

Chapter 13

Online Financial Transparency: Local Governments of the MERCOSUR Member Countries

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ABSTRACT

The aim of this transnational comparative research is to analyze if the practice of disclosure of financial information over the Internet by local governments of MERCOSUR countries has been taken into account to increase the transparency of government. To achieve this objective, we evaluate, for a sample of 374 local governments, the adoption rate and the extent of the practice of disclosure and we explore, through of interviews, any reasons related to the involvement of local politicians with this practice. The results indicate a limited number of local governments that adopt this practice of disclosure in MERCOSUR, due to the lack of political will, of human resources and of demand from citizens. Due to the almost nonexistent adoption of this disclosure practice in Argentina, Paraguay, Uruguay and Venezuela, the study of the extent of this practice was restricted to the Brazil, revealing a small and disparate extension. These results show that the local governments of MERCOSUR have not yet woken up to the potential of the Internet to increase the transparency of public management.

INTRODUCTION

Information and Communication Technologies have become essential instruments in the reforms of the public sector due to their transparency, efficiency, efficacy and accountability (Bertot, Jaeger & Grimes, 2010; Pina, Torres & Royo, 2010).

Amongst these technologies, the Internet has played an essential role in public administration, allowing, among others, the increase in the interaction between government and citizens, the provision of public services and the disclosure of financial information (Armstrong, 2011; Pina *et al.*, 2010).

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The present research aims to analyze, in a comparative manner, if the practice of disclosure of financial information via the Internet by the local governments of the countries of MERCOSUR (Argentina, Brazil, Paraguay, Uruguay, and Venezuela) has been taken into consideration in order to increase the financial transparency of public administration. To achieve this objective, it was evaluated the rate of adoption (research questions 1 and 3) and the extent of this practice of disclosure (research question 5), and the authors also explored, through the implementation of a number of semi-structured interviews, any reasons related to the involvement of local politicians in this practice (research questions 2 and 4).

To measure the extent of Internet Financial Reporting (IFR), the authors used a Disclosure Index (DI) model composed of items related to the content and qualitative characteristics of financial information, as well as the design, usability and accessibility of the local governments' websites.

Even though this topic has already been addressed in research studies regarding developments in the private sector, research in the public sector is still limited, thus making this study necessary and justified. The studies on the use of the Internet as a management tool by public sector entities focus mainly on the use of electronic government as a means to provide services to citizens. Few works have focused their research on the extent of IFR by organizations in the public sector.

In addition, research focusing on the evaluation of IFR practice by public sector entities has drawn attention to more developed countries. This study proves itself relevant by studying the extent of IFR by public sector entities of emerging countries, such as those, which integrate MERCOSUR.

Moreover, this work becomes even more relevant, because it studies and compares the extent of IFR by local governments of various countries, namely those that integrate MERCOSUR (contrary to the practice that has been followed, focusing on national contexts).

Besides this section, this study is divided into other four sections: Section 2 presents a background, drawing attention to the empirical studies linked to IFR as well as the indices used in the literature to measure the extent of disclosure of financial information by public sector entities. In section 3 the methodology adopted in this study is presented. Section 4 shows the research results, while the last section presents the conclusions, limitations and some suggestions for future research.

BACKGROUND

Internet Financial Reporting

In the whole world, it is more common to find public entities, which have websites. Besides providing public and citizen services, an increasing percentage of these entities have also used their website for disclosing financial information, ensuring accountability to the management of public affairs.

Using the Internet as a means of disclosing financial information by public entities seems to have been strengthened by the imposed limitations of traditional means of financial reporting based on paper print (Rodríguez Bolívar, Caba Pérez & López Hernández, 2007; Oyelere, Laswad & Fisher, 2003).

The IFR by some entities of both the public and the private sector is an acknowledged phenomenon in accounting literature such as IFR (see, for example, Ali Khan & Ismail, 2011; Almilia, 2009; Laswad, Fisher & Oyelere, 2005; Oyelere & Mohamed, 2007; Pendley & Rai, 2009). Poon, Li and Yu, (2003), for example, explain that IFR refers to the use of websites by entities to disclose information about their financial performance, while Lymer, Debreceeny, Gray and Rahman, (1999, p.2) argue that IFR practice can be defined as 'public financial reporting by entities via the Internet or through the media related to the Internet'.

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