



An institutional perspective on performance measurement and management in the ‘new public sector’

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During the 1990s, in what has become known as the ‘new public sector’, many services in advanced economies, such as those of the U.K. and Scandinavia, have come under pressure to become more efficient and effective, so as to reduce their demands on taxpayers, while maintaining the volume and quality of services supplied to the public. To achieve this, they have been subjected to the introduction of various ‘private sector’ management techniques and the frequent adoption of some form of neo-market system in which the purchasers and providers of public services have been split and are frequently required to contract with each other. In this paper, we explore the implications of institutional theory for the successful implementation of multidimensional performance measurement and management in the public sector. In particular, broadening the two-party funders and professional service providers framework of traditional institutional theory to include purchasers of public services allows us to analyse the likely impact of purchaser–provider splits on multidimensional performance measurement systems in the public sector. We show that the differing nature of the interrelationships between these three key stakeholders will influence the extent to which performance measurement in the focal service-provider organizations will be *balanced* and *integrated*. We also discuss the influence of these core concepts on the possibilities of achieving some balance between the stakeholder interests examined in the overall control of provider organizations. Five research propositions are advanced, three relating to the relationships between the focal organizations, funders and professional service providers, respectively, and two concerning the focal organization’s links with purchasers. Future empirical research in this area should take the form of longitudinal case studies to track differing paths of development and their effects through time.

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Key words: performance measurement of management; new public sector; insitutional theory; balance; integration; decoupling; key stakeholders.

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1. Introduction

The topic of organizational performance measurement has generated much coverage over the years in many disciplines within the private and public sectors. Within the 'Western world', the widespread owner-manager split has led to a private sector preoccupation with meeting the information needs of the providers of capital, with a heavy emphasis on accounting information. More recently, it has been accepted that companies do not compete solely on cost and price (Porter, 1980), and the virtues of various types of non-financial information for meeting the needs of stakeholders other than shareholders, such as customers and employees, have been more widely recognized in the development of various multidimensional models for organizational performance measurement (PM: for example, Kaplan and Norton, 1992) and management (Kaplan and Norton, 1996).

Within the public sector, the existence and importance of a wider set of stakeholders has long been accepted, but the need for fund-granting bodies to be held accountable to taxpayers has also kept the primary focus on financial information, despite calls for the use of more non-financial information from Mayston (1985) and Pollitt (1986), for example. There is thus a difference of opinion, with some holding that '... the public sector provides a leading edge on issues of performance measurement' (Lapsley and Mitchell, 1996, p. 5), while others argue '... that the performance measurement systems have measured too many things and the wrong things' (Atkinson *et al.*, 1997, p. 26), not least because of pressures in public sector organizations to meet the information needs of a large number of stakeholders (Sicotte *et al.*, 1998).

Perhaps more important, from the point of view of successful systems implementation, is that most recent advances in the PM literature, originating from private sector practices, have neglected the insights of institutional theory. The upsurge of interest in multidimensional PM in the management accounting literature has been dominated by efforts to design effective systems for this purpose (Fitzgerald *et al.*, 1991; Lynch and Cross, 1991; Kaplan and Norton, 1992). However, comparatively little attention has been paid to the social processes whereby such systems are implemented (Ittner and Larcker, 1998), or how they come to be used in the way they are. The approach guiding previous research is mainly one of rational instrumentalism, hence power relationships and political bargaining processes, studies of which would enhance our understanding of systems implementation and use (Markus and Pfeffer, 1983; Baier *et al.*, 1986), have largely been ignored. This neglect of the insights of institutional theory is particularly unfortunate in a public sector context, since:

It is difficult to wield influence in organizations of a pronounced political nature, if one regards the organization as a system exclusively geared to organized action or to the ideal rationality model (Brunsson, 1989, p. 218).

To further our understanding of how multidimensional performance measurement systems (PMSs) can be used in public sector organizations, it would thus appear appropriate to shift the attention to the power and pressures exerted by different groups of stakeholders and how these affect the use of performance information in organizations. While the list of potential stakeholders influencing public sector organizations can be made very extensive (Pollitt, 1986), DiMaggio and Powell (1983) have argued that the two primary institutional actors in contemporary society are the state and various professions. Ample attention has been paid in the literature to the 'new public sector', to the tension between state representatives, such as various

fund-granting bodies, and professions, typically pivoting around the management of financial resources and the problems in melding this with professional values (e.g. Bourn and Ezzamel, 1986; Abernethy and Stoelwinder, 1990; Broadbent *et al.*, 1991; Llewellyn, 1996; Jones and Dewing, 1997). A similar, widely debated topic is the institutional and political processes associated with budgeting (e.g. Wildavsky, 1975; Jönsson, 1982; Covaleski and Dirsmith, 1983, 1986). These studies have concentrated on the bargaining processes inherent in public sector budgeting, distinguishing between advocates (e.g. managers at lower levels or representatives for certain professional groups) and guardians (e.g. higher-level, occasionally politically elected, officials representing fund-granting bodies).

Although the point about the state and professions as primary institutional actors was recently reiterated by Scott (1995), other institutional theorists (Powell, 1991; Brunsson, 1994) suggest that this analytical framework may need to be broadened to incorporate the competitive forces facing organizations. The changes in the public sector in the 1980s and 1990s have drawn attention to a new, influential category of actors, namely the purchasers of public services. While these may not be labelled 'institutional actors' in the conventional sense that their legitimacy is based on some taken for granted norms in society, there are aspects of the diffusion of market-based models, such as purchaser-provider splits and competitive contracting, resembling those of other institutional phenomena. There is mounting evidence of the introduction of market-based controls being legitimated in terms of some rationalized economic logic (e.g. Brunsson, 1994; Lapsley, 1994; Lindkvist, 1996). However, as explained in this paper, the pressures exerted by purchasers may be more or less conflicting with those associated with funders and professional employees within the focal provider organization. The extent to which the purchasing function is deregulated and functionally separated from these two constituencies is also likely to affect the level of conflict and the organizational strategies for dealing with various interests. The inclusion of purchasers would thus seem to add an important comparative dimension to our framework, providing a more comprehensive depiction of the complex environment facing many providers of public services as a result of recent reforms. There are also notable international differences in the extent to which market-based models are relied upon in the public sector (Hood, 1995). This suggests that the extent to which the image of public-service provision in the form of markets, rather than the traditional hierarchical arrangements, has been institutionalized is relevant when comparing the emergence of new control practices.

Although the infusion of purchasing power into the provision of public services has often been couched in terms of the favouring of client interests, purchasers and beneficiaries of public services need not have identical interests (cf. Goddard, 1992; Llewellyn, 1997). Even though a more clear-cut picture of the conflicts with other stakeholders might have resulted from a focus on beneficiaries rather than purchasers, prior research indicates that individual beneficiaries are unlikely to have sufficient power to strongly influence the compilation and reporting of performance information in provider organizations (Pollitt, 1986, 1988; Palmer, 1993; Midwinter, 1994). In contrast, larger and more formalized purchasers of services tend to have more direct influence and greater 'clout' through the exertion of purchasing power, which has been found to constitute a real source of change in managerial information needs (Bryan and Beech, 1991; Llewellyn, 1993; Ellwood, 1996; Ballantine *et al.*, 1998). It was thus judged appropriate to limit the discussion to the interests of purchasers.

Table 1
Comparative performance dimensions across three models

Stakeholder interests	Fitzgerald <i>et al.</i>	Lynch and Cross	Kaplan and Norton
Shareholders	Financial Resource utilization efficiency productivity	Financial productivity cycle time waste	Financial Internal Business Efficiency
Customers	Competitiveness Quality 12 factors Flexibility delivery volume customization	Market Customer satisfaction quality delivery Flexibility delivery cycle time	Customer
Employees	Innovation	N/A	Innovation and learning

The objective of this paper is to advance a framework grounded in institutional theory addressing the impact of the dynamic interplay between funders, professional groups within the focal provider organization and the purchasers of its services on the design and implementation of multidimensional PMSs in the public sector. The incidence and power of these stakeholders may vary considerably between countries, parts of the public sector or points in time (Brunsson, 1994; Hood, 1995; Olson *et al.*, 1998), and the framework advanced here should be regarded as a generic model rather than an exact representation of the situation in a particular country or part of the public sector at a specific point in time.¹ The primary empirical foundations for our analysis are drawn from the U.K. and Scandinavia, which provide illuminating contrasts pertaining to the subject matter due to the notable national differences in governance and reforms (cf. Hood, 1995; Laughlin and Pallot, 1998). Most of the evidence originated from health, social care and local government, as these areas demonstrate sufficient variation for comparative theorizing along the dimensions concerned. While the research propositions advanced take a general slant, the framework may primarily prove useful in such empirical settings since institutional forces tend to work and need to be studied within well-defined organizational fields made up of similar organizations and stakeholder groups (DiMaggio and Powell, 1983).

The focus of our analysis is on the performance information used by management of the focal organization as it attempts to arbitrate between and influence the three groups of stakeholders. The incorporation of elements that have typically been regarded as part of the organization's technical rather than institutional environment, such as purchasers, may be interpreted as an attempt to bridge over to more rationalistic research perspectives, such as contingency theory (cf. Scott, 1987; Powell, 1991). However, our analysis differs from contingency theory in at least two important respects. First, the primary motivation for managers' use of performance information is framed

¹The empirical evidence drawn upon is largely limited to the 1980s and the first half of the 1990s. Only passing references are made to more recent developments, such as the reforms in the U.K. following the election of the new labour government in 1997, as little empirical evidence of the actual effects of such changes on PMSs has yet accumulated.

in terms of the notion of legitimacy-seeking rather than efficiency maximization. A key tenet of contingency theory is that organizations strive to maximize efficiency by achieving some 'fit' between environment and structure, while institutional theorists recognize that efficiency in a more objective sense may actually suffer as a result of the organization's need to legitimate itself to dominant constituencies (Meyer and Zucker, 1989). This also raises the issue of the relative power of different groups of stakeholders, which has largely been neglected in contingency theory (Otley, 1980).

Second, by recognizing the possibility of managerial choice, we adopt a more voluntaristic view of human behaviour than that guiding contingency research (Child, 1972; Schreyögg, 1980), as well as much early theorizing in the area of neo-institutional sociology (DiMaggio, 1988; Oliver, 1991). However, as explained in greater detail later in the paper, the scope for management to pro-actively exercise choice may be circumscribed by the power of and conflicts between various stakeholders. This suggests an intricate dialectic between stability induced by institutional constraints and change (Czarniawska and Sevón, 1996; Burns and Scapens, 2000). Even though our analysis of the influence of various stakeholder interests may, at times, seem somewhat deterministic, we identify those circumstances where pro-active managerial choice may be required for balancing these interests and discuss how our approach can be reconciled with more recent advances in institutional theory calling for more in-depth, interpretive analyses of the dialectic between stability and change (Czarniawska and Sevón, 1996). The propositions emanating from our analysis are not intended to reflect static states, but should be regarded as starting points for (preferably longitudinal) empirical inquiries into the interplay between managerial actions and power relationships and conflicts between stakeholders as these shift over time.

The paper is structured as follows. In Section two, we briefly review and critique the literature on multidimensional performance measurement and management. In Section three, we discuss institutional theory and the way that interrelationships among our three direct stakeholders may influence the core concepts of balance and integration in the use of performance information in our focal provider organization. Our brief conclusions follow in Section four.

2. Multidimensional performance measurement

Some 10 years ago, the publication of 'Relevance Lost' (Johnson and Kaplan, 1987) irrevocably changed the PM agenda. Among other criticisms of management accounting, Johnson and Kaplan recognized that traditional financial performance measures are not only too late and too aggregated, but also poor proxies for aspects that matter to customers, such as quality and delivery speed. Subsequently, various multidimensional PM models have been developed, such as the 'Balanced Scorecard' (Kaplan and Norton, 1992), the 'Performance Pyramid' (Lynch and Cross, 1991) and the 'Results and Determinants Framework' (RDF: Fitzgerald *et al.*, 1991), and adopted by companies wishing to stay ahead of the competition. Table 1 compares and contrasts the three models listed above and how these account for various stakeholder interests.

Since the early 1990s, some research has focused on how such models can best be implemented (Brignall, 1993; Kaplan and Norton, 1993; Kaplan, 1994; Fitzgerald and Moon, 1996) and developed into tools for strategic performance management (Brignall and Ballantine, 1996*b*; Kaplan and Norton, 1996, 1997). It has been argued that the use

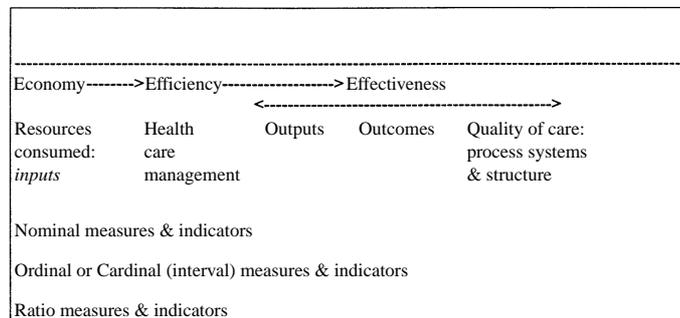


Figure 1. "A review of measures and indicators for health management performance." Source: Van Peurseem *et al.* (1995)

of a contingent approach to information systems design (Brignall, 1997) may help these developments meet the differing needs of multiple stakeholders (Kanter and Summers, 1987; Doyle, 1994; Brignall and Ballantine, 1996a; Atkinson *et al.*, 1997), such as shareholders, customers and employees (Heskitt *et al.*, 1994). However, as argued in the introductory section of the paper, contingency theory has been criticized for its simplistic treatment of power, choice and the existence of multiple stakeholders, each of which have many overlapping but different objectives. Furthermore, most contingency research on management accounting has focused on systems design and only rarely discusses implementation issues (but see Ginzberg, 1980). We therefore believe that an institutional approach has advantages as it more closely examines problems of implementation grounded in power relationships and conflicting stakeholder interests (Covaleski *et al.*, 1996), which are particularly relevant to study in the 'new public sector'.

A number of PM frameworks, typically pivoting around the three e's—economy, efficiency and effectiveness—have also been devised for public sector organizations (e.g. Mayston, 1985; Midwinter, 1994). A representative example from New Zealand, developed for evaluating the completeness of disclosure of health-care organizations' performance, is that given by Van Peurseem *et al.* (1995). This is depicted in Figure 1.

Unlike the previously reviewed PM frameworks, the model advanced by Van Peurseem *et al.* (1995) explicitly links various types of performance measures to the main stages of the process of converting inputs into outputs and the subsequent outcomes of public-service provision. However, it has little to say about how the actual emphasis on various performance dimensions is linked to different stakeholder interests. This aspect needs to be investigated more thoroughly. The successful implementation of multidimensional PMSs in public-sector services like health care, which are characterized by multiple stakeholders with complex, heterogeneous, intangible services delivered in circumstances of high uncertainty about means–ends relationships, is especially difficult (see Kanter and Summers, 1987, for similar points about PM in non-profit organizations). This task has been further complicated by the fact that in recent years many public services have come under pressure to become more efficient and effective, so as to reduce their demands on taxpayers, while maintaining the volume and quality of services supplied to the public. To achieve this, they have been subjected to the introduction of various 'private sector' management techniques and

the frequent adoption of neo-market systems in which the purchasers and providers of public services have been split and are required to contract with each other, necessitating greatly improved service product costing systems. Ironically, this might encourage an over-emphasis on public-sector financial performance at a time when many private-sector organizations have been moving towards more 'balanced' modes of performance measurement and evaluation. It has been argued that this danger might be countered by the adoption of a suitable model of multidimensional PM (Bates and Brignall, 1993), whose successful implementation would require the recognition of the interests of key stakeholders and the differing information needed to manage their interrelationships.

The presence in public services of numerous stakeholders and multiple dimensions of performance imply a situation of considerable complexity in which large numbers of interactions and trade-offs across the dimensions must be managed in order to satisfy the interests of differing stakeholders. An important normative argument in recent PM research in the private sector is that measures reflecting the interests of different stakeholders should 'balance' each other and be 'integrated' (Ittner and Larcker, 1998). Both balance and integration have several possible meanings in a PM context. For example, balance could simply mean that there are measures representing the interests of different stakeholders, or a balance of financial and non-financial measures, or internal and external measures, and so on. However, the mere presence of a balanced set of measures does not necessarily ensure a balanced approach to realizing the underlying interests of all the stakeholders whose interests they purport to represent. While the primary focus in this paper is on the emphasis placed on specific categories of measures, we pay some attention to this broader notion of balance in the overall control of the focal organization.

Similarly, integration could mean that there are sets of performance indicators that cascade neatly down (or aggregate up) the organizational hierarchy, with each level perhaps having responsibility for different aspects of performance (cf. Lynch and Cross, 1991; Kaplan and Norton, 1996). Integration could instead (or also) mean that the PMS enables the analysis of interactions between different performance dimensions, i.e. changes in certain measures (e.g. quality) explain changes in certain other measures (e.g. financial) (Nanni *et al.*, 1992; Kaplan and Norton, 1996). This latter meaning is similar to the 'business model' view, originally outlined by Eccles (1991), in which an integrated set of measures developed from a 'theory of the business' as a system explicitly links the multidimensional measures in a causal chain of performance drivers and outcomes, (Kaplan and Norton, 1996; Ittner and Larcker, 1998) similar to a pilot's use of the instruments and dials in an aircraft's cockpit to help fly the aircraft (Kaplan and Norton, 1996; Lebas, 1996).

While balance and integration have several possible meanings, they are clearly separate but linked conceptual constructs. From an instrumental perspective, the link between them would seem to be that some degree of integration is necessary to secure a balanced approach to realizing the differing interests of the various stakeholders. However, there may be considerable problems associated with achieving balance and integration in PMS design and use, not least because the rational instrumentalism informing most PM frameworks advanced in the private as well as the public sectors offers few insights into issues of power and institutional processes, which might prevent balance and integration. For instance, Ballantine *et al.* (1998) used the RDF to conduct 'gap analyses' to reveal inadequacies in health-care PMSs in terms of missing information across the six dimensions that might be crucial to meeting the interests of

various stakeholders, but were not able to show *why* these gaps occurred. The following section addresses such problems from an institutional perspective.

3. Towards an institutional perspective on performance measurement

Institutional theories assume that a primary determinant of organizational structure is the pressure exerted by external and internal constituencies on the organization to conform with a set of expectations to gain legitimacy and so secure access to vital resources and long-term survival. A common means of gaining legitimacy is alignment with some rationalized institutional myth (Meyer and Rowan, 1977), which is occasionally manifested by the adoption of structural attributes displayed by other significant organizations through some isomorphic process (DiMaggio and Powell, 1983). Remarkable evidence of the explanatory power of isomorphism is given by the U.K.'s national health system (NHS), where '... within the space of 4 years, the NHS went from a situation where there were no [hospital] trusts to one in which almost every provider had converted to the trust format' (Pollitt *et al.*, 1998, pp. 98–99). Thus, while technical (or contingent) explanations of organizational structure are not rejected, they are clearly viewed as incomplete (Scott, 1987). Institutional theory adds the interests and power of different stakeholders to organizational analysis, which are typically absent or de-emphasized in the rationally instrumental approach guiding most recent research on multidimensional PM.²

The conception of performance

An important insight from institutional theory is that performance may be viewed as institutionally defined, as institutional factors determine the interests being pursued by organizations (Scott, 1987). More succinctly, Meyer and Zucker (1989, p. 111) argue that:

Generally, performance will be defined narrowly to the extent that (a) elites dominate an organization, (b) a high degree of professionalization exists, and (c) the organization performs a technical function, outputs of which are measurable. Performance will be construed much more broadly, by contrast, to the extent that (a) the norm of participative democratic governance operates, sometimes in the formal structure or rules of an organization, (b) the interests of multiple constituencies are given recognition, and (c) the organization's function is non-technical and outputs elude measurement.

In addition to these determinants of what is regarded as 'good' performance, it is important to consider the dependence of the organization on different groups of stakeholders. Even if the existence of multiple and conflicting interests increases the need to balance these by establishing some trade-off between them, organizational dependence on a particular constituency reduces the likelihood of balance (Oliver, 1991). The rationale for this is that acquiescence to one dominant stakeholder is vital for long-term survival, but is also likely to limit the organization's ability to

²It should be noted that institutional theorists seem to disagree on the extent to which institutional theories have been concerned with the interests and power of different groups of stakeholders. While some authors (e.g. DiMaggio, 1988; Oliver, 1991) argue that little attention has been directed to these issues, Scott (1987) contends that they are really at the core of institutional analysis. As far as accounting research informed by institutional theory is concerned, Carruthers (1995) observed that power and conflicts between various constituencies are frequently emphasized (see also Covaeski *et al.*, 1993; Abernethy and Chua, 1996).

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meet the objectives of other stakeholders. Considering the current discourse on management in the 'new public sector', such an explanation for the emergence of new control practices seems plausible. The growing managerialism has been more or less equated with a reconception of performance in terms of 'efficiency', 'economy' and 'effectiveness' at the expense of non-financial, less easily measurable aspects endorsed by professional service providers (Pollitt, 1986; Broadbent and Guthrie, 1992; Lapsley, 1996; Lindkvist, 1996). Following Meyer and Zucker (1989), this narrowing of the conception of performance may be interpreted as a power struggle in which the emerging managerial elite is attempting to redefine organizational priorities in competition with the old professional elite. Furthermore, many public sector organizations have a history of resolving the often ambiguous and multifaceted nature of their objectives by reaching some politically negotiated consensus regarding which objectives to pursue (Hofstede, 1981; Bourn and Ezzamel, 1986). This would suggest that, in practice, performance in public-sector organizations has long been construed more narrowly than the normative statements in contemporary PM literature recommend. However, this tendency to narrow-down performance requires more careful consideration if we are to understand how multidimensional PM might work in such organizations.

Strategies for managing conflicting stakeholder interests

To capture the dynamics inherent in the implementation of PMSs within the focal organization (assuming it is a provider of public services), we shall discuss the likely managerial responses to pressures exerted by three key groups of stakeholders: funding bodies, groups of professional service providers within the focal organization and purchasers of its services. As explained briefly in the introductory section of the paper, these three groups can be expected to exert considerable and conflicting pressures on the focal organization, and thus deserve particular attention. In what follows, we shall assume that the challenge for the management of the focal organization is to design and implement a PMS that complies with such pressures.

While institutional theorists have tended to view the emergence of organizational control practices as a process of relatively passive adaptation (DiMaggio, 1988; Powell, 1991; Scott, 1995; Czarniawska and Sevón, 1996), de-emphasizing the role of intentional and rational decision-making (Mouritsen, 1994), more recent research shows that organizations may, under certain circumstances, pro-actively influence their relations to different constituencies. For example, Abernethy and Chua (1996) found that the scope for managerial choices among which controls to implement can be significant even where certain constituencies exercise considerable power. Although these findings support the view of management as a pro-active and intentional agent, Oliver (1991) has identified several factors that constrain managerial choice, such as the organization's dependence on a particular constituency and the coerciveness of institutional pressures. We acknowledge the possibility of intentional managerial choice in the design and implementation of PMSs. In keeping with recent advances in institutional theory (Czarniawska and Sevón, 1996), however, it would be misleading to equate pro-active managerial choice with organizational change. Stabilizing forces, such as institutional constraints, co-exist with intentional choices and may produce organizational paradoxes. For example, the more managers (or other organizational actors) try to affect change by exercising choice, the less change might actually be produced, since their choices may be negated by influential actors with conflicting

interests. This suggests that equal attention needs to be paid to managerial choices and institutional constraints in analyses of PMS design, implementation and use.

The relative force of the pressures exerted by various stakeholders is likely to influence the balance between different performance dimensions, partly as a result of the information needs of management in making decisions pertaining to specific stakeholder interests. The information used to mobilize the support of a particular group of stakeholders is frequently limited and biased to favour a particular course of action (Brunsson, 1990). This may lead to some imbalance between various performance dimensions. The management of the focal organization will also have incentives to ally itself with one or several groups of stakeholders as a result of the organization's dependence on these. However, the greater the multiplicity of stakeholder interests, the greater the demands on the organization to balance these by establishing some trade-off between them (Oliver, 1991). To deal with the conflicts inherent in such trade-offs, management may adopt the seemingly irrational or 'hypocritical' strategy (Brunsson, 1989) of providing a particular type of information to mobilize the support of one stakeholder group, while effectively pursuing a divergent course of action that is more in tune with the interests of another group. Even though such a scenario frequently appears to emerge 'spontaneously', rather than as a result of active managerial intervention, management may also consciously manipulate the information provided to certain groups of stakeholders, particularly if these exert more limited institutional pressures on the organization (Oliver, 1991).

A common means of dealing with conflicting institutional pressures in public-sector organizations is to de-couple the control systems used at different levels of the organization (Covaleski and Dirsmith, 1983; Ansari and Euske, 1987; Pettersen, 1995; Abernethy and Chua, 1996). De-coupling can be defined as the process of disintegrating the structural elements of different parts of the organization in response to institutional pressures to comply with inconsistent norms (Meyer and Rowan, 1977). Institutional pressures will thus have important implications not only for the relative balance between various performance dimensions, but also for the possibilities of devising integrated PMSs. According to Meyer and Rowan (1977), de-coupling implies that formal inspection, evaluation and control of operating activities are minimized. This assertion contrasts sharply with the normative argument advanced in the literature on multidimensional PM, suggesting that the measurement of performance across different dimensions and hierarchical levels should be integrated as far as possible and linked to strategic objectives. However, the original argument regarding de-coupling may need to be modified somewhat with respect to the type of information used for PM. Abernethy and Chua (1996) concluded that relatively crude budgetary controls, essentially de-coupled from the operating environment, might be sufficient to gain legitimacy in response to increasing institutional pressures for efficiency, while other types of formal, non-financial controls can be used to meet the demands of a broader range of stakeholders. Similarly, it can be argued that de-coupling of different parts of a specific PMS is a rational managerial response to inconsistent stakeholder interests. This would suggest that de-coupling does not necessarily entail minimal use of formal PMSs for controlling operations, but may rather occur between formal sub-systems emphasized at different hierarchical levels or in different decision-making contexts. Evidence of this type of de-coupling can be found in the compartmentalized nature of information systems in some public-sector organizations, occurring, in part, as a result of institutional pressures to implement overlaying financial reporting systems (Ansari

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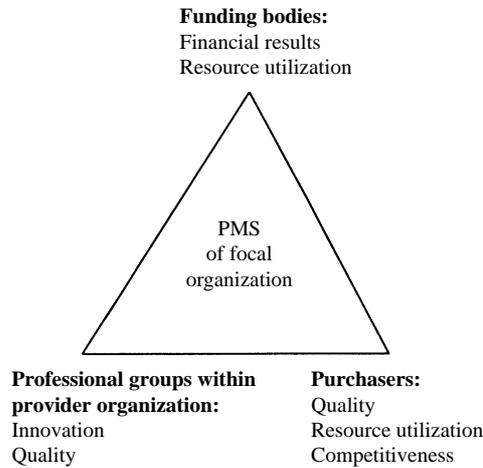


Figure 2. The influence of different stakeholder groups on the performance dimensions emphasized in the PMS of the focal organization.

and Euske, 1987; Ballantine *et al.*, 1998).

In the following sub-sections, we discuss, in greater detail, how the interplay between different stakeholder interests affects the concepts of balance and integration in PMS design and implementation, and advance some research propositions. Figure 2 summarizes this discussion by tracing the emphasis placed on specific performance dimensions identified in the foregoing to the relative dominance of the three groups of stakeholders.

The relationship between funding bodies and professional groups

Funding bodies, generally governed by politically elected representatives, primarily represent the interests of tax-payers in the disciplined use of financial resources. In contrast, professional service providers within the focal organization, occasionally represented by peer groups (e.g. professional associations, trade unions), frequently advocate interests that are not necessarily compatible with the pursuit of efficiency. As argued in the foregoing, recent reforms in the public sector have often implied a relatively one-sided focus on financial performance aspects. This tendency can partly be traced to the concerns of funding bodies with efficient use of resources, effectively leading to growing reliance on relatively aggregated measures of financial results and resource utilization (Hood, 1995). In contrast, groups of professional service providers within the focal organization can primarily be expected to be concerned with non-financial performance aspects related to individual employees, such as employee well-being, and competence development to provide better service to clients. While employees may also have an interest in the long-term survival of the organization, as reflected by its financial performance, these non-financial aspects would appear to be of more immediate concern. Moreover, several studies show that professional employees or associations tend to draw attention to client-related aspects, such as quality, to counterbalance the emphasis placed on financial controls (Goddard, 1992; Blomgren and Lindholm, 1998; Jones, 1999). This would appear to widen the gap between the performance measures emphasized by funding bodies and professional groups within

the focal organization (see Figure 2).

Several studies informed by institutional theory show that the financial controls devised to discipline resource utilization in public-sector organizations (for example, external financing limits) are little used further down the organizational hierarchy (e.g. Ansari and Euske, 1987; Pettersen, 1995) or assume the relatively symbolic role of legitimating the organization to funding bodies (e.g. Brunsson, 1989; Czarniawska-Joerges and Jacobsson, 1989). When more coercive pressures from funding bodies for improving financial performance are in play, however, management of the focal organization can be expected to pursue the implementation of financial measures throughout the organizational hierarchy relatively forcefully. An example is the contrast between the relatively lukewarm interest in reliance on financial controls among managers in the U.K.'s NHS in response to the resource management initiatives in the 1980s (Pollitt *et al.*, 1988) and the non-discretionary imposition of financial performance measures following the implementation of market-based control systems in the 1990s (Ballantine *et al.*, 1998). The latter development has been interpreted as an attempt to force clinicians to change (Broadbent *et al.*, 1991), and can thus be said to mark enhanced institutional pressures for compliance with the rationalized efficiency myth embodied in these reforms.

Commenting on developments in the U.K.'s NHS, Lapsley (1994) argued that the reforms of the early 1990s might lead to decreased de-coupling between financial controls at different hierarchical levels as compared to the situation in the 1980s. The study by Ballantine *et al.* (1998) in an NHS Hospital Trust provides some support for this prediction, as financial performance measures were found to be increasingly disaggregated throughout the hierarchy for the purpose of responsibility accounting, while little effort had been made to link these to measures of innovation and quality. Similar results were reported by Jones (1999). These findings are consistent with Oliver's (1991) assertion that de-coupling is only possible at moderate levels of institutional coercion and dependence. Unless professionals are powerful enough to resist the use of financial performance measures, significant institutional pressures for enhanced efficiency may lead management to spread the use of such measures throughout the organizational hierarchy, while de-emphasizing non-financial aspects. This might result in a PMS that is hierarchically integrated in the sense that there is a close link between financial measures at different levels, but not between measures favoured by professional groups and funding bodies.

Even though recent reforms in the public sector in many cases mark a shift towards increasing managerial power (Covaleski *et al.*, 1993; Humphrey *et al.*, 1993), professionals may be able to buffer their immediate operating environment from some managerial influence. Managerial attempts to gain influence at the expense of professional groups, by reducing the degree of de-coupling between financial controls used at different levels, may prove illusive. The use of such controls is unlikely to reduce the knowledge gap emanating from professionals' superior expertise in operating matters (cf. Sharma, 1997), as they provide little insight into the finer details of professional work. Hence, heavy managerial reliance on financial controls may, somewhat paradoxically, preserve the power base of professionals and thus maintain stability despite managerial change initiatives (cf. Czarniawska and Sevón, 1996). However, in contrasting PM in health care with social care, Llewellyn (1996) concluded that the permeability of the operating environment to financial, efficiency-based performance measures can be expected to be inversely related to the existence

of a clearly defined professional power base.

Another strategy that professionals can adopt to resist change towards greater reliance on financial control is to claim that their understanding of accounting information is too poor to be involved in financial matters, and hence they abdicate financial accountability to managers (Jones and Dewing, 1997). However, the scope for these types of actions is likely to be much more limited to the extent that professionals are made part of the managerial hierarchy of organizations. For instance, Covaleski and Dirsmith (1986) found that the appointment of nurse managers with budgetary responsibilities effectively reduced de-coupling without necessarily enhancing their power. Other studies in hospital settings suggest that clinicians participating in the budgetary process will be more prone to adopt favourable attitudes towards financial control and learn how to use accounting information (Covaleski and Dirsmith, 1983; Purdy, 1993). Even though this may not prevent certain parts of the operating environment from being de-coupled from the administrative part of the organization, it is made considerably more difficult by the increasing internalization of managerial values among employees who are well positioned to influence the control of operating processes (Covaleski and Dirsmith, 1983). The lesser the goal conflict between professionals and managers in charge of financial matters, the lesser the likelihood of professional resistance to financial controls (Abernethy and Stoelwinder, 1990; Abernethy, 1996).

The reforms in the U.K. and other Anglo-Saxon countries, from which much of the evidence reviewed above emanates, appear to have generated considerable conflict. It is useful to contrast this with findings from countries with a history of less coercive change, such as Sweden, since this appears to have lessened the conflicts between funders and professional groups (Coombs, 1987; Paulsson, 1993). A recent field study in a Swedish dental practice (Modell, 1998a) provides further evidence of the effects of different power relationships on the design and implementation of PMSs. Management had been relatively successful at implementing an elaborate and integrated PMS by linking financial measures closely to non-financial indicators of staff and patient mix, employee time utilization and service quality for controlling clinics providing standardized services. The system was greatly used by both clinic managers (who are also practising dentists) and their superiors at the corporate centre. Systems implementation was supported by the close involvement and training of clinic managers, which appeared to reinforce their acceptance of their expanded managerial responsibilities. On the other hand, managerial attempts to devise financial performance measures for clinics providing more specialized services in the wake of growing resource scarcity, evoked greater resistance. Top management was here in a disadvantaged power position due to its lack of detailed insights into operating conditions, and was unable to link financial performance measures to operating data at reasonable costs. Consequently, change was impeded and clinic managers could buffer operations from much of the emphasis on financial controls (cf. Euske *et al.*, 1993). The limited performance evaluation activities continued to pivot around non-financial aspects such as patient waiting times.

The discussion above suggests that the emergence of integrated PMSs, based on a balanced mix of financial and non-financial indicators, is more likely where the level of conflict between professional and managerial interests is low, and where professionals have a relatively weak position *vis-à-vis* funding bodies and managers. However, the incentives for management to change this by relying more heavily on financial performance measures can be expected to be significant when institutional pressures for conforming with efficiency criteria established by funding bodies grow.

The emergence of the relatively integrated and balanced PMS found in Modell's (1998a) study could partly be attributed to its incremental development from an initially operations-oriented system during a period of relative financial ease (see also Modell, 2000). Furthermore, in contrast to the U.K. the more decentralized system of funding and governance probably grants management of local authorities in Sweden greater discretion in adapting control systems to the interests of multiple stakeholders (see also Ballantine *et al.*, 1998; Modell, 1999). As long as the pressures for disciplined use of financial resources are moderate, there would thus seem to be greater scope for management to intentionally devise balanced and integrated PMSs, while the more coercive implementation of uniform financial measures in the U.K. appears to have left management with little choice but to drive down financial measures throughout the hierarchy, effectively leading to the de-coupling of financial control from the management of quality. However, irrespective of these national differences, there is evidence of a uniform tendency towards heavier managerial reliance on financial performance measures in response to growing pressures from fund-granting bodies (see Paulsson, 1993; Lindkvist, 1996; Ballantine *et al.*, 1998; Jones, 1999), which may conflict with the attention drawn to non-financial aspects, such as quality and innovation, intended to preserve professional autonomy (see Blomgren and Lindholm, 1998; Jones, 1999).

To what extent, then, is integration between performance measures across dimensions pursued by funding bodies, on the one hand, and professional groups, on the other, a prerequisite for balancing these interests in the overall control of the focal organization? Lack of integration may be expected to disrupt the overall balance in the formal PMS, as this may suggest that relatively one-sided attention is directed to measures associated with the interests of only one dominant constituent. However, contrary to this belief, there is some evidence suggesting that integration between performance measures at different hierarchical levels may not be necessary for balancing financial and non-financial aspects in the overall control of the organization. While financial measures may fill the symbolic and ceremonial role of legitimating the organization to funding bodies, some balance may be achieved by de-coupling them from, but not de-emphasizing, the use of non-financial performance measures for controlling operating tasks. For example, Johnsen (1999) reports that the parallel use of de-coupled PMSs has allowed Norwegian municipal authorities to balance the provision of information for external political and internal management use without compromising overall implementation success. This finding is mirrored by a recent study in the same empirical setting by Modell (1998b). The growing devolution and strict division of budgetary responsibilities and integration of financial measures throughout the hierarchy in response to pressures from funding bodies were found to have a negative impact on the scope for flexible utilization of staff and quality. However, this lack of integration between measures reflecting the interests of funding bodies and professional groups did not mean that the interests of the latter were completely de-emphasized. On the contrary, the observable negative effects of the financial pressures in terms of employee well-being and turnover seemed to have enhanced, rather than reduced, managers' awareness of the importance of quality and staff competence. Partly due to the difficulties in communicating such aspects to politicians and the costs of devising appropriate systems for this purpose, the pro-active efforts of management to develop performance indicators reflecting such aspects were largely de-coupled from measures of financial results and resource utilization.

To judge from the discussion above, a successful strategy for achieving some

balance between performance aspects pursued by funding bodies and professional groups within the focal provider organization in the face of enhanced institutional pressures and conflicts between these constituencies may be to de-couple rather than attempt to integrate measures associated with each of them. Integration may illuminate deficiencies and so exacerbate conflicts and disrupt the delicate balance between funding bodies and professional groups, while de-coupling allows the focal organization to remain 'hypocritical' and appear to meet at least some objectives associated with both these constituencies. The popular and academic debate on public-sector performance management generally seems to pivot around a perceived conflict between tighter cost constraints and quality. Neither has research in private-sector organizations provided unequivocal evidence of a positive relationship between quality and financial performance (Ittner and Larcker, 1998), despite popular beliefs that the two can be reconciled. In the public sector, the problems of tracing such relationships might be compounded by the considerable difficulties in devising 'objective' measures of the desirable outcomes of the provision of services (Smith, 1993). Consequently, the links between 'quality' and 'economy' in public-sector organizations are likely to be complex and open to alternative interpretations. Attempts to visualize such relationships by integrating measures of quality, financial results and resource utilization therefore imply a risk of creating considerable ambiguity, which may exacerbate conflicts and reduce the possibilities of organizational action (cf. Brunsson, 1989, 1990). Avoidance of such pitfalls may require some intentional managerial choice to provide broadly based information, while resisting the pressures to describe organizational realities in easily measurable, financial terms and linking these to relatively vague and politically charged notions incorporating quality aspects, such as 'value for money' (cf. Robson *et al.*, 1998). Such de-coupling may, in turn, stabilize the organization, while the semblance of active change management associated with exercising intentional choice might be used for defending managerial actions to different stakeholders (cf. Czarniawska and Sevón, 1996; Meyer, 1996). Management may, for example, devise new quality indicators as complements to the financial information requested by funding bodies, but blame the lack of more 'real' change in PMS design on the costs of compiling such indicators or poorly integrated information systems (Modell, 1999). However, as the discussion in this section illustrates, more coercive pressures from a particular group of stakeholders (usually funders) are likely to disrupt the balance between conflicting interests and reduce the scope for this type of pro-active but 'hypocritical' managerial manoeuvring. The following propositions sum up the implications of this discussion:

Proposition 1 *The greater the institutional pressures exerted by funding bodies on the focal organization, the greater the managerial emphasis on and integration between measures of financial results and resource utilization throughout the hierarchy of that organization.*

Proposition 2 *The greater the institutional pressures exerted by groups of professional service providers within the focal organization, the greater the managerial emphasis on and integration between measures of quality and innovation within that organization.*

Proposition 3 *The greater the conflict of interests between groups of professional service providers within the focal organization and funding bodies, the greater the need for management to pro-actively de-couple the performance measures favoured by these groups of stakeholders to balance their interests in the overall control of the focal organization.*

The influence of purchasers and competitive contracting

As argued in the introductory section of the paper, purchasers of public services need not have identical interests to beneficiaries. Purchasers can partly be expected to represent client interests in obtaining high quality services. However, the formalization of the purchaser function through the implementation of internal market mechanisms and the devolution of fundholding implies that purchasers have to assume broader responsibilities and pay greater attention to value for money and hence the trade-off between quality (or outcomes) and the cost of purchasing services. Evidence of such a development has been found in both health (Laughlin *et al.*, 1992; Llewellyn, 1997; Jacobs, 1998) and social care (Llewellyn, 1998). While the compilation of quality indicators, reflecting the interests of beneficiaries, may have been hampered by the significant technical and cost problems associated with measuring (e.g. through client surveys) such performance aspects (Pollitt, 1988), the discussion in this section suggests that the infusion of purchasing power into systems for the provision of public services may change this quite considerably. In particular, purchasers operating within market-based systems that have been more or less institutionalized through the coercive imposition of uniform competitive contracting arrangements (as has been the case in parts of the public sector in the U.K.) might have an important impact on the use of performance information within provider organizations. As argued below, this may differ from situations where such institutional arrangements are not in place.

The greater the reliance on market-based mechanisms in the public sector, the more organizational legitimacy will be linked to competition and the pricing of services (Brunsson, 1994). However, the growing demands for value for money and the intensification of competitive forces associated with the introduction of more 'pure' markets for public services pose a delicate challenge for management of the focal provider organization. Some integration between measures of quality and the costs of producing services is probably necessary to offer services of sufficient quality at competitive prices (Llewellyn, 1993). To the extent that prices are based on the volume of service provided and the principles of competitive bidding are applied, this implies that extensive and disaggregated resource utilization data (e.g. cost per client or per unit of service) are needed for pricing decisions. In the U.K., the existence of fundholding purchasers of public services has been found to increase the demand for such information in health (Bryan and Beech, 1991; Llewellyn, 1993; Ellwood, 1996) as well as social care (Llewellyn, 1993). Integration of this type of information with quality indicators may be necessary to enable the focal organization to decide on appropriate trade-offs between costs and quality and to justify prices to purchasers. Such trade-offs should also be considered in relation to the competitive position of the focal organization. This is consistent with the argument that high-performing service organizations operating under competitive market conditions link the information used for costing and pricing to determinants of competitiveness, such as quality (Brignall, 1997). This would also seem to result in a relatively balanced and integrated mix of financial and non-financial measures in the PMS as a whole (see Figure 2). However, the need for integration within the PMS may conflict with the pressures exerted by funding bodies and groups of professional service providers within the focal organization.

Far-reaching devolution of fundholding to purchasers may be interpreted as an attempt by the funding body to avoid direct involvement in making the trade-offs between quality and costs by transferring accountability and blame for the consequences of such trade-offs to other constituencies. For example, problems with access to health

care (an aspect of service quality indicated by waiting list statistics in the U.K.'s NHS) have frequently been blamed by service providers (such as NHS Trust Hospitals) on an unwillingness by purchasers to provide greater funds to help reduce waiting times, whereas this might often more truthfully have been laid at the door of central government, the ultimate provider of funds (Le Grand *et al.*, 1998). The NHS internal market, introduced in the early 1990s, thus provides an illustration of the conflicting information needs accruing from a clearer division between the roles of funders and purchasers. Ellwood (1996) found that the NHS Executive's focus on the compilation of full-cost prices to avoid cross-subsidization and enhance comparability in the wake of the implementation of the internal market proved largely inadequate for meeting the needs for cost information for more sophisticated pricing decisions within provider organizations. More detailed cost information, linked to activity levels, is needed to meet these ends. However, systems for these purposes are likely to be costly and difficult to standardize across organizations. According to Ellwood, this may, in turn, work against the striving for uniformity and the compilation of comparable cost data. A more recent study (Jones, 1999) suggests that the emphasis on comparability has in fact prompted provider organizations within the NHS to de-couple the financial data used for external reporting from cost data relied upon for operating decisions (including contract negotiation) as a means of reducing adverse implications for quality.

The situation in the U.K. in the mid-1990s contrasts sharply with recent findings from the Norwegian health-care sector, where market-based models are not widely used, while the pressures from funding bodies for improved cost containment are growing (Modell, 1999). This appeared to have resulted in a managerial pre-occupation with relatively aggregated financial measures for reporting to political levels. Although some attempts to disaggregate such measures were observed, these were primarily driven by the need to conform with the recommendations of central government (which is here a substantial provider of funds) to strengthen the incentives for improving productivity at lower levels of provider organizations. The data used for this purpose were largely based on standards emanating from national averages to facilitate comparisons with other hospitals, while more market-orientated applications, such as improvement of transfer pricing, were de-emphasized. In addition, the only examples of measures of quality and competitiveness penetrating into the operating core of the provider organization emerged where some market logic was in place, as in the case of laboratory services provided to external customers in competition with other actors.

The pattern emerging above is consistent with Hood's (1995) prediction regarding the conflicting information needs stemming from the influence of funders and purchasers. Reliance on contract-based provision of public services requires a detailed understanding of cost structures, while funding bodies' concerns with disciplined use of resources imply a greater focus on the bottom line and a move away from detailed accounting information. Where the 'ownership' or 'investor' role of funding bodies is crystallized through the implementation of more 'pure' market-based models, their main interest seems to be in the efficient allocation and transfer of financial resources, rather than the consequences of such allocations for each provider organization's sustained ability to offer competitive prices. This tends to lead to a heavy emphasis on comparable financial information of a highly aggregated nature across similar focal organizations (cf. Shaoul, 1998; Kloot and Martin, 1999), detracting from the more detailed resource utilization and cost data needed for pricing decisions and contract negotiation. In contrast, disaggregation of financial data appears to be of lesser concern

where the focal provider organization only needs to meet the demands of funding bodies. The need to de-couple the measures used to comply with the interests of funding bodies and purchasers would thus seem to be greater where the pressures exerted by both these constituencies grow.

A similar need for de-coupling may also occur as a result of the tension between purchasers and groups of professional service providers within the focal organization. Even though both providers and purchasers of public services occasionally belong to the same profession, findings from the U.K.'s NHS suggest that the implementation of competitive contracting might reinforce the polarization of interests between these actors (Llewellyn, 1997), and therefore have detrimental effects on information sharing and co-operation (Jones, 1999).

Regarding PM, there would, at first sight, appear to be some consistency between the performance dimensions favoured by groups of professional service providers within the focal organization and purchasers (see Figure 2). However, even if quality is often of concern to professional service providers, the information required to meet the demands of professional groups within the provider organization may not be entirely consistent with the measures relied upon to comply with the pressures exerted by purchasers. A fundamental problem in this respect is the measurement of the quality of public services. In the U.K., empirical studies in health (Fischbacher and Francis, 1998) and social care (Mannion and Smith, 1997) bear witness to the considerable difficulties in specifying desired levels and devising 'objective' measures of quality in conjunction with contracting. This may lead to the adoption of more easily measurable, but relatively crude proxies for quality, such as shorter waiting lists and quicker service delivery, to avoid elusive and ambiguous notions, which are more difficult to use for 'marketing' purposes (Fischbacher and Francis, 1998; Jones, 1999). However, such quality aspects may conflict with employee satisfaction and well-being as the achievement of these essentially hinges on more efficient utilization of the workforce. Ironically, quality management initiatives in the public sector have been found to enhance the emphasis on efficiency-based control of employees, despite the rhetoric of employee empowerment and learning surrounding such initiatives (Hersvik and Nesheim, 1995). Furthermore, quality and innovation indicators, such as staff competence and satisfaction, would seem to fall under the more ambiguous category of measures, and may be more difficult to use for legitimating service provision on the premise that it will offer superior advantages to purchasers and beneficiaries. Thus, it may make sense to de-couple the quality measures used for contracting with purchasers from the ones used to legitimate the focal organization as a 'caring employer' to its professional employees in order to mobilize the support of both parties and achieve some balance between their interests.

The discussion above suggests that the information needs related to managing the relationship with purchasers may compound the problem of conflicting stakeholder interests, not least where market-based models are becoming more institutionalized. Even if purchasers do not take on the role of institutional actors *per se*, the demands associated with the implementation of more 'pure' market-based models for the provision of public services are likely to prompt provider organizations to compile performance indicators conflicting with the interests of professional groups within provider organizations and funding bodies. In contrast, such conflicts seem to be less pronounced in more regulated systems for contracting, characterized by greater political intervention in pricing decisions and less coercive imposition of performance

standards, as in the case of Swedish health care (Paulsson, 1993; Charpentier and Samuelson, 1996). Similarly, it has been argued that striving for greater transparency and improved information sharing between stakeholders are essential elements of the post-1997 reforms in the U.K.'s NHS initiated by the new labour government, which in effect mark greater political intervention in the provision of services compared with the market-based model previously in place (Jones, 1999).

The extent to which the de-coupling of different performance measures will result in more symbolic and ceremonial use of some of these measures is likely to depend on the relative power of the three stakeholder groups (cf. Oliver, 1991). The more coercive the introduction of internal market mechanisms and the lesser the political intervention in the contracting process, the greater the likelihood of purchasers gaining power, perhaps at the expense of funding bodies and groups of professional service providers within the focal organization. The potential withdrawal of purchasing power is likely to constitute a major threat to the focal organization's legitimacy and long-term survival in a competitive market. This may, in turn, constrain the scope for intentional managerial choices between performance indicators reflecting various stakeholder interests. However, the focal organization will at least have to compile some performance measures reflecting the interests of its professional staff and funders in order to secure their continued support. This may result in the relatively symbolic use of certain performance measures, while measures used for pricing decisions and other areas pertaining to the focal organization's relationship with purchasers are more closely integrated and the object of real managerial concern. This goes beyond the traditional position taken by institutional theorists regarding the de-coupling of formal control systems from the operating environment (e.g. Meyer and Rowan, 1977), in that it explicitly recognizes the possibility of parallel and simultaneous de-coupling and integration in the PMS as a whole. The need for de-coupling would seem to be even greater when all three of the stakeholder groups discussed above exert considerable pressure on the focal organization, as this makes it increasingly critical to maintain the myth that it is possible to simultaneously comply with several conflicting interests, thereby ensuring some balance between them (cf. Oliver, 1991). However, successful balancing by managers of the focal organization may require a certain amount of intentional, pro-active decision-making, while more passive acquiescence is likely to lead to disruptive power struggles (Brunsson, 1989), which limit the possibilities of de-coupling (Oliver, 1991). Compared to a situation where only one or a few stakeholder interests are emphasized, such balancing might induce some stability, as it may moderate stakeholder claims for more far-reaching change (cf. Meyer, 1996). The discussion in this section is summarized by the following propositions.

Proposition 4 *The greater the institutional pressures associated with contracting between purchasers and the focal provider organization, the greater the managerial emphasis on and integration between measures of resource utilization, quality and competitiveness within the focal organization.*

Proposition 5 *The greater the need to compile performance measures favoured by funding bodies and groups of professional service providers stemming from Propositions 1 and 2, the greater the need for management to pro-actively de-couple these measures from the ones used to comply with the pressures exerted by purchasers as a result of Proposition 4 to balance the interests of the three groups of stakeholders in the overall control of the focal organization.*

4. Concluding remarks

This paper has attempted to provide an alternative perspective on multidimensional PM, grounded in institutional theory, to the approach dominating the growing literature on this topic. The relevance of doing so in the context of the 'new public sector' is justified by the complex interrelationships between multiple stakeholders and the intensely political nature of decision-making in public sector organizations. Recognizing the institutional pressures associated with the three groups of stakeholders considered in this paper provides an explanation for the actual integration and balance between different performance measures within organizations providing public services. In this respect, our approach goes beyond the relatively simplistic assumptions underpinning much literature on multidimensional PM, which has typically ignored or regarded as largely unproblematic the institutional and political processes inherent in systems implementation. It is hoped that the research propositions advanced in this paper may be a useful starting point for empirical inquiries examining the dynamics inherent in the interplay between the three stakeholder interests. However, a few remarks regarding our use of institutional perspectives may be worth considering for students setting out to test and refine our emerging institutional theory of PMS design and implementation.

While institutional theorists have tended to emphasize the adaptive nature of organizational behaviour, we acknowledge the need to complement this with a view of management as an intentional and pro-active agent. However, it is important to clearly distinguish managerial choice from organizational change. As recent advances in institutional theory illustrate, change and stability co-exist and frequently give rise to organizational paradoxes (Czarniawska and Sevón, 1996). One such paradox hinted at in this paper is that pro-active managerial attempts to balance conflicting stakeholder interests through de-coupling (as reflected by Propositions 3 and 5) may induce organizational stability rather than change, as this offers an opportunity to reduce or divert claims for more far-reaching changes, while allowing management to appear to engage in serious change efforts. The rationale for this is that de-coupling may be seen as an attempt to maintain some rough equilibrium between inconsistent norms (Meyer, 1996). In contrast, the scope for such 'hypocritical' managerial tactics is likely to be more limited where change is imposed on organizations in a more coercive manner (as reflected by Propositions 1, 2 and 4). In such circumstances, shifting PM practices may seem to follow a more deterministic model of change, which management may draw on to justify change initiatives (e.g. motivating new PM practices as a 'necessary evil').

We would argue that studies of managerial choice constitute a useful starting point for analysing how PM practices change in highly institutionalized settings, such as the public sector (cf. Abernethy and Chua, 1996). To unravel paradoxes such as those outlined above, empirical inquiries should combine this with an analysis of institutional constraints, but might also need to extend the discussion to consider the inherently inter-subjective aspects associated with different actors' interpretations of stability and change in PM practices. A limitation of our discussion is that little attention is paid to the formation and interpretation of managerial choices in line with contemporary social constructivist thought (Czarniawska and Sevón, 1996). Future empirical investigations should venture further to gain a deeper understanding of the rationales for managerial tactics, and so enrich the analysis of their interplay with the organization's institutional environment. Managerial choices are not always explicit (they may even be subconscious), and studying these may require a view of

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management as a less detached actor, deeply involved in the continuous process of translating ideas into action and back into ideas, some of which become embedded in the organizational fabric and thus institutionalized (Czarniawska and Joerges, 1996). Managerial responses to changes in the institutional environment follow a cyclical pattern (Beckert, 1999; Crossan *et al.*, 1999), where managers themselves influence the process of institutionalization through their interactions with such environments. An interpretive and preferably longitudinal case study approach would thus seem to be a useful research strategy, adding 'flesh' to the theoretical 'skeleton' advanced in this paper.

Another reason for adopting a case-study approach is that the core concepts of integration and balance in PMS design and use are complex phenomena that may require intensive studies of the intended and actual use of various performance measures for different purposes. This probably defies traditional empirical tests exclusively based on statistical methods. Even though it may be possible to develop quantifiable constructs reflecting the balance and integration between different performance dimensions, these concepts are likely to be deeply embedded in the context of PMSs. It has been argued that the properties of institutional environments are difficult to define a priori and need to be identified through close empirical examination (DiMaggio and Powell, 1983). A fruitful research strategy in this respect might be to compare changes in PM use in specific decision-making contexts pertaining to different groups of stakeholders, such as pricing and contract negotiation, reporting to funding bodies and disclosure of information to groups of professional staff, as well as adopting a more holistic approach.

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