementation of the NKF has been law since January 2005, the problem, that the transmission into new practices requires an adequate budget, remains. Neither the ministry of the interior nor the municipalities have any notion as to where these budgets will come from. Each of the pilot municipalities has its own historically developed technical infrastructure (software and hardware), inhibiting the opportunity to agree on a new common software solution. As a consequence, each municipality had to update its technical standard according to the NKF. Participating municipalities thus made individual contracts with different software consultants. This produced variety in schedules, costs, and technological support. Due to these heterogeneous technical standards, time frames were delayed, cost increased and the municipalities had to increase personnel capacity in order to run the technical systems.

Second, the pilot municipalities invested financial resources in order to develop training programmes for NKF. With regard to human resources, large municipalities were able to develop training programmes due to the specific requirements of the NKF. In addition, they were able to organize adequate training for their employees. Here we observed that size matters: large municipalities have the possibility to train employees by job rotation. We also observed that slack exists in managing daily tasks and there is thus the possibility to acquire specific skills. Small municipalities were under more pressure, due to there being less slack and more restricted access to training. With regard to the resource-based view, we argue above that in change processes critical resources have to be identified. What resources are crucial, how do organizations come into possession of resources and how are resources involved into processes of change? In sum, we were not able to find a well-defined infrastructure of change. Lacks exist in budgets, in technical support and in the training of human resources. Our empirical findings show that even if municipalities are confronted with the same reorganization needs, these needs meet different resource bases.

An examination of gaps in strategies: iteration of commonalities and idiosyncrasies

As could be expected, the new standards and routines of NKF did not fit the pilot municipalities in identical modes. On the one hand, we observed a broad acceptance of the necessity of reform processes in general. On the other hand, the commonalities had to be transferred into the structure, objectives and interests of every municipality. At the level of top management and politicians, we identified a crucial gap in the formulation of strategic goals. As the reform impulse accrued, objectives were formulated
due to the demands and resource allocation of the ministry involved. Nevertheless, with reference to the goals of public management reforms and the opportunities of accrual accounting, our interviewees did not express the necessity to develop a strategic direction to implement NKF – for example, clear-cut prospects, precise calculations between investment in the NKF, and expected cost savings. Rather, responsibility for concept formulation and for implementation of the NKF was delegated to the department of finance. As a consequence, the implementation shifted to a more technical and operational mode. As long as these plans are not conducted, there is no contradiction between recommended commonalities and established organizational routines. Dealing with problems of implementation, idiosyncratic interests become more important with regard to the managers’ preconceptions of reform projects – and these lead to structural differences in the way NKF is implemented. As we observed, several types of goals can be identified: First, there are municipalities that focus on modernizing their structures. They interpret the implementation of the NKF as an additional segment on the pathway to a new kind of public service. The aim here is to shift the current bureaucratic administration into a service-orientated organization (thus modernizing it). Second, other municipalities interpret the NKF as an addition to the existing standards of public financial management. Their understanding therefore is one of enhancing their professionalism. Third, municipalities participate in the project in order to enhance their image as a modernizing local government.

In addition to the above, we observed different structures in the conceptualization and implementation of NKF (see figure 8). Each participating
municipality (A–F) put their department of finance in charge of the implementation of the NKF. Each department of finance established a special local project group with differing responsibilities and allocation of authority. For instance, a special unit was set up within the financial department. This unit has the full authority to organize the process management. Some municipalities decided to procure experts in financial management. These experts were put in charge of the development of concepts and methods, but did not have the authority to make decisions, establish procedures or allocate resources. In another variant, there are municipalities who added these tasks to the regular tasks of the department of finance. With regard to the gap in strategy, we observed a lack of hierarchical support by top management and politicians within the implementation phase. As municipalities lack experience as institutions of change (Gioia and Thomas 1996), we found no systematic connection between the project groups and departments responsible for change processes – for example, the department of personnel selection and training, or the department of organizational development.

We observe idiosyncratic implementation modes to choose pilot offices in order to gain experiences with the implementation of the NKF. Our first observation concerns the selection of the pilot offices. Each municipality chose their pilot offices according to differences in size, structure and responsibility. In addition, we observed different modes within the selection process. First, there is competition when offices apply to be a user office, that is, one participating in the study. Second, we observed that political pressures influence the process of selection. Due to political relationships, members of the project management team anticipate which offices are likely to follow the intended procedures. Finally, networking, coalitions and cooperation were crucial in selecting these offices. This was the beginning of specific relationships between members of the project group and key users. Our results indicate that these modes remain as having a lack in process planning since there are no systematic selection criteria. In sum, the resource-based view interprets the success of implementation processes as iteration between commonalities and idiosyncrasies, the latter being a transformation of best practices and antecedents of change. As expected, municipalities differ in goals, structures and implementation modes and therefore create different implementation styles. Although the recommended best practices were transformed with regard to antecedents of change, we observed a cross-organizational lack of strategic direction in terms of the goals of the reforms. Commonalities focus on project management and process planning, but not on a common strategy, in order to reach higher goals. Without a visible and organization wide communicated strategy the iteration process declines to a duty carried out by technical experts. The process of strategy formation shifts from the level of strategic goals to the level of operational tasks and objectives. The question remains whether this type of adaptation is appropriate to support acceptance within the entire organization.
An examination of gaps in adaptation

**Commonalities vs. specific needs of offices**

The NKF is the first framework of new standards, rules and methods and there is a need to adjust these commonalities to specific organizational goals, tasks and procedures. As our interviews show, there are barriers in imagining how the new system will operate and bring benefit. Expectations compete with the strong belief that established procedures and methods are well matched to the specific organizational needs. As a consequence, executives and employees, in part, do not trust the information policy of the NKF project groups. As mentioned above, the user offices were chosen according to their expertise and potential acceptance of the NKF. However, our interviews show that executives and employees at the user offices were not asked to contribute (with a consequent appreciation of their interests, experience and skills) to implementation. Both executives and employees, therefore, expect there to be barriers, resistance and conflicts. Even executives told us that they expected that the implementation of the NKF would collide with alternative thinking about its utilization with regard to future tasks. There is neither a plan to anticipate and manage these barriers, nor are there procedures to exchange experiences across the user offices. Yet another topic emerged in the interviews with executives from the human resource management (HRM) department. The implementation processes require training for the employees and new solutions in organizational structures. Although there is experience in procurement and training, the HRM departments were, in some municipalities, not systematically involved in the description of new tasks and in the estimation of the additional number of qualified employees needed. Although departments of personnel selection and training have gained experience in change management, some project groups did not make use of this experience. At the strategic level especially, the lack in cooperation and qualification restricted the opportunities for benefit from new organizational procedures of financial management.

**Organizational modes dealing with change**

As a consequence of the shift from the strategic to the operational level, the implementation of the NKF can be seen as an iterative process of collaboration between the project group preparing and developing the new standards and the experts within the user offices applying these standards. The collaboration between these two groups can be interpreted as an increasing mutual understanding amongst experts aware that their efforts will lead to a new standard of public financial management. On the one hand, the users appreciate the expertise and high support of the project groups; on the other hand, members of the project groups appreciate the high engagement of the key users. In this implementation process we are able to identify three different modes of cooperation (see figure 9):
1. A dominant project group serves as a knowledge pool and advises the user offices.

2. The department of finance organizes the training of special internal consultants who develop a close relationship to the pilot offices. Large municipalities especially have the ability to follow this path as resources (qualified employees; training centre) are available.

3. Project groups and user groups iterate mutually between problem definition and solution. Especially when all pilot offices are located in one department, structures are established where qualified employees formulate needs with regard to the functionality of NKF.

In all these cases the interviewees described the cooperation as active, supportive and motivating. If conflicts arise (for example, over availability of financial resources or technical support), lack of collaboration increases. Our results indicate that in these situations intermediate groups (for example, internal consultants or establishing a ‘spokesman’ at department level) moderate the process of solving problems and conflicts. These differences in the modes of process management and knowledge transfer corroborate findings that the implementation of new rules has several political implications and is not cost free (Schirmer 2000). As outlined in our framework, due to historical dependencies and social complexities, negotiations will occur and these
will lead to different modes. Lack of experience in project management and a lack of sensitivity in appropriate process management, then, will jeopardize the success of the implementation.

**Resistance and acceptance**

During the NKF implementation process, we can identify three groups with different levels of commitment: key users, executives and top management. As a result of the strong collaboration between members of the project management team and the key users, we observed intrinsic motivation to implement the NKF at the level of key users as experts in applying NKF. It is the engagement, therefore, of key users that enables the organization to implement the NKF. There is a mutual relationship amongst experience, motivation and engagement. In the ongoing implementation process, these employees become key actors and are well aware of their contribution to the implementation process. As our interviews show, employees interpret their increasing qualifications as a means of career opportunities. They join training programmes in the tradition that acquiring higher qualifications leads to a higher position and salary. Herein lies a crucial contradiction. Contrary to the norm of this relationship, municipalities in this specific reform process are not able to give the guarantee of professional advancement. The cooperation between project groups and participating employees therefore is an agreement on the expert level, but our interviews with executives show that this cooperation has nothing to do with the acceptance of the NKF by executives. This group is not involved systematically and this leads to resistance as well as barriers. Our interviews with executives show that there is only a vague perception of goals. In addition, executives do not feel particularly well supported in how to run the implementation of the NKF. There are several consequences. First, executives are less interested in change and are not demanding of further information, training, cooperation or consultancies. The main reasons for this indifference are that these executives see themselves as administrators who have to execute both the law and political orders. Executives feel like professionals in their own rights (for example, as social workers, as engineers, as teachers), according to their knowledge about public needs and their practical experience. Second, they do not support transfer of knowledge about initial experiences. As a result, executives emphasize the value of established procedures over the unknown advantages of the new standards. According to tasks, level of responsibility and experiences with previous reform processes, executives differ in their estimation of the reform process. Since executives are less involved in the implementation process, the interrelationship between members of the project management team and employees processing the NKF deepens and thereby supports the shift from strategic orientation to more attention towards technical details.

A crucial point is the involvement of top management and politicians. On the one hand, these groups claim that the reform process has to be supported. On the other hand, this general support has no practical consequences. Our interview partners ascertained a lack of comprehension on the part of these groups.
with regard to the complicated details of the NKF. The more important issue is the lack of incorporation of the NKF into the strategic development of municipalities. The more or less technical focus of the development and implementation of the NKF is not appropriate to convince politicians and top managers that the new standard will enhance their strategic and administrative possibilities. There is no change expected in the preconception of politicians and top managers since there is no systematic strategy to involve these groups.

In sum, there is a gap in adaptation. At the strategic level, the lack of cooperation is important for modelling organizational capabilities to deploy financial resources by NKF. At the process level, the lack of individual benefit limits motivation and support. A lack of experience in managing conflicts jeopardizes process development as well. At the operational level, project groups and key users become more and more familiar with the details of the new law and interpret these details as functional tasks. The identification of the idiosyncrasies exhibits two hindrances with regard to enhancing dynamic capabilities. First, there are deficiencies in conceiving and engaging in the strategic and managerial implications of the new standards. Second, there is less experience in incorporating stakeholders in order to gain ‘tacit’ knowledge and in order to support acceptance (Nonaka 1994).

CONCLUSION: THE EXTENSION OF NEW PRACTICES

Our empirical findings have shown that commonalities have an important impact on change processes in public administration. As a main result of the development of the NKF, a cross-organizational standard in accrual accounting and output-based budgeting for local governments was produced. As has been said, the new law, requiring municipalities in the state of North Rhine–Westphalia to implement NKF, came into force in 2005 and provides a new and innovative manner of preparing and developing the new basis of municipal accounting. Currently, we have no doubt about the enactment of the law. Not only does it provide a new and innovative manner of preparing and developing the new basis of municipal accounting, but the state government has also announced that the new law will be introduced within the next four years. To have developed a law together with participating municipalities and to have tested it in pilot projects before enactment is an innovation for German legislation. The close collaboration between the ministry of the interior and participating municipalities forged a practice-oriented development of accrual accounting for public administration. We interpret the acceptance of commonalities as a means of participation as there is a trustful and effective collaboration amongst the ministry, consultants and the six municipalities. As the pilot municipalities were free to adapt and customize the developed concept during the implementation, the ministry had the opportunity to incorporate reasonable changes into legislation in due time. As a result, the developed concept of accrual accounting will be implemented as a cross-organizational standard
in all municipalities in the state of North Rhine–Westphalia. However, there is no best way for dealing with change. Every organization in the public and the governmental sector has its *idiosyncratic opportunities* to extend those commonalities to new public management practices.

Under the new law, the implementation of the NKF in every municipality is not in question, but its targeted utilization is. As we demonstrated, there are prerequisites and factors during the implementation process which render the acceptance and use of the NKF in the pilot municipalities. With regard to the findings, we assume that in the ongoing reform process differences in resources and capabilities will affect the results of modelling and extension of new practices. Along with the concepts of the resource-based view and dynamic capabilities, these variations can be explained by differences in basic resources, notably human resources, technical equipment and budgets. In addition, the concept of dynamic capabilities explains variations in modelling and extension of new routines: First, the existing structures and routines are different due to path-dependent developments. Existing routines depend on early priorities of the top management, choices, and political interests, experiences with alternatives, lessons learned from previous reform activities, successes or failures. Based on this evolutionary learning, each public organization has its specific way of dealing with new tasks or procedures. Every public organization, therefore, starts from a different point as well as with different path-dependent expectations. As a result, the development of capabilities will differ from organization to organization and create their own specific routines.

Thus, there are some lessons to be learned in order for the implementation of the NKF in the municipalities that follow to gain not only a new (technical) basis of accounting, but to achieve the reform intentions, that is, to create more transparency in the financial situation, to support the administration in controlling the short-term impacts of resource allocation in financial terms, and especially to lead local politicians to new, more strategic-orientated decision-making. Risks in failing to achieve the desired reform goals stem from prevalent preconceptions and precedence within the ministry and the municipalities and should be considered in the ongoing extension of the NKF. The diffusion of the law is accompanied by the assumption that the next generation of implementing municipalities can manage this implementation process without additional resources. It has to be considered that the pilot projects received both funds and consultancy input; however, these municipalities had to add their own resources. This investment competed with regular tasks. In addition, we identified differences in the capability of financing technical equipment and organizing the training of employees. It has to be considered that the rest of the 400 municipalities in North Rhine–Westphalia are underfinanced and bear wide differences with regard to the ability of investments in appropriate hard- and software, adequate skills and efficient process management. It is not predictable how the other municipalities can finance and organize the implementation
process. Our expectations therefore are that the lack of funds and consultancies will increase the risk of a poor bureaucratic adoption of the law guided by cost restrictions, but will not succeed in reaching the aforementioned reform goals. As an initial result we conclude that lack of resources does not jeopardize the adoption of laws (operational level), but causes debate about the poor utilization of its opportunities.

A second observation concerns the assumption that municipalities know about the new potentialities of financial management. As described above, the strategic management in municipalities (for example, top executives and politicians) fails to develop a clear prospect about the balance between resource investments and expected results. They therefore produce a gap between the opportunities of new standards, on the one hand, and goals, interests and expectations, on the other hand. Without visible and understandable goals, experts follow their specific interpretation of the new law. As we know from several waves of reform, experts have specific expectations with regard to the functionality of new standards. They follow technical rules and cooperate with experts who are familiar with the specific language, rules and procedures of the implementation process. Even in the pilot municipalities, a strong collaboration exists between experts in the project group and the pilot offices, emphasizing the bureaucratic transmission of new law. Although public administrations differ in their antecedents of and capabilities for change, strong pressures to reform public financial management lead to standardized technical concepts of accounting and budgeting. As a second result we conclude that lack of strategy (at the strategic level) does not jeopardize the adoption of the new law in the other municipalities, but supports its implementation in a more or less technical mode. Is it, for example, conceivable that finance experts support strategic thinking and influence strategic decisions at the top management level? Without anticipating the strategic opportunities, top managers and politicians will interpret the new law as more complex, which serves to reinforce the existing gap between politicians and administration.

A third observation deals with the common assumption that adaptation of law within the municipalities is not a matter of concern. As shown, there is idiosyncrasy with regard to the attentiveness of top management, the involvement of executives and the acceptance by employees. In general, we observe a lack of dynamic capabilities with regard to the administering of strategic routines and the transformation of new rules into the day-to-day managerial routines (process level). In addition, we observe less experience in process management. Executives and employees preferred established methods and complained that their expertise was asked for neither in the development nor in the implementation of the NKF. Since these groups were not involved, they expressed indifference and expected resistance in the ongoing process. We therefore interpret antecedents of change (for example, political pressure, process planning and project management) as an organizational frame in which different extensions of intended and
emergent implementation activities can be found. We would expect that neglecting the stakeholders in the ongoing implementation process and the inadequate introduction of new practices entails the risk of missing reform goals. Finally, the iteration of commonalities and idiosyncrasies in public management should be more focused and interpreted as a strategic and managerial task with more sensitivity to processes. Following Eisenhardt and Martin (2000), the long-term advantage lies in the resource configurations that managers build using dynamic capabilities.

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