Editorial: Innovations in public sector financial management

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Public sector financial management is an umbrella concept that covers all the activities directed towards the effective and efficient management of public sector financial resources. Implementing PFM has been a historical challenge for most countries, both in developed and developing economies, in order to improve decision making in the public sector. In this trend, the concepts of new public management and new public financial management emerged as a movement of reforms aimed at modernising and strengthening public financial management and governance (Olson et al., 1998; Guthrie et al., 2005). This was intended to serve efficiency, effectiveness and economy purposes. The reforms included changes in financial reporting systems, development of market-oriented management systems and structures, introduction of performance measurement systems, a process of decentralisation, and changes in internal and external public sector audit (Guthrie et al., 1999).

All these reforms have been promoted considering that the public sector needs reinvention and institutional renewal (Guthrie et al., 2005). As a consequence, the concept of innovation has been used many times to embrace them. Public agendas have the pursuit of innovation at their core. But what does innovation really mean? After identifying over 20 different definitions in literature, Osborne (1998) differentiates four features of innovation: it represents newness, that is 'first use' (either of a piece of new knowledge or within a particular organisation or situation); it is not the discovery of new ideas or approaches (this is invention) but is concerned with their application; innovation is both a process and an outcome, so that it is possible to study the process of innovating and the innovations developed; innovation involves discontinuous change. With respect to the last aspect, Osborne and Brown (2011a) point out that there has been a re-conceptualisation of innovation as continuous improvement and incremental change: innovations of practices or processes aim to improve existing systems.

Cangiano et al. (2013, p.1) echo the relevance of the innovation concept in the public sector, by highlighting that "if a single word could encapsulate PFM in the first decades of the twenty-first century, it would be *innovation*". In the end, it is a means to improve the efficiency and effectiveness of public management.

Among the most important innovations that have taken place in PFM, we can highlight the introduction of accrual accounting financial reporting and performance measurement reporting systems, the implementation of performance and accrual budgeting, as well as performance auditing. All these reforms have been the subject of interesting contributions that show how accrual accounting is currently being used in many public organisations around the world, despite the possible conceptual and practical obstacles to its implementation pointed out by some scholars (Lapsley et al., 2009; Jones and Lüder, 2011).

Innovations take place in individual organisations or services, but the institutional, political, organisational and environmental context is also a keystone in the process of innovation (Walker, 2008; Osborne and Brown, 2011a). In this respect, we must be aware that there is a general context of reforms and that international organisations are promoting the introduction of innovations, also favoured by the development of the International Public Sector Accounting Standards (IPSAS). The different interfaces of the public sector can also influence innovation: interfaces between the public and private sector, between the public sector and citizens, and across governmental levels within the public sector (Bloch and Bugge, 2013).

In recent years, due to the financial crisis, the context of austerity and budget cuts has also influenced innovation: the entities need to do more with less. Governments need to overcome financial problems and achieve financial sustainability. This requires the introduction of new and sophisticated systems, together with risk management practices (Osborne and Brown, 2011b).

Furthermore, citizens have lost their trust in governments, so that it is necessary to develop new models of accountability that can reshape citizen trust in order to pursue effective and efficient policy making. Among the initiatives to deal with this situation, it is worth mentioning the introduction of transparency systems and citizen participation mechanisms, promoted by the development of ICTs, and the efforts to achieve international harmonisation, especially in the framework of the European Union (Manes Rossi et al., 2016).

All these changes have been carried out at all governmental levels as well as in other public institutions, e.g., in healthcare or education. Some innovations may be directed at the same time to all the organisations of a sub-sector in the country, such as local governments, and in this case the political, legal, social and economic context influences the direction and consequences of the reforms. These are at the root of cross-country differences.

The literature contains important contributions about particular innovations in organisations and countries, reflecting national and international comparative studies, and specific methodologies have been used to measure innovations in the public sector (Walker et al., 2002; Bloch and Bugge, 2013). Furthermore, there is a research field aimed at evaluating the drivers as well as the achievements and the results of the process: it is necessary to study to what extent innovations have been successful. In this respect, Mulgan and Albury (2003, p.3) defined successful innovation as "the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes in terms of efficiency, effectiveness or quality". So, the question is whether all these reforms have achieved to improve the quality, efficiency and effectiveness of public management.

Some author's highlight that the reforms have been only partially successful (Olson et al., 2001; Lægreid and Christensen, 2013) and that reforms and innovations in the future should reflect the particularities of government and public services (Liguori and Steccolini, 2014). Among the challenges that innovations are currently facing, the following can be highlighted: the influence of the political process, which sometimes overlaps the technical developments, so that reform programs need a political commitment; the requirement of professional skills, which can be a limit in implementing PFM reforms (Pollitt, 2004); the need for a cultural change, which includes changing the way governments think and operate and changing the people's mentality from a bureaucratic to a responsive management attitude (Lapsley et al., 2002); the fact that reforms must treat financial management as a social practice (Liguori and Steccolini, 2014). The lack of funding and of internal incentives can also be a barrier to innovation (Bloch and Bugge, 2013).

This special issue of the *International Journal of Public Sector Performance Management* aims to contribute to this area of research. It intends to study innovations already put into action, as well as the consequences, both planned and unintended, of the reforms implemented at different organisational and governmental levels in public financial management. It also aims to shed light on the challenges and perspectives of future reforms.

The four contributions to the special issue explore achievements, lessons learnt and effective practices through case studies in different governments and organisations, in order to analyse how innovative processes took place, their drivers, the role played by regulators, managers and other stakeholders, and the extent to which financial management has been improved by these processes.

Cutbacks have been an important driver of innovation in recent years and Mutiganda analyses the organisational changes that took place in a hospital district in Finland from 2009 to 2015 in order to explain the implementation of managerial goals in clinic groups to introduce budget cuts, as well as the ways in which organisational members resisted (or did not resist) the implementation of budget cuts in their organisations. Using the organisational learning theory, the author shows that implementing budget cuts in the hospital district follows an exploitative learning approach, where the hospital district's executive committee takes appropriate managerial steps to implement budget cuts in clinic groups. Clinic managers assume the budgetary responsibilities and set priorities in redesigning clinical activities, using a specific timetable to monitor clinical performance, which facilitates inter-organisational learning and change at clinic group levels.

Performance measurement has been one of the most important innovations in the public sector, with performance reporting emerging as a new component for accountability and decision making. Manes Rossi, Allini, Spanò and Dainelli analyse the case of the British Museum in order to observe how institutional transformations and human and financial resources management can be a keystone in orienting the actions of an organisation toward performance measurement and, especially in the case of the British Museum, to a virtuous cultural management. The clear definition of the mission, the development of a dialogue between the internal actors, the active involvement of the external actors and the implementation of performance targets are some of the challenges necessary to introduce an effective performance measurement system. The system introduced has mainly an internal decision-making purpose, and this means that for the future it is necessary to make efforts to disclose relevant information to external stakeholders, or to collect their views so to encompass their requests in the decision-making process.

Guarini and Pattaro analyse the potential impact of European Union debt and deficit rules in local governments. The paper is focused on the case of Italian local governments, where the requirements of the European Union to balanced budgets have led to a severe reduction in public investments and a lack of political accountability. The authors use the resource dependence theory in order to explain intergovernmental relations and the impact of fiscal austerity in the case of local governments. In this framework, resource scarcity, and not necessarily efficiency, motivates organisational action. According to the authors, the mechanism introduced can disregard government units' financial management strategies to avoid resource dependence and the effects at the sub-national level, such as the investment squeeze or payment delays. The paper shows that budgetary constraints can really be an important limitation for the introduction of innovations in local governments, where the lack of financial resources can lead governments to budget manipulation and gimmicks.

The scarcity of resources is sometimes accompanied by financial scandals, a feature that public managers have often faced in recent years, which acts as an important restriction for efficiency. Gårseth-Nesbakk and Kjærland examine how Norwegian municipalities managed financial resources in such a framework. To this aim, they analyse the regulatory response to a big financial scandal which involved a number of municipalities and the preventive measures of financial debacle taken by municipalities, albeit not directly influenced by that particular scandal. Among the possible actions, the introduction of more sophisticated control systems, the intensification of controls and regulation are analysed. By conducting semi-structured interviews in a set of eight municipalities, the authors show that municipalities have not introduced many preventive measures in the control of the management of financial resources to avoid financial debacle, but that there are important differences, depending on the relevant municipality's size. They provide evidence that the introduction of innovations is influenced by contextual factors, including the size of governments.

In conclusion, the contributions show that the global environment of austerity which characterises nowadays public financial management has forced governments to introduce some changes, innovations and reforms that prevent or soften its impact. This is relevant at all governmental and organisational levels: central, regional and local governments, healthcare institutions, higher education and cultural organisations; all of them are required to reform the systems in place and to introduce organisational changes in management and control. The introduction of performance measurement is an important step that can help in dealing with financial shortcomings and scandals. However, there are some complexities and uncertainties that introduce challenges for the successful implementation of changes and reforms. The experiences presented in this special issue highlight that the environment and context influence the political agenda of public financial management: it is necessary to deal with the problems of the moment.

The main message sent by this special issue to researchers dealing with these themes is that while innovation is taking place in public financial management, there is still room for improvement. It is necessary to continue the efforts towards promoting innovation, to analyse the challenges that particular processes face and also to evaluate the actual achievements of the processes undergone. Has innovation really achieved the aim of improving economy, efficiency and effectiveness in public management? Before answering, much more research is necessary in this field.

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