



# Strategy, political regulation and management control in the public sector: Institutional and critical perspectives

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## ABSTRACT

This paper mobilizes institutional and critical theories in examining how evolving management control practices, inspired by the balanced scorecard, mediated the process of strategy formation in a Swedish central government agency. Particular attention is paid to how this process was conditioned by external, political regulation of the organization. Contrary to popular conceptions of strategy and strategic management as emerging alternatives to political regulation in the public sector, the study shows how the meaning of the notion of strategy became intricately intertwined with government regulation. Whilst this affirms the tendency of organizations to comply with institutional pressures exerted by dominant constituencies, the analysis also shows how the unfolding strategy discourse gradually narrowed the meaning of the notion of strategy permeating the organization. The extension of an institutional perspective to incorporate more critical insights highlights how this process fostered some “unintended” consequences with a detrimental impact on organizational practices aimed at achieving broader social objectives. In so doing, I draw attention to how the unobtrusive power of evolving strategy discourses conditions conceptions of organizational performance and relevant constituent interests. The implications for future management accounting research combining institutional and critical theories are discussed.

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## 1. Introduction

The notion of strategic management accounting (SMA) has attracted considerable interest over the past decades. Research on this topic has been dominated by a functionalist perspective and has primarily focused on private sector organizations (see Langfield-Smith, 2008). Yet notions of strategy and strategic management are becoming increasingly pervasive in contemporary organizations (Knights and Morgan, 1991; Carter et al., 2010) and have also begun to permeate the managerial discourse in the public sector (Llewellyn and Tappin, 2003; Johansson, 2009). This has compelled some researchers to modify functionalist, private sector conceptualizations of strategy (Boyne and

Walker, 2004; Andrews et al., 2009a) and explore their interactions with the external, political regulation of public sector organizations (Andrews et al., 2008). However, given the relative novelty of the notion of strategy in the public sector, it would seem pertinent to take a more open-ended, constructivist approach in examining how its context-specific meanings evolve through some interplay between such regulation and novel SMA techniques. Despite the persistence of the public sector as a politically regulated space, few explicit attempts have been made to examine how this interacts with management accounting and control practices to shape organizational strategies (Carter and Mueller, 2006; Skærbæk and Tryggestad, 2010).

The objective of this paper is to further examine this issue through a field study in a Swedish central government agency. In doing so, I extend emerging research into the

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formation of organizational strategies informed by institutional and critical theories. Institutional theory constitutes a useful analytical lens for understanding how regulatory pressures influence organizational strategies and has contributed to distance the conception of strategy from the conventional view as a phenomenon dominated by economic and competitive imperatives (Oliver, 1997; Ruef, 2003; Lounsbury and Leblebici, 2004).<sup>1</sup> As such, it complements functionalist accounts of SMA which typically trace the genesis of this concept to changes in competitive conditions (Chapman, 2005; Langfield-Smith, 2008). Management accounting scholars have started to apply an institutional perspective in examining the adoption and implementation of SMA techniques (Granlund and Lukka, 1998; Kasperskaya, 2008; Ma and Tayles, 2009). However, these studies have tended to treat the notion of strategy as given and separable from its enactment by organizational actors. For instance, Ma and Tayles (2009, p. 490) concluded that successful adoption of SMA techniques is contingent on “whether they fit with the organisations’ strategic agenda” and “show high relevance to the organisations’ strategic objectives” without problematizing how such agendas and objectives come into being and are transformed. Hence the process whereby the very notion of strategy is institutionalized has remained largely unexplored.

Even less attention has been paid to how the institutionalization of notions of strategy through the use of management control privileges certain interests whilst subordinating and marginalizing others (Carter et al., 2010). This strips the study of strategy of critical content and implies that the process of institutionalization is seen as rather apolitical (cf. Clegg et al., 2004; Ezzamel and Willmott, 2004; Carter et al., 2008). Whilst this is symptomatic of the general lack of dialogue between institutional and critical theories (Rahaman et al., 2004; Cooper et al., 2008) it is problematic for a number of reasons. Most importantly, it fails to recognize how a focus on strategy formation may reify narrow, managerialist agendas and bracket their potentially detrimental consequences for wider constituencies (Clegg et al., 2004; Ezzamel and Willmott, 2008; McKinlay et al., 2010). Mobilizing institutional theories in an unquestioning manner runs the risk of normalizing and legitimizing such changes by ignoring alternative theorizations critiquing the effects of institutionalization (Lawrence and Suddaby, 2006; Cooper et al., 2008).

The present paper advances a more critical understanding of how management control is implicated in the institutionalization of the notion of strategy. In examining the process of strategy formation I draw attention to how political regulation became intricately intertwined with the notion of strategy in the focal organization and how evolving management control practices inspired by SMA techniques, such as the balanced scorecard, mediated this

process. I demonstrate how the meaning of the notion of strategy gradually became closely associated with organizational alignment with government regulation. Somewhat paradoxically, this led to the institutionalization of an increasingly restrictive view of strategic priorities generating some “unintended” outcomes with a detrimental impact on organizational practices contributing to achievement of wider social objectives. In contrast to most institutional research on management accounting, I thus explicate how evolving management control practices are not only implicated in organizational alignment with institutional pressures but also contribute to the marginalization of some constituent interests.

The following section presents an analytical framework explicating how institutional and critical perspectives complement each other in examining the interplay between strategy, political regulation and management control in the public sector. The ensuing section describes the research setting and design. The case narrative then follows a largely chronological approach tracking the process of strategy formation in the field study site. A discussion of my main findings and contributions concludes the paper.

## 2. Analytical framework

A key justification for political regulation of public sector organizations has traditionally been that of safeguarding the public interest from adverse consequences of organizational behaviour (Barrow, 1996; James, 2000). Historically, relatively detailed regulatory frameworks focusing on operating aspects and compliance with the rule of law evolved in most advanced democracies and were long legitimized as necessary vehicles of democratic accountability and control (Hood, 1995). The emergence of more explicit notions of strategy and strategic management in the public sector is part of the wider onslaught on such regulatory frameworks, notably spearheaded by the Reinventing Government movement in the US (Osborne and Gaebler, 1992; Gore, 1993) but also replicated elsewhere (see Luke and Verreyne, 2006; Lane and Wallis, 2009). Several observers have traced current discourses pivoting on the need for a more “strategic” management approach to Osborne and Gaebler’s (1992) critique of political regulation for stifling the propensity for innovation and service improvement (Lynn, 2001; Luke and Verreyne, 2006; Lane and Wallis, 2009). Following the identification of excessive political regulation as a key problem for strategy to resolve, the ideal conception of strategic management has often been one of long-term goal-directedness and pro-active management as opposed to the allegedly reactive and short-term nature of traditional public management practices (Johansson, 2009; Lane and Wallis, 2009). The adoption of private sector techniques presumably fostering long-term management (e.g., strategic planning) has also occurred as a response to growing concerns with the traditional absence of explicit strategies (Llewellyn and Tappin, 2003).

Recent survey-based research would seem to vindicate normative claims regarding the benefits of explicit strategic management in the public sector. Reliance on goal-directed strategic planning has been found to have a positive impact

<sup>1</sup> In the present paper, institutional theory primarily refers to new (or neo-) institutional sociology as this has been the primary target of the critique of contemporary institutional research for failing to develop more critical insights (see Lounsbury, 2003; Cooper et al., 2008).

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