



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

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