

## **A MICROECONOMIC APPROACH TO SAI'S EFFECTIVENESS DILEMMA**

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### **Introduction**

Different public administration scholars having analyzed the manner on which Supreme Auditing Institutions (SAI) fulfil their performance audit mandate, have been confronted with a paradox: while the broad legal mandate and the statutory independence SAI's enjoy -what every policy evaluation unit could only dream of (Pollitt & Summa, 1996)- should allow them to really enquire whether public policies and programmes make a difference, SAI most of the time content themselves with an analysis of good management practices inside a specific public organization, what is at best only a necessary condition for good government performance. Why do SAI's most of the time fulfil their performance audit mandate on a selective manner?

These authors have tried to solve this paradox by turning over the assumptions about the values that are expected to guide the behaviour of SAI's: if one assumed that an SAI's objective is not merely to fairly execute the mandate that has been entrusted to it but rather to survive institutionally, then one could explain SAI's apparently paradoxical production according to this goal of institutional survival, provided that one can establish that the complete execution of the performance audit mandate can frustrate this objective. This last condition has been fulfilled by pointing at the political environment inside which SAI's work, that could engage a mechanism (Falleti & Lynch, 2009) by which the naïve execution by a SAI of its performance audit mandate could prove contra-productive for its institutional survival: because their reports necessarily concern, on one way or another, the work of the governmental majority, and because these reports are generally transmitted to the Parliament, or a subcommittee of it, there is a risk that an instrumental use is made of these reports. The opposition could exploit these reports to attack the majority of the day, while the latter could only defend itself by 'shooting the messenger', that is, to attack the way an SAI has come to its findings.

The final piece of this argument is the statement that there are different types of performance audit, and that these types differ on the extent to which they allow this causal mechanism to occur: if all types of performance audits would set this causal mechanism into motion, such an argument could not account for the fact that a particular type of performance audit appears to be privileged by SAI's. So these authors have developed particular but largely overlapping typologies of performance audit, where each type is seen as having certain properties that more or less trigger this causal mechanism. This is what the effectiveness dilemma (Schwartz, 1999) refers to: in fulfilling their performance audit mandate, SAI's can chose either to fully execute their performance audit mandate, at risk of enabling a mechanism that could threaten their survival, or to protect their organization, by producing such reports that lower the probability of this mechanism to occur, at the risk however of not fully executing the mandate that has been entrusted to it.

Such an argument, if it proves helpful in solving the paradox about SAIs' production, nevertheless suffers from some limitations.

On the one hand, it does not really account for empirical diversity: if most SAIs indeed mainly produce good management studies, some SAIs seem to depart from this profile (Pollitt et al., 1999: 194-209; Put, 2006; Sterck et al., 2006: 105-123) and to produce more of these studies that are expected to trigger the threatening process of criticism explained above. This could be of course the outcome of SAIs' individual preferences (Thompson et al., 1990). A concurrent hypothesis is, however, that the different options opened up to SAIs, appear more or less desirable according to the spatio-temporal context. The current formulation of the effectiveness dilemma insufficiently accounts for such a hypothesis.

On the other hand, such a argumentation carries with it a rather pessimistic view on performance audit: the environmental incentives SAIs face lower the probability that society will ever get what it asked from SAIs: the production of highly relevant information about the extent to which public programmes are likely to attain their goals. Eventually could SAIs make punctual forays into this risky world, on the bedrock of more conservative performance audits, but the effectiveness dilemma does not allow much more than such short term tactical moves. Yet one can expect that SAIs do want to escape this effectiveness dilemma and provide reports that allow them to claim having fully fulfilled their performance audit mandate and that does not yield a damaging process for their institutional survival. What could SAIs do to move in such a direction? Such an empowering message is currently not provided by the effectiveness dilemma concept.

The objective of this paper is to explore an alternative formulation of the effectiveness dilemma that overcomes the limitations of the effectiveness dilemma concept while behaving its strength in explaining the apparently paradoxical nature of SAI's production. I argue in this paper that the effectiveness dilemma can benefit from a reformulation in microeconomic terms. Instead of a simple trade-off, we propose here to represent the effectiveness dilemma as an indifference curve.

Framing it as an indifference curve invites to consider other indifference curves, where the terms of the strategic choice to which SAIs are confronted are stated somewhat differently. This allows to overcome the first difficulty: if the terms of the effectiveness dilemma can be posed somewhat differently according to the indifference curve where one sits it could explain why the outcome of the strategic choice SAIs make on basis of it differ according to time and place.

The second advantage of such a view is that it allows wondering which factors could account for moves between indifference curves, as well as the control SAIs can eventually have on these factors. This allows the addition of an empowering component to the deterministic assumption that the concept of effectiveness dilemma carries with it: the strategic choice SAIs have to make at short term could be enfolded in a longer term institutionalization strategy.

The paper unfolds as follow.

First, we review a handful of papers that have tried to explain why SAIs generally fulfil their performance audit mandate by providing audits of good management practices. We then synthesize their findings into a generic version of the SAI's effectiveness dilemma, identifying which values can be linked to the audit and evaluation extremes of the performance audit continuum.

Third, we translate this effectiveness dilemma into an indifference curve, by splitting the continuum into two axes that represent competitive values SAI can 'buy' through their performance audit production.

We then review four theoretically possible moves between indifference curves: upward, downward, leftward and rightward. We explain the signification of each move, its impact on short term strategic choice, the kind of events that could lead to such moves as well as the control SAIs could exert on it, and consider some indicators that could inform us that such moves are currently happening.

We conclude by emphasizing the relevance of such a framework, which is traded-off against its main limitations, lying principally in the lack of empirical evidence provided. And we discuss some new research perspectives it could generate.

### **From SAI's effectiveness dilemma...**

According to article 2 of the statutes of International Organisation of Supreme Audit Institutions (INTOSAI), an Supreme Auditing Institution (SAI) is a "public body of a state or supranational organisation which [...] exercises [...] the highest public auditing function of that state or supranational organisation in an independent manner"

([www.intosai.org](http://www.intosai.org)).

Most of the SAIs are entrusted with the mandate to conduct performance audit. INTOSAI defines performance audit as such:

"Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:

- a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- b) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- c) audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact" (ISSAI 100: p.7).

Different authors having analyzed the way SAIs actually fulfil this performance audit mandate have identified this paradox: while the definition of performance audit is very broad, and SAI enjoy the necessary statutory independence to execute their mandate as they want, the performance audit reports they issue are mostly concerned with only a tiny portion of this mandate, the examination of management policies or sound administrative practices.

We review here three widely-quoted works in the field that have identified this paradox. We examine how they framed this issue, as well the way the explanations they provide for it.

### Michael Barzelay

Michael Barzelay (1997), relying on a survey made by the OECD in thirteen SAIs, asks how uniform or varied are the organisations' policies for performance auditing.

He first argues that performance auditing should be not considered as a subtype of audit, mainly because it relies on inspection rather than auditing as a mode of review. Rather, he argues, performance audit is an umbrella term for different types of review activities which are situated somewhere on the continuum ranging from audit to evaluation (237-42).

He then proceeds by conceptually dissecting this broad category of performance audits. He identifies seven types of products differing on the dimensions of unit of analysis, mode of review, scope of evaluation and focus of effort. From these seven types<sup>1</sup>, he retains four types which are actually produced by the SAIs under study:

- performance information audits, verifying “the accuracy of non-financial information generated by reporting entities” (Barzelay, 1997: 245);
- efficiency audits, examining “organizational functions, processes, and program elements to evaluate whether inputs are being transformed into outputs in an optimal way, especially with regards to costs” (Barzelay, 1997: 243);
- performance management capacity audits, involving “an evaluation of whether the auditee has the capacity to manage its processes and programs in an efficient and effective way” (Barzelay, 1997: 243); and
- program effectiveness audits, examining “the causal impact of programs upon outcomes” (Barzelay, 1997: 243).

According to the survey results, not all SAIs have developed this entire production line. Rather, they tend to gravitate toward the middle of the continuum, mostly producing efficiency audits and performance management capacity audit, but seldom extend their activities toward either the audit end (performance information audit) or the evaluation end (program effectiveness audit) of the continuum.

According to Barzelay, the more an SAI gravitates toward the evaluation end of the continuum, the more it must depart from its traditional audit's mission and role, thereby threatening its organizational autonomy. He sees such a “traditional role and mission” as staying on the administrative side of the policy-administration dichotomy. The development of a performance audit product line toward the evaluative end of the continuum would lead SAIs to enquire into more political than administrative matters, what is assumed to threaten organizational autonomy. To the extent that SAIs are resistant to change and tend to protect organizational autonomy, as “standard theories of bureaucratic behaviour emphasize”, they thus tend not to develop their product line that much toward the evaluative end of the continuum (Barzelay, 1997: 247), even if there are countries where these products are routinely generated.

But why then do SAIs tend not to produce performance information audits which, by being close to the audit end of the continuum, would allow them to satisfy their conservative tendencies? Because, he argues, in order for performance information audits

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<sup>1</sup> The three other types identified are: general management review, situated between performance management capacity audit and program effectiveness audit, and risk assessment and best practices review, between program effectiveness audit and evaluation.

to be produced, there must be first performance information to audit. It is only in those countries where such information is routinely generated that SAIs have extended their product line toward the audit end of the performance audit continuum<sup>2</sup>.

Turning to the reasons why specific countries do produce those types of performance audit reports that are close to policy evaluations, Barzelay argues that the political power SAIs' clients hold is a determinant factor: reporting chambers holding a real political power would not really matter whether the SAI delve or not into politics. They would rather expect information that is relevant to them, that is, more politically-laden information.

Inversely, SAIs with a reporting chamber that is weak in political terms have developed a shorter product line, with the notable exception of Great-Britain where the SAI does produce program effectiveness audits, but under a much greater control of the executive than for its other products (Barzelay, 1997: 149-50).

Nevertheless, even if SAIs only cover a tiny portion of the theoretically possible performance audit production line, Barzelay argues that the SAIs are still faced with a strategic choice about which type performance audit to produce, which is framed in terms of whether to adopt a rule-governed or a particularistic process of review. Each pole of the continuum is associated with two values. A rule-governed process would lead to suboptimal results ("applying rules could yield worse decisions that would have been obtained were the knowledge behind the standard brought directly to bear in dealing with the particular case",) but a reputation for objectivity ("as no one has authority both to set standards and apply them, official discretion at the individual level is minimized") (Barzelay, 1997: 251). Inversely, a particularistic process is expected to lead to more optimal results, but less reputation for objectivity. A trade-off is thus emphasized between the two values.

Barzelay argues that three factors could lead an SAI to exchange a reputation of objectivity for less suboptimal results:

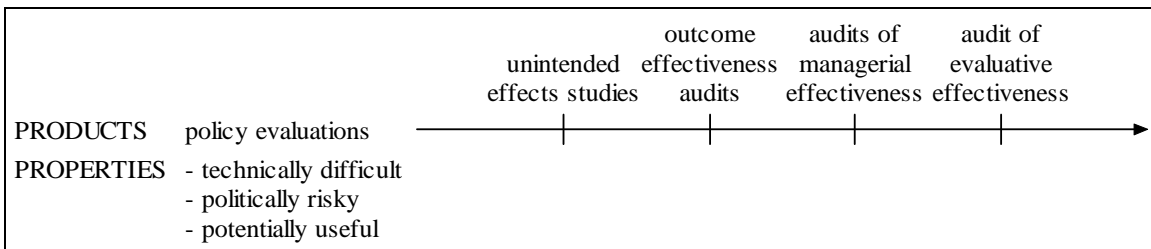
- the acceptance by an SAI of New Public Management doctrines, that weaken "the case for machine-like evaluation and strengthens the case for made-to-measure performance auditing" (Barzelay, 1997: 251);
- the attitude of SAIs' clients toward this choice: if they "are comfortable with the exercise of evaluative judgment in a relatively particularistic mode, the audit body may be insulated from serious challenge" (Barzelay, 1997: 252);
- the adoption by SAIs of "compensatory strategies to fill legitimacy gaps", relying on impartiality, expertise and performance (Barzelay, 1997: 252).

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<sup>2</sup> This argument that there are prerequisites for a type of audit to be possible, could also be developed for the other types of audits. Inversely, constructivist writers have rather emphasized that this possibility principle is not an intrinsic property of things, but rather the outcome of a consensus about what can legitimately be audited (Power, 1994). The point is that SAIs could concretely have a more limited range of options than assumed here, because of their legal mandate, properties of the field to be audited and social consensus about what constitutes legitimate practice. There would however remain a choice to make, which is expected to follow the dynamics of the effectiveness dilemma.



- unintended effects studies are assumed to be even more radical than outcome effectiveness audits since they do not even fall under INTOSAI’s definition of performance audit, but under this of “evaluation *studies*” (Schwartz, 1999: 518, emphasis added). Refusing to address the unintended effects would lead to “miss the most important findings”, but allow escaping from politically sensitive issues (Schwartz, 1999: 519).
- outcome effectiveness audits measure the “extent to which programmes produces outcomes consistent with their underlying policies” (Schwartz, 1999: 515). An auditor focusing on it would be directly confronted with the above-mentioned dilemma: such products are assumed to be technically complex, politically risky but potentially useful;
- audits of evaluative effectiveness focus on the capability of projects, programmes and policies to measure their own substantive effectiveness and improve it. Such products are considered technically easy, and not politically risky. But their potential usefulness is considered limited, because they do not really address true government performance (Schwartz, 1999: 516-7);
- audits of managerial effectiveness assess “the extent to which the management of a project, programme or policy is effective in producing functional outputs” (Schwartz, 1999: 515). Such audits are technically easier and carry fewer political risks with them than outcome effectiveness audits. But “it leaves unanswered the most important questions about whether a programme is worthwhile” (Schwartz, 1999: 516);



**Figure 2 – Schwartz's effectiveness dilemma**

The author then analyses how SAIs manage the effectiveness dilemma, by classifying the outcome evaluations they transmitted to him according to this typology. He comes to the conclusion that most SAIs “have not met the challenge of providing non-politicized, professional and objective outcome evaluations in place of agency-based evaluations which are perceived to be infected by political interests”, despite the statutory independence they enjoy that should in principle allow them to investigate ‘true’ effectiveness issues. He confirms thereby the hypothesis that an effectiveness dilemma exists: “the findings lend partial support to the theory that the extent to which auditors engage in effectiveness evaluation is determined through a conscious decision to minimize their political risks.” (Schwartz, 1999: 522).

More specifically, some SAIs do take the risk of producing ‘real’ effectiveness audits, others not, and a third category adopts camouflaging strategies: producing risky evaluation studies under the name of less risky products or inversely. In each category, there are some SAIs providing methodological justifications to their products, others not.

To conclude, he proposes a way to solve the effectiveness dilemma by providing useful reports which limits the political risks linked to them: “use rigorous social science methods to minimize attacks on their credibility” (Schwartz, 1999: 524).

### Pollitt

As the two other authors reviewed here, Pollitt argues that SAIs face a strategic choice as to how to execute its performance audit mandate.

The existence of a choice is inferred from the fact that there are far more issues that can be the object of a performance audit than there are performance auditors to undertake the work (Pollitt, 2003: 160).

This choice does not necessarily need, however, to be of a strategic nature. Pollitt indeed admits the possibility that SAIs do not really make strategic choices but that they are rather “pushed and pulled along, shaped by the old forces of tradition and the new forces of economic and political change” (2003: 169). After careful analysis, however, such a possibility seems to be rejected: “we found evidence that SAIs themselves at least *believed* that they had alternatives. [...] It is hard to see these august bodies [...] as no more than passive pawns in the wider political game. [...] [T]heir field of discretion remains considerable and, shrewdly led, they are capable of strategic choice.” (Pollitt, 2003: 169, original emphasis).

Pollitt argues four strategic choices are opened up to SAIs fulfilling their performance audit mandate. These can be situated on a continuum ranging from traditional audit to evaluation. Each score differently on at least four values: the publicity they provide for the SAIs, their technical difficulty, the extent to which it exposes SAIs to criticism, the extent to which it allows SAIs to claim having fulfilled their mandate, as well as the proximity to either traditional audit or evaluation:

- giving primacy to effectiveness studies would bring SAIs closer to evaluation than traditional auditing. It would require a good deal of technical expertise. It would bring more attention to SAIs from politicians and the public, but such an attention also means a greater exposition to criticism, because it would lead SAIs to address more politically controversial questions, thereby allowing the SAI to claim having fully fulfilled its mandate;
- status quo would mean continuing to produce audits of good management<sup>4</sup>. Such a strategy is technically easier, and carries less political risks with it, at the cost, however of a “*de facto* abandonment of the claim that performance audit had much to say about policy or programme effectiveness”. Such a strategy would situate performance audit somewhere between audit and evaluation (Pollitt, 1999: 167)
- a conservative strategy means for SAIs staying conceptually close to traditional audit. The audit findings would be less easily criticisable, but SAIs would have to give up the claim that they really do performance audits. Such a strategy is considered not to be technically difficult.
- a portfolio strategy means that SAIs occupy the whole range of products from traditional audit to policy evaluation. Such a strategy would allow to compensate

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<sup>4</sup> His research has indeed emphasized that SAIs generally produce such studies, even if certain SAIs depart from this general profile (Pollitt, 2003).

the risks that given types of performance audit carry with them (de facto giving up of performance audit mandate for conservative strategy; political risks of a strategy focused on effectiveness studies) by the opportunities provided by other types of performance audit (the right to claim having fully executed its performance audit mandate for effectiveness studies; the absence of political controversy for conservative audit products).

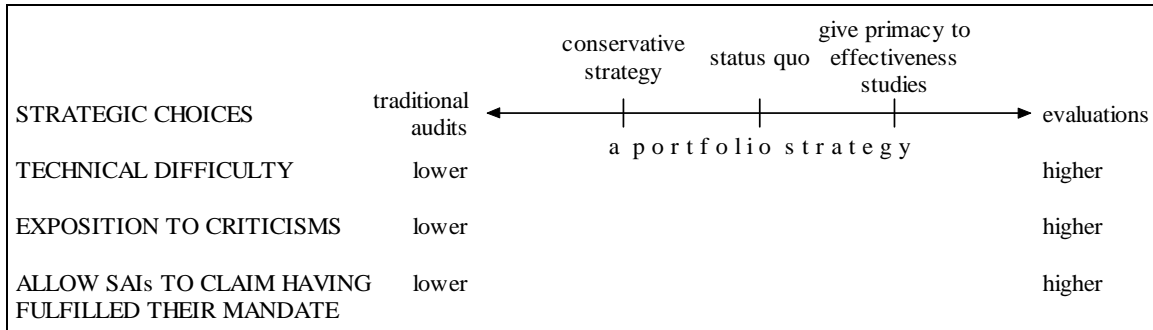


Figure 3 – Pollitt's strategic choices opened up to SAIs

**...toward an indifference curve**

Synthesis

The three articles reviewed here share a number of common characteristics we propose to synthesize here.

First, they all consider that performance audit consist of a wide range of products, that can be placed on a continuum, ranging from traditional audit to evaluation according to Barzelay and Pollitt. Schwartz only considers the evaluation end but, by considering the distance between actual products and this ideal-type, seems well to envision a continuum. The typologies are largely overlapping, Barzelay going further toward the audit end of the continuum while Schwartz develops it more toward the evaluative end. The typologies are also largely consistent with each other<sup>5</sup>,

Second, they all consider that certain values are attached to both extremes of the continuum, and generally agree on which ones. We retain three themes on which the extremes adopt opposite values. First is the theme of technical feasibility: all authors agree that products closer to evaluation are technically more challenging. Second is the theme of utility, relevance or potential impact: products closer to evaluation are assumed to possess a greater intrinsic value than more audit-like products. A third theme is the risks to organizational autonomy: products closer to evaluation are expected to lead to more risks for the legitimacy of the authority producing them.

Finally, they all emphasize a relation between those values: the products that are of a greater interest are those questioning current policy. These are also the most difficult to do. But questioning current policy can lead those feeling unfavoured by the audit findings

<sup>5</sup> There is an exception. Provided that Barzelay's performance management capacity audit and efficiency audit can respectively be equated with Schwartz's evaluative effectiveness and managerial effectiveness audits, Barzelay positions the former closer to the evaluative end of the continuum than the latter, while Schwartz seems to invert this order.

to criticise the SAI on grounds of political partiality, what could at the end threatens organizational autonomy.

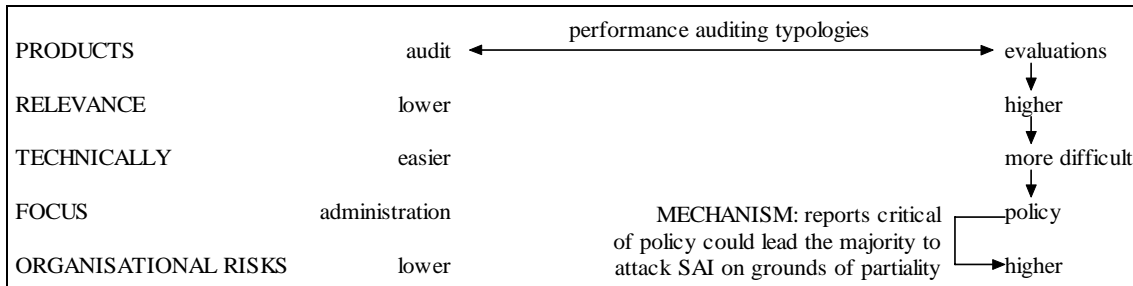


Figure 4 – A generic version of SAIs' effectiveness dilemma

### Limitations

Such a view can explain that SAIs entrusted with the performance audit mandate only issue evaluation studies occasionally, and mainly issue more audit-like products. There remain however at least two unresolved issue, that stem from the deterministic tone of a presentation in terms of trade-off.

The first problem is that, if taken without any consideration of context, the effectiveness dilemma only allows a single viable solution: gravitate toward the middle of the continuum. Indeed, such a position is the single one where an SAI could claim to provide a valuable contribution while preserving its organizational autonomy. Yet there are some SAIs which are positioned differently on the continuum. Sterck et al. (2006: 111) for instance, have emphasized that the Dutch SAI focuses much more on policy than the British one, indicating a different positioning on the effectiveness dilemma. The authors we reviewed tend to emphasize these different outcomes as a matter of individual preference. But is it well so? Are there no contextual factors making one option more attractive than other ones? Barzelay and Schwartz, by pointing at the role of clients, of public management reforms and of methodological development, seem to consider that contextual developments can affect the mix of values that is attached to a given performance audit. If each product would lead to the same values whatever the context, all the SAIs all over the world, faced with the same dilemma, would make the same choice. Since it is not the case, the terms of the strategic choice SAIs face should be allowed to change according to the context. I propose to develop this hypothesis further in the remaining of the paper.

Linked to it is the sad perspective such a view opens up for SAIs: you can choose between being useful and protect yourselves, but you will never be able to do both entirely! It is as if the conduit of programme effectiveness audits under the banner of performance audit was a suicidal option. Yet the worth of providing policy evaluations has been emphasized by the performance audit literature and one can expect SAIs to be receptive to this appeal. The effectiveness dilemma cast a pessimistic light on public auditing system, while field players could expect a more empowering message to be delivered to them by the academic world. Under which circumstances could SAIs produce policy evaluations while minimizing the organizational risks linked to such products?

### The effectiveness dilemma as an indifference curve

In order to better take contextual factors into account and to relax the deterministic assumptions that the effectiveness dilemma carries with it, while behaving its strength in explaining the apparently paradoxical nature of SAIs' performance audit production, I argue that the effectiveness dilemma can benefit from a reformulation as an indifference curve.

Such a conceptual move actually requires the separation of the value continuum into two axes in such a way that the performance audit product line expresses a negative function between these two orders of values.

I thus argue that the whole range of values that the different authors reviewed here attach to the audit and evaluation end of the products continuum can actually be clustered into two orders of values<sup>6</sup>.

The x axis refers to the extent to which SAIs accept to expose itself to the public debate. Such an exposition has two sides. It allows SAIS on the one hand, to claim having fulfilled its performance audit mandate, by providing a visible contribution to the political debate about whether or not public programmes are worth pursuing. On the other hand, it also means a greater exposition to criticism. The x axis of public exposition can thus be seen as a double-edged sword for SAIs carrying with it legitimizing promises from mission accomplishment as well as the risk of triggering the threatening process for organizational autonomy.

The y axis concerns the extent to which SAIs' audit findings are considered as credible by the audience to which they are reported. Such a dimension subsumes the dimensions of technical feasibility (Schwartz, Pollitt), and the extent to which the audit process can be "rule-governed" (Barzelay). Both axes could also be said to refer to external (the need to provide a visible contribution) and internal (the need to protect the institution) concerns of an SAI.

As the different authors I reviewed state, I argue that there is a causal mechanism relating these two orders of values on a negative way: what confers exposure to SAIs is the extent to which they provide new information. New information is not information that endorses the deeds of the governmental majority. Rather, it is information that questions the governmental majority, providing dissent voices in the system (Sunstein, 2003). This is by the way what is expected from SAIs as an institution involved in the separation of powers. But it is precisely because such information does not endorse government acts that the latter could defend itself by pinpointing SAIs' findings as non-credible. Inversely, information that is credible for government is information that endorses its acts. But it is improbable that such information will provide a great exposition to the institution that provides it.

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<sup>6</sup> There is indeed no conceptual opposition between lower technical difficulty and higher relevance. It is only through the causal mechanism emphasized on figure 4 that both values are made opposites of each others. Conceptually, internal dimensions related to difficulty and/or organizational risks are distinct from external ones such as relevance or political sensibility, and each dimension can show high or low values. The separation of the continuum of values into two axes can thus be conceptually justified.

The continuum of performance audit products can now be as an indifference curve showing at a given place and time, how much ‘credibility of findings’ and ‘exposition’ an SAI can ‘buy’ through its performance audit production. The point is here not, however, to develop a synthetic typology of performance audit products, but rather to emphasize how environmental changes can alter the effectiveness dilemma as well as the influence SAIs can exert over these changes. I will therefore only retain here the two extremes of the continuum, audit-like (A) and evaluation-like (C) performance audit products, and an intermediate position that can be labelled as audit of “good management practices” (B) (Pollitt, 2003):

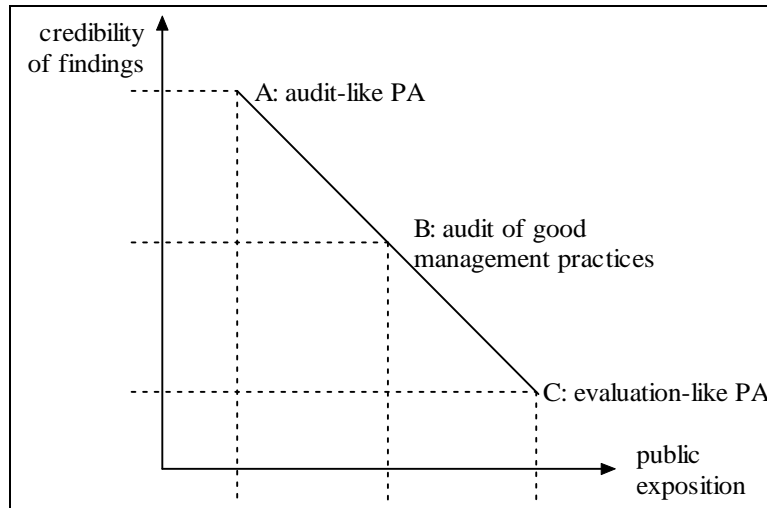


Figure 5 – SAI's effectiveness dilemma as an indifference curve

### Synchronic and diachronic perspectives on SAIs' effectiveness dilemma

In framing the effectiveness dilemma as an indifference curve, we posed two conditions: to behave the strength of the original formulation while adding a dynamic perspective to it.

The strength of the original formulation laid in emphasizing the punctual, synchronic choices to which SAIs are confronted. This strength is behaved: an indifference curve means that each possible combination of both values should provide the same ‘utility’ to the ‘buyer’, and that he is indifferent as to which basket of values to choose<sup>7</sup>. Such a view is consistent with the reviewed works on the effectiveness dilemma, which emphasize the idea that SAIs ultimately have to choose between different options that are equally desirable according to their own preferences.

Moreover, the framing in terms of indifference curve adds a diachronic perspective to the effectiveness dilemma: where there is one indifference curve, there are other indifference curves showing other levels of ‘utility’ provided by the combination of the two values.

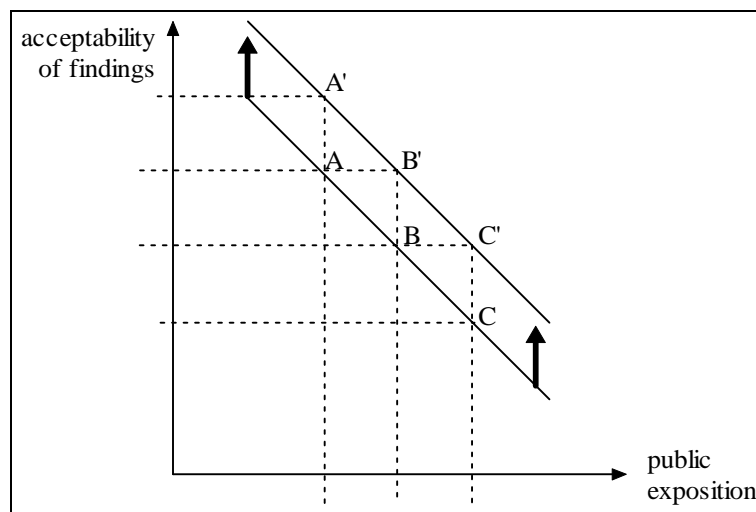
<sup>7</sup> With presentational purposes in mind, I have relaxed here the assumption of the decreasing marginal utility that the microeconomic concept of indifference curve carries with it. Its application would not alter my argument. But it would lead to a greater need for conceptual refinements because in such a case, indifference curves would cross each other, what the microeconomic theory only allows in exceptional circumstances.

We review here four theoretically possible moves between indifference curves: upward, downward, leftward and rightward. We consider how such moves could affect the synchronic strategic choices SAIs have to make. We wonder which kind of events could lead to such moves, as well as the control SAIs could eventually exert on them. Finally, we devise some indicators that such a move has empirically taken place.

### Move upward

A first theoretically possible move is upward, toward an indifference curve representing a higher total ‘utility’ for SAIs.

Such a move implies that the findings of the whole performance audit product line are considered as more credible than before, without however that such an increase of credibility leads to a loss of public exposition.



**Figure 6 – Move upward**

Such a move is interesting in that it opens up new possibilities for SAIs at short term. If the SAI, for instance, started from the intermediate position B, where it used to audit good management practices, it can behave its strategic position and benefit from findings that are generally considered as more credible by moving to B'. But it can also ‘exchange’ the gain in credibility of findings for a greater public exposition by moving to C'. If the SAI enjoys a greater credibility than before, it could permit itself to engage in more ambitious products.

The good news is that SAIs can have a certain control over this dimension. Barzelay pointed to the fact that SAIs could ‘buy’ legitimacy through recruiting procedures, quality control process. Schwartz indicated that a way to escape the effectiveness dilemma was to invest in “rigorous social science methods”. Power (1999) too pointed to this phenomenon by noting that the auditing profession presents the auditing process according to the public expectations about its objective character by a process of abstraction and formalization of the actual auditing process.

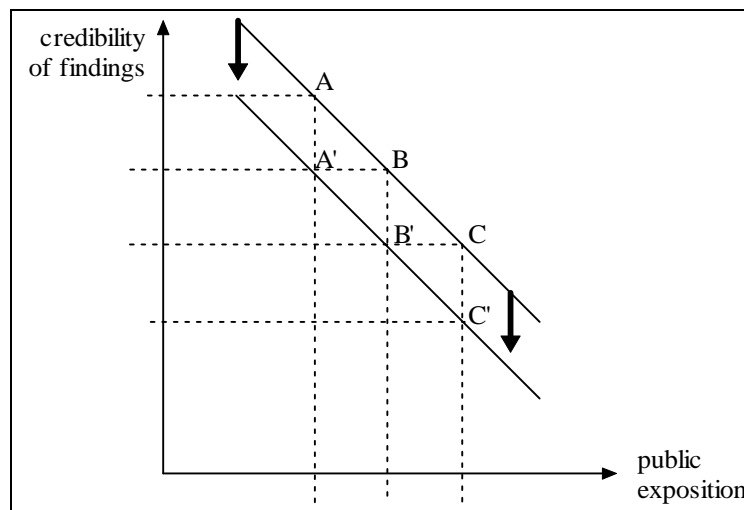
Actually, such a move corresponds to a strategy of professionalization by SAIs (Abbott, 1988): communicating toward the outside world that, thanks to stricter recruitment, new methods and techniques, the requirement that auditors possess certain certifications or at

least that they must follow a certain educational programme, the improvement of organizational efficiency, the SAI performs its work better than before. Such announcements can be considered as indicators that such a move is actually happening.

### Move downward

An inverse move is equally thinkable. It represents a move toward a lower indifference curve that represents a lesser degree of ‘utility’.

Actually, in such a move, the findings of every performance audit product are considered less credible than before without, however, affecting the degree to which SAIs are publicly exposed.



**Figure 7 – Move downward**

According to a conceptualization of the effectiveness dilemma as an indifference curve, one cannot expect SAIs to willingly decrease the extent to which their findings are credible. Therefore, the drivers for such a move are expected to lie principally in the environment.

A scandal implying the audit profession could for instance occur, such as the Enron scandal, rebounding on the credibility of the individual SAI. SAI could be, however, insulated from systemic audit failure, and claim to resort to other institutional order. But a scandal implying an SAI could eventually occur. For instance if a public institution that comes to be perceived as failing had recently been the subject of a favorable audit from an SAI, it could ruin its efforts to acquire legitimacy from professionalization strategies. The decline of SAIs' credibility could also flow from attacks from concurrent professional groups that are widely echoed. Critics from academics, emphasizing the unintended effects of audits on audited bodies, such as those provided by Power (1999) or Van Thiel (2002) could mark the beginning of a destabilization strategy that, if sustained in the long term, could account for such moves.

Moreover, different authors have suggested that SAIs could willingly engage in such a process, by lowering the public expectations as to the objective character of the information they provide (Ling, 2003; Pollitt & Summa, 1996). Yet seen through an indifference curve scheme, such a voluntary move does not appear beneficial to SAIs.

This analysis seems to be confirmed empirically since no research has to my knowledge emphasized the use of de-professionalization strategies by SAIs.

If an SAI is confronted with such a threatening context, it could however exchange the loss of credibility for a loss in public exposition: if it used to produce performance audits in a rather evaluative fashion (C), it could appear desirable, faced with a suddenly threatening context, to move toward audits of good management practices (B') to compensate for it, rather than moving toward C'.

Empirical indicators could be press releases questioning the integrity of an SAI, pointing at specific failures to detect at time a given problem in a particular organization, or a change of paradigm in the academic literature, where audit technology and/or profession comes to be seen rather through the risks they carry with them for society rather than through the opportunity it could provide.

#### Vertical moves and the worth of a microeconomic approach of SAI's effectiveness dilemma

The examples of vertical moves just reviewed emphasize the potential of a framing of the effectiveness dilemma in terms of an indifference curve: it indeed allows integrating short-term tactical moves with longer term strategic development trajectories.

So have different authors in the performance audit field criticized the tendency of SAIs to hide their actual work process behind a mirage of formal procedures, which are assumed to be decoupled from the former (i.e. Radcliffe, 1999). When they come to such findings, the authors generally plead for a more transparent exposition of the actual audit process as it is, that is, an imperfect but nevertheless useful intellectual product (Henkel, 1991). According to a microeconomic conception of the effectiveness dilemma, relaxing the claim to provide objective findings appears however contra-productive, in that it would lead SAIs to regain credibility by moving to a less ambitious production. The microeconomic approach rather lends support to these authors having emphasized the need to increase the degree of formalization and abstraction of knowledge (i.e. Gunvaldsen, 1999 for the SAIs-specific argument; and Abbott, 1988, for the general argument), provided that evaluation-like products are more desirable than audit-like ones from a societal point of view: it allows SAIs moving to more ambitious products without supporting the organizational risks normally associated to it.

#### Move rightward

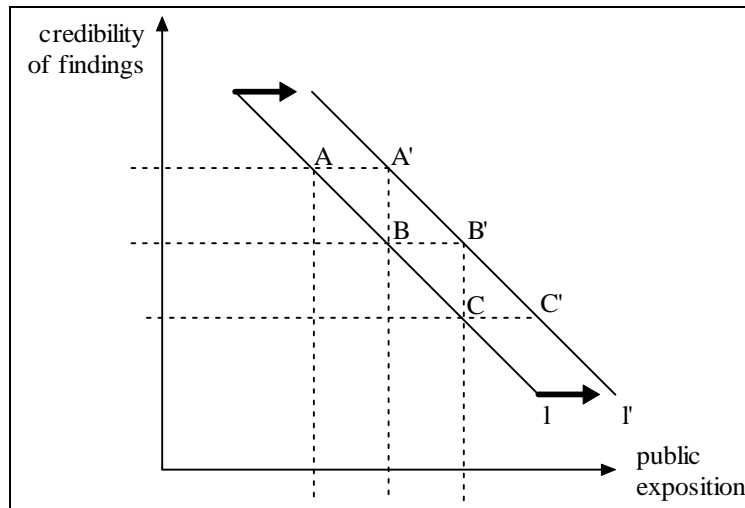
Turning to the horizontal moves, one can theoretically expect moves leftward or rightward.

A move rightward represents a move toward a higher level of 'utility'.

It means that, for every performance audit product, an SAI enjoys a greater degree of public exposition than before, without however a loss in credibility of findings.

Such a move actually means that the SAI enjoys, structurally or punctually a higher public profile: the public expectations addressed to SAI increase. Punctually, in moments of crises, when the credibility of the political-administrative class is undermined, there can be a sudden concern with accountability issues. In such circumstances, independent institutional actors, such as magistrates or SAIs, are confronted with a higher level of public expectations, everybody waiting for a professional appraisal of the situation.

Structurally, a societal evolution toward a distrusting society (Power, 1999) or a society with a higher index of uncertainty avoidance (Hofstede, 2001) could account for such moves. In such contexts, the public credibility of elites is low, or rather transferred from traditional elites toward new ones such as experts and auditors, which enjoy a greater degree of public exposition (Power, 1999).



**Figure 8 – Move rightward**

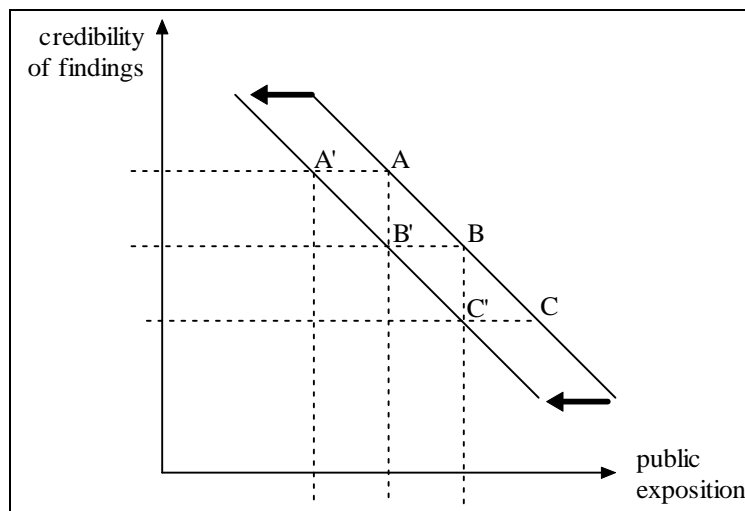
In such circumstances, SAIs can enjoy a greater public exposition and continue producing the same products in the new context. But there is another, perhaps more attractive option. If the SAI already enjoyed a good deal of public exposition by providing evaluation-like products, why not rather take advantage of the growing public expectations to punctually move toward products that are considered more credible in such turbulent times? For instance, a scandal of mismanagement of public money by government and administration officials had occurred in Canada, the Sponsorship Scandal. In this turbulent context, the Canadian SAI was asked to provide information about the management of the concerned public administration; everybody waited for the sanction of the public auditor. The SAI issued a tiny and very conservative financial audit: the public expected so much from the SAI that it was not worth embarking in a risky enterprise looking for deep underlying causes of such kind of behavior. Never had an audit of this SAI enjoyed such a great impact than this financial audit. It is only after the political situation had calmed down that the SAI performed a systemic audit of the organization (Fraser, 2004; Sutherland, 2006).

SAIs could participate in such a move by systematically instilling a feeling of public management crisis, for instance by repeatedly pointing in its reports to unaccountable administrators, the politically nature of policy objectives, etc... and present itself as the white knight, the righter of wrongs in a corrupted world. Such a tool should however be handled prudently, because it increases the probability that the causal mechanism explained above occurs, by which an increase in public exposition is transformed by discontented groups into an outright attack on its credibility: the credibility of an SAI is never absolute, and an external attack on it should never be excluded. SAIs could then choose, under such circumstances to move toward less ambitious products, as the

empirical example above has indicated. If such a development is beneficial from SAI's standpoint, which enjoys a greater 'utility' than before, it can appear contra-productive from a societal perspective, if one assumes, with Barzelay, Pollitt, Schwartz and others that performance audit products closer to policy evaluation are more desirable. Empirical evidence for such a move can be inferred from Hostede's country index, observed in news reports, or read in the concluding sections of SAIs' reports.

Move leftward

With a move toward left, the whole performance audit product line benefits from less public exposition than before.



**Figure 9 – Move leftward**

At first sight, this appears a less desirable scenario for SAIs because the total 'utility' they enjoy is reduced. Indeed, in such a scenario, an SAI willing to behave the same degree of public exposition must move toward products that score less on credibility (i.e. from A to B'). Therefore, another possibility is to stay producing the same kind of products (i.e.: from B to B'), but with less exposition than before, lessening the probability of the threatening causal mechanism to occur: if a report is less visible, there is less need for discontent politicians to transform the lower degree of credibility of findings into an outright attack onto SAI's neutrality.

As with the move rightward, the degree of exposition an SAI enjoys should be appreciated relatively to the degree of exposition of other providers of performance information. So is the probability that any performance audit report remain unnoticed greater in a context where thousands of performance reports, annual reports, performance budgeting are routinely produced by the administration than in purely Weberian public administration. With a constant degree of attention for performance information, how more government produces itself information about its own performance, how smaller the share of total attention that is devoted to SAIs. So in general, such a move can be equated

with the adoption of public management reforms and the documentary inflation that generally flows from it<sup>8</sup> (Gregory 2007).

SAIs can exert a certain influence on it. For instance, a number of authors have emphasized the role SAIs fulfill in promoting public management reforms blueprints (Gendron et al., 2009), in legitimizing governmental reform initiatives (Broadbent & Laughlin, 2003), in making things auditable<sup>9</sup> (Power, 1994).

Empirical evidence of such strategies can be found in audit reports and formal documentation about the audit process: discourses could be found there where an SAI openly promotes governmental frameworks of reform, emphasize the necessity of generating performance information. Reports can also directly focus on the extent to which policy evaluation units are actually in place, whether performance information is routinely generated, supporting indirectly the institutionalization of such schemes.

#### Normative perspectives on SAIs' effectiveness dilemma

It could be objected that the leftward move we just emphasized is contradictory: for the indifference curve to be a relevant way of framing the effectiveness dilemma, one should expect that the SAI wants to move to higher indifference curves. These are situated upward and/or rightward. But there is wide evidence in the literature that SAIs are fervent supporters of public management reforms, what is supposed to result in a move leftward in the indifference map. So why would SAIs favour environmental changes that decrease their total utility?

Actually, such a problem can only be resolved inside the analytical framework I propose by considering horizontal moves in conjunction with vertical ones. Vertically, I have emphasized that SAIs have a general interest to invest in professionalization strategies. It allows them to raise the credibility of all their findings or to behave the level of credibility while moving toward products that confer them more exposition. If combined with a horizontal strategy aimed at supporting public management reforms, it can allow SAIs to stay on the same level of credibility and public exposition while constantly moving toward the evaluative end of the continuum. Provided that the production of policy evaluations is worthwhile, such a situation can be beneficial from a societal standpoint.

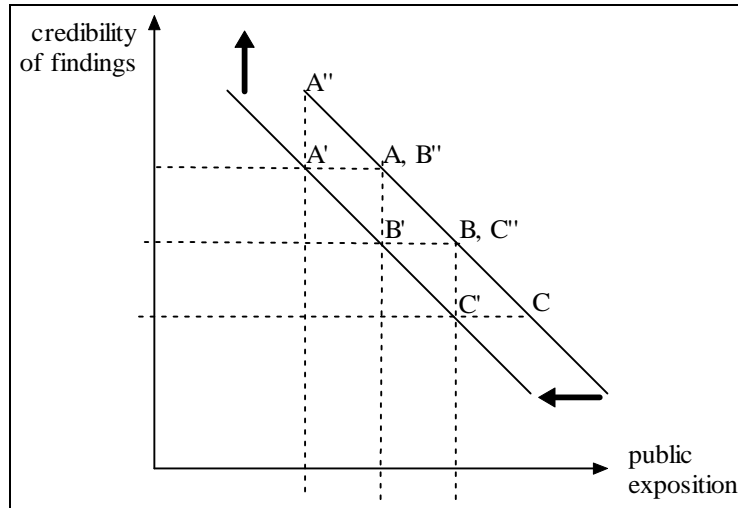
This appears on the next graph: starting from a position B, an SAI that sees its own share of public exposition decrease as a consequence of public management reforms, can move toward B', in order to keep credibility untouched. If such an evolution is accompanied by a professionalization strategy by SAIs, it can lead to raise the extent to which its audit findings are considered credible. In such a situation, the SAI can stay on the same product line, and move toward B''. It can also exchange this gain of credibility for more exposition, and move toward C''. With such a double move, an SAI can continue to 'buy' the same amount of credibility and exposition, but by providing performance audit products that are closer to evaluation: under longer-term pressures, the values that are

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<sup>8</sup> As Barzelay (1997) and others (Pollitt et al., 1999; Power, 1999) argue, public management reforms have another effect on the effectiveness dilemma: they broaden the gamma of performance audit products that can be issued by providing new types of information that can be audited.

<sup>9</sup> In promoting public management reforms, SAIs could pursue another objective, that is, to assign responsibilities for the production of the performance audit products they do not want engage in to public organizations, by auditing, for instance, the policy evaluation capacities of departments.

now attached to each performance audit product have changed: a same product is now considered a more credible than before, thanks to the professionalization strategies SAIs have deployed, and has a greater chance of remaining unnoticed in the see of performance reports produced everywhere, lowering the probability of a threatening process for organizational autonomy to occur. Such a double allows SAIs to gradually move toward more ambitious products without however getting into trouble.



**Figure 10 – Long term evolution toward more evaluative performance audits**

### **Conclusion**

Building on widely accepted assumptions about what determines SAIs' behaviour when they execute their performance audit mandate, I have tried to explore an alternative formulation of the issue that has the potential to overcome the main limitations of the original formulation. This new formulation opens up new research perspectives I would like to discuss as a conclusion.

For a few years, most Supreme Auditing Institutions (SAIs) in the world have been entrusted with the performance auditing mandate, by which they assess whether public organizations and policies comply with the criterions of economy, efficiency and effectiveness.

SAIs are assumed to be confronted with a choice about how to execute this mandate. The existence of a choice stems from the fact that (1) there is far more potential work than actual capacities, leading to the need for selection, and (2) that SAIs are independent, free to make this selection on their own.

This choice is expressed as a trade-off between different values that are attached to different types of performance audits. Performance audits that are closer to policy evaluations are assumed to be more useful, because they focus on challenging questions such as: 'has a given public policy achieved its proclaimed objectives'? However, because the answer to such questions will probably not be a straightforward 'yes' but rather a critical appreciation of the work of the majority of the day, the publication of such reports in a political arena can lead the governmental majority to criticize as a reaction the way SAIs have come to their findings, threatening at long term the

independence SAIs enjoy. Inverse risk and opportunity are associated with products closer to traditional audits, and different intermediate options exist. Three papers emphasizing this issue have been reviewed to develop this synthetic view on “SAIs’ effectiveness dilemma” (Schwartz, 1999).

Instead of a simple trade-off, I have suggested in this paper that the effectiveness dilemma could gain from a formulation as an indifference curve, where SAIs ‘buy’ different amounts of ‘public exposition’ and ‘credibility of findings’ through performance audit products.

Indeed, seeing one indifference curve invites to look at the other indifference curves as well as the events that could account for moves between indifference curves, what allows localizing the effectiveness dilemma in a particular context and to enfold the short term dilemma into longer term institutional evolutions. When a move toward another indifference curve in one of the four directions occurs, the SAI starting from a given position has always two options at his disposal: keep issuing the same products under the new context characterized by higher or lower credibility or exposition, or counter the contextual trend by adapting its production, at the cost however of a gain or loss on the other dimension.

The other advantage of a formulation of the effectiveness dilemma as an indifference curve rather than as a continuum is to reintroduce possibilities of action into a deterministic framework. Indeed, it appears that SAIs can play a role in every possible move considered, next to environmental factors: they can use (de-)professionalization strategies, instill a feeling of public management crisis, promote public management reforms, etc... Such longer term strategies can be deployed to counter of support environmental developments.

The combination of both insights (influence of longer term evolutions on shorter term choices and SAIs’ role on the longer term evolutions) has allowed identifying a scenario that has the potential of leading SAIs to fulfill their performance audit mandate on a more and more evaluative way –what is assumed to be desirable from a societal point of view– while minimizing the organizational risks usually linked to it: if SAIs constantly invest in professionalization strategies and continually support public management reforms, the values attached to evaluation-like performance audits could change, allowing SAIs to move to more ambitious products without however getting into trouble.

This is only but one example of the potential of a microeconomic approach of SAIs’ effectiveness dilemma to generate stimulating new research hypotheses in the field of public auditing.

Actually, such a microeconomic approach has the potential to develop toward a general explanatory theory for SAI’s strategic behaviour. Considerations of space have however compelled me to simply outline how such a theory may look like, and to focus mainly on justifying the assumption underlying such a theory (that there is a negative relation between SAI’s quest for credibility and its search for public exposition) through an anchoring in scientific literature of performance audit on the one hand and on outlining a few research hypotheses to which it could lead, emphasizing its explanatory power through empirical examples and reliance on the field literature on the other hand.

Consequently, further conceptual work is needed so that my approach of the effectiveness dilemma through an indifference curve could grow to a full-fledged microeconomic theory of SAIs' strategic behaviour; additional requirements that can be seen as so much limitations of the present paper.

First, I have attempted in this paper to inventory different environmental factors that could account for moves between curves, as well as the extent to which SAIs have a certain control capacity over them. I could however have missed some elements, and the list could therefore benefit from additional insights of colleagues.

Second, I have considered in this paper four theoretically possible moves between indifference curves, vertically and horizontally. Diagonal moves are however also conceivable, and the same exercise should also be completed for these moves, by which one tries to identify the meaning of such moves, environmental factors that could account for them, and the control SAIs can exert over them.

Third, I have assumed so far that the slope of the indifference curve amounts to -1, as if a decrease in credibility leads to a proportional increase in exposition. Actually, this assumption is more justified by an objective of parsimony than by theoretical considerations. The slope of the indifference curve should be allowed, as for all the other variables taken into account, to vary according to the context. A possible working hypothesis is that the extent to which SAIs' reporting chambers are divided along political lines can influence the slope of the indifference curve, that is: how much credibility must be abandoned for a gain of one unity of public exposition.

Fourth, a careful integration of the assumptions of microeconomic theory, or a justification of their abandonment should be undertaken. For instance, we have relaxed here the assumption of decreasing marginal utility for heuristic purposes. The signification of this assumption for SAIs should be investigated and, if relevant, integrated into the conceptual scheme.

Finally, the way all these moves and changes of the slope interact with each others, as well as with the actions SAIs deploy at short and long term should be considered.

The completion of such a conceptual research programme could lead to the generation of a number of relatively precise working hypotheses about the possible and/or desirable strategic behaviour of SAIs, which could then be falsified through large scale empirical research.

Such a programme appears relevant for two reasons.

For policy-makers, it could allow a deeper understanding of the influence the institutional context and its modifications exert on the behaviour of a number of independent public authorities such as SAIs, leading to the formulation of policy initiatives intended at stimulating these actors to adopt a behaviour that is considered as desirable, in a cybernetic fashion.

For auditors, it could allow to identify, according to environmental parameters and their evolutions, the different options at long term that are opened up to them, as well as the organizational risks and opportunities they carry with them.

Indeed, if one cannot affirm today that auditors determine their production on a strategic way, the adoption of such a research postulate has the potential to generate a kind knowledge that allows auditors to make these choices on a strategic way.

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