Performance management systems' stability: Unfolding the human factor – A case from the Italian public sector

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ABSTRACT

The aim of this study is to examine the institutional context during the emergence of New Public Management (NPM), which created pressure on public sector organizations to implement performance management systems (PMSs), such as the balanced scorecard (BSC). Drawing on Granlund’s framework (2001) and Giddens’ (1979) structuration theory, we engage insights from a longitudinal case study of an Italian local authority to show how managers exercise agency before the mandated implementation of the BSC. This analysis suggests a re-interpretation of Granlund’s (2001) factors of inertia (human, institutional and economic) in terms of balance among the three factors, and inclusion of a historic and culturally specific perspective. The findings also encourage a broader consideration of the agency of managers in a public entity before the design and enhancement of a NPM tool.

1. Introduction

The reasons, processes and outcomes relating to changes to accounting in the public sector have been a near constant topic of inquiry since at least the 1990s (Broadbent & Guthrie, 2008; Cooper, Ezzamel, & Qu, 2017; Järvenpää & Länsiluoto, 2016). Many researchers associate these changes with reforms inspired by New Public Management (NPM), which introduced management accounting and control practices from the private sector to enhance efficiency, effectiveness and public accountability (Bracci, Maran, & Inglis, 2017; Dunleavy & Hood, 1994; English & Skellern, 2005; Hood, 1991; Lapsley, 2008). The literature on changes to management accounting has emerged in different and partly overlapping clusters (Lukka, 2007). For instance, these changes to accounting practices have been studied from a number of perspectives, including environmental contingencies, change management approaches (e.g. Carlin & Guthrie, 2003; Christensen & Lægreid, 2007; Pollitt & Bouckaert, 2004; Scapens & Roberts, 1993), and institutional-based views (e.g. Dacin, Goodstein, & Scott, 2002; Ho, 2011; Scapens, 2006; Ter Bogt, 2008). However, very few management accounting studies (Granlund & Lukka, 1998; Granlund, 2001; Lukka, 2007) pay explicit attention to the flipside of change, namely stability. Siti-Nabila and Scapens (2005) show that stability and change are not necessarily contradictory or opposing forces, but can coexist in an evolutionary process (see also Aroles & McLean, 2016). Furthermore, studies of management accounting change tend to examine whether and why a certain management accounting technology was implemented, focusing on change within formal systems (Arnaud, Lapsley, & Steccolini, 2015; Cooper & Kaplan, 1988; Kaplan & Kaplan, 1996). The informal domain of participants’ actions and their everyday behavior in the organization has received much less attention (Aroles & McLean, 2016; Lukka, 2007).

This study draws on Englund, Gerdin, and Burns’s (2011) review of the empirical accounting literature on stability (p. 501) to

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provide an account of how macro (external pressures) and micro (organizational) factors can explain the preference for stability over a change. Our primary research question is: how and why do factors at the macro (external pressures) and micro (organizational) levels influence the preference for stability over a change? Diverse studies have conceived organizational actors’ behavior to be a consequence of external pressures. This acknowledges a continuous relationship between external and organizational levels that is often deterministic or “taken for granted” (Englund et al., 2011, p. 501; Giddens, 1984, p. 60).

In our study, the analysis of the external context is especially appropriate given the political nature and implications of regulatory change in the Italian public sector. These external pressures are also subject to the reflexivity of organizational agents and their conscious decisions, which are interconnected with the micro-organizational level (Englund & Gerdin, 2014; Englund et al., 2011; Greenhalgh & Stones, 2010; Liguori & Steccolini, 2012; Pina, Torres, & Yetano, 2009).

We draw on Granlund’s (2001) work, which bridges institutional theory and structuration theory (Giddens, 1979, 1984) with specific reference to “knowledgeable-based theory” (see also Englund & Gerdin, 2014). Granlund (2001) addresses some of the perceived limitations of institutional-based theory (i.e. the “taken-for-grantedness”) in relation to organizational change or stability (Cloutier & Langley, 2013; Gurd, 2008; Humphrey & Scapens, 1996). His seminal work offers the opportunity to focus more on the micro-practices of organizational actors – the human element in explaining change and stability. We use this concept to argue that stability implies actions on the part of organizational actors, even if these are not reflected in the outcome. In other words, even though no overall change is observed, people in organizations still undertake actions to maintain or modify the status quo – and it is an interrogation of these actions that forms the basis of our case study.

To address our research question, we conduct an analysis of how the implementation of a performance management system (PMS) in a public sector organization triggered a broader re- evaluation of the interrelations among these dimensions in a local authority, beyond Anglo-Saxon contexts. The public sector context is multi-functional, with institutions that may not merely maximize a simple set of goals, but must compromise between conflicting objectives and values (Llewellyn & Tappin, 2003). Ambiguous and inconsistent goals are inherent characteristics of the public sector, therefore political and administrative leaders are permanently confronted by tensions and dilemmas to which there is no simple solution. Our analysis of how the three dimensions interact in changing or maintaining the stability of the current structure has relevant policy and practical implications.

Third, we expand Granlund’s (2001) work by providing a specific account of macro-level pressures and micro-level (case) practices, actions and behavior, and proposing a continuous dialectic comparison between the two levels of analysis. Our means of obtaining accounts of external pressures for change differs from studies that interpret the perceptions of organizational actors (e.g. Stones, 2005), since we examine the longitudinal economic (data) situation of Italian public administration, and the laws and regulations requiring the PMS implementation. Moreover, in analyzing the micro-level practices, we offer a detailed analysis of how agents use their knowledge and practices to reproduce and/or make decisions to influence their everyday actions, and how this affects the organization. Our perspective emphasizes the link between the practices of variously situated agents and the production and reproduction of institutionalized systems. We develop empirical insights regarding the gap between actor microprocesses and external (macro-level) pressures.

The remainder of the paper is presented as follows: in the next section we explore the work of Granlund (2001) as informed by Giddens’ (1979) structuration theory and institutional theory (Powell & Di Maggio, 1991) to classify factors affecting new accounting system development (or intentions) within an organization. The third section introduces the research design. In the fourth section, we present our analysis and interpretation of the context of change through Granlund’s (2001) systematization, and in the fifth section we show the findings of the case organization. The sixth section provides a discussion, followed by some concluding thoughts on the managerial and theoretical implications of our case findings and suggestions for future research.

2. Theoretical orientation

Granlund (2001) offers a framework, based on institutional theory (Powell & Di Maggio, 1991) but also inspired by Giddens’ theory of structuration (1979, 1984), to explain the failed application of an activity-based costing system on a private for-profit organization. Granlund’s (2001) framework borrows the idea of “knowledgeable agents” from Giddens (1979) to show the relevance of the human/individual factor in processes of management accounting change. Recognizing human agency is the main element of distinction with respect to institutional isomorphism (Granlund & Lukka, 1998), in which the concepts of economic and institutional factors are embedded. In his work, Granlund (2001) provides a detailed description of the case organization followed by a discussion and analysis of the findings of accounting system development within a framework of economic, institutional and human factors. While Granlund (2001) flags the importance of understanding the connections between the factors (p. 157), he does not elaborate on these, nor explore the macro and micro-level linkages.

Englund and Gerdin (2014) use a combination of institutional theory and structuration theory to overcome the limitations of institutional theory, and to address the non-deterministic character of day-to-day activity (see Burns & Scapens, 2000; Coad & Cullen,
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