Performance measurement and institutional processes: a study of managerial responses to public sector reform

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Institutional aspects of performance measurement (PM) in public sector organizations are attracting increasing research interest. Only recently, however, has the literature on this topic recognized the pertinent critique of neo-institutional sociology (NIS) pivoting around its view of managers and organizations as primarily passive adaptors to change. This paper explores how the properties of institutional processes associated with recent reforms in the Norwegian health care sector impinge on the extent of pro-active choice exercised by senior management in the development of multidimensional PM reflecting the interests of a wider range of institutional constituencies. Addressing this issue, we draw on Oliver's (1991) conceptual framework, based on a continuum of responses characterized by a varying degree of pro-active choice. The study thus provides a more detailed analysis of the managerial tactics in developing organizational PM than most prior research informed by NIS. We find support for several of Oliver’s hypotheses regarding the influence of institutional aspects, particularly those pertaining to the causes of the adoption of PM practices, the pattern in which these are diffused and the influence of constituency multiplicity and dependence, but also identify some areas requiring conceptual refinement in this respect.

Key words: health care; institutional theory; Norway; performance measurement; public sector reforms.

1. Introduction

Over the past few years, management accounting researchers have paid increasing attention to the implications of public sector reforms for the design and implementa-
tion of systems for performance measurement (PM) (e.g. Lapsley and Mitchell, 1996; Ballantine et al., 1998; Modell, 1998; Johnsen, 1999; Kloot and Martin, 2000). Several authors have proposed a multidimensional approach to PM, reflecting the interests of a broader range of stakeholder interests, as a means of widening the conception of public sector performance from financial, efficiency-based measures (Mayston, 1985; Pollitt, 1986; Brignall, 1993; Ballantine et al., 1998; Kloot and Martin, 2000). Much of this research has been informed by a functionalistic perspective where improved measurement and information systems are regarded as pivotal for assisting managers in making better informed trade-offs and thus balancing more or less conflicting stakeholder interests in the overall control of organizations. More recently, however, the considerable problems in achieving such a balance have stimulated some interest in neo-institutional sociology (NIS) as an alternative basis for exploring the premises impeding a wider conception of performance in public sector organizations (Llewellyn, 1996; Brignall and Modell, 2000; Lawton et al., 2000).

The present paper extends these efforts to study PM from an NIS perspective by examining the responses of senior management and staff specialists to recent reforms in the public health care sector in Norway. While ample attention has been paid to the responses of operating-level employees and managers occupying dual professional and administrative roles to recent public sector reforms (e.g. Purdy, 1993; Pettersen, 1995; Jones and Dewing, 1997; Llewellyn, 1997; Jacobs, 1998; Llewellyn, 1998; Modell, 2000), more in-depth investigations of the less extensively explored issues of how and why senior management influences PM in public sector organizations may provide important complementary insights. Some prior studies indicate that the development of novel PM practices and other formalized control mechanisms in response to public sector reforms tend to be dominated by senior management and staff specialists (Laughlin et al., 1994; Lawton et al., 2000). In their capacity as systems designers, senior managers may thus function as translators of change through their interactions with the organization’s institutional environment (cf. Czarniawska and Joerges, 1996), which may involve some arbitration between conflicting constituent interests (Brignall and Modell, 2000).

Contrary to the assumptions invoked by much early theorizing in NIS, however, managers are not necessarily confined to passively comply with institutional pressures, but may possess much wider action repertoires involving a greater element of pro-active choice (see e.g. DiMaggio, 1988; Powell, 1991; Scott, 1995; Beckert, 1999). While this insight is spreading among management accounting scholars informed by NIS (e.g. Abernethy and Chua, 1996; Covaleski et al., 1996; Euske and Riccaboni, 1999), no empirical study of multidimensional PM to date has systematically explored the responses of senior management along these lines. Given the capacity of PM to render visible the implications of public sector reforms for various organizational constituencies (cf. Brunsson, 1990; Broadbent, 1995), senior management may need to exercise considerable caution in compiling performance information for the purpose of legitimization. Hence, pro-active and careful selection of indicators reflecting a broader range of financial and non-financial performance aspects of concern to key constituencies may be warranted to balance conflicting interests, although the institutional context of reforms is likely to pose some constraints in this respect (Brignall and Modell, 2000).

Following the discussion in the foregoing, the overriding research question to be explored in this paper can be stated as follows: how do the properties of institutional
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