

## Chapter 19

# The Impact of Accounting Information and Socioeconomic Factors in the Re-Election of Portuguese Mayors

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### ABSTRACT

*The limited literature on the subject of this chapter only assesses whether accounting information has an impact on the electoral results, particularly in local governments. The authors are not aware of any study that evaluates the influence of accounting information and socioeconomic factors on the re-election of mayors, particularly in Portugal. Based on the assumptions of agency theory, the authors start with the research question, Do accounting information and socioeconomic factors influence the re-election of Portuguese mayors? The research methodology used is the quantitative type, through which a multivariate analysis of data was performed on 308 Portuguese municipalities in two elections cycles. Although the results did not show statistical significance for all the variables, the authors verified that certain variables of accounting nature and some socioeconomic factors appear to show potential for influencing re-election.*

### INTRODUCTION

With the NPM paradigm, the reforms verified in the accounts of public sector organisations, taking place in different countries, and were characterised by the incorporation, in public entities, of new ap-

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proaches/management practices of the private sector, in particular, decentralisation, focus on results and the measurement of financial performance. The NPM is also related to the concepts of performance, economy, efficiency and effectiveness.

The changes brought about by the NPM in the public sector accounting have increased the demand for better quality of information for decision making and 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 and can be used to communicate the economic effects inherent in the decisions made by politicians (Ingram & Copeland, 1981).

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). 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 governments are the main policymakers 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 and the socioeconomic factors have an impact on the re-election of Portuguese mayors. To do so, we begin from the following research question: Does the accounting information and the socioeconomic factors 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 and for the period from 2009 to 2012 (two elections cycles), based on the results of the 2009, and the 2013 municipal elections, respectively. 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 budget, municipal debt, and financial accounting. Also some socioeconomic factors seem to influence the re-election.

Apart from the introduction, this paper consists of 6 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, socioeconomic factors and election results. In Section 3, we present the methodology of the study, specification of the problem, research questions, researches hypothesis, and definition of variables. In the Section 4, we provide information about the delimitation and research design, and in the Section 5, we present the empirical results. Finally, in the Section 6, we present the conclusions, the limitations of our study and the basis for future researches.

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