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Roles of performance measurement in local government

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1. Introduction

This chapter introduces and raises the research questions, and documents the relevant content and context of this study.

A more businesslike use

Results are important for Dutch local governmental organizations. Nowadays Dutch municipalities often underline the importance of specific, measurable and accountable organizational results. Examples of the importance of results are easily found. For example, many Dutch cities are currently involved in programs to increase the focus of the organization on results², are increasingly using results in contracts or formal agreements with other governments³, and are referring to results in their communication⁴ with the press.

Performance measures are at the center of all this. Performance measures are used as a tool for various reasons. For example: to set the objectives of governmental organizations, to make results measurable and specific, as indicators for managing processes, and to make results accountable. This use of performance measures by Dutch municipalities appears to be widespread and pronounced. Nowadays performance measures are being used for both external-oriented communication⁵, as well as for more internal-oriented strategic, political and operational reasons (Ter Bogt, 2004, 2005). Currently many of the major cities in the Netherlands are formally using financial and non-financial performances for accounting and control purposes (Van Helden and Ter Bogt, 2001, Van Helden and Johnsen, 2002).

The use of performance measures by Dutch local government is certainly not just of recent date. Government has always used performance measures to plan and control its activities or its intended results. For example, the involvement of Dutch Water Boards in performance measures can be traced back to the Middle Ages⁶. These

² The city of Amsterdam, for example, has recently started a program with the title "Only results count". The aim of this program is to "work smarter", to continuously stimulate civil servants to focus on efficiency and effectiveness of their work.

³ i.e. in covenants between the central and local government, such as the Large Cities Policies or LCP (in Dutch "Grote Stedenbeleid" or GSB).

⁴ i.e., the mayor of the city of Rotterdam (mr. Ivo Opstelten), one of the more pronounced advocates of the use of result based policies in recent time, included the following text in his speech on January 2, 2006: "We started this term with a clear program, with clear choices for which we wanted to be accountable. We were result oriented: no vague policies, but specific actions. No empty promises, but accountable targets" (original spoken in Dutch).

⁵ for example, doing an internet search (Google) at the beginning of 2006 on the words "prestaties" (performance), "gemeente" (council), and "internet sites from the Netherlands" resulted in circa one million hits. The majority of the hits referred to documents from a large group of Dutch municipalities, or to sites for comparing the performances of Dutch municipalities (such as <http://www.watdoetjegemeente.nl>).

⁶ According to a charter signed by Jan van Nassau on May 12, 1277, a public board of local executives was made responsible for the maintenance and repair of the dyke of the river Lek, an important dyke for the protection of the cities in the provinces of Utrecht and Holland against floods.

early governmental organizations, established to ensure some level of collective protection against human and natural disasters, are not of course comparable with our modern municipalities. Governments then were in essence boards of executives, with the authority to collect taxes and to temporarily recruit inhabitants for performing specific tasks. Nowadays municipalities are often large organizations, with a wide variety of tasks, providing a large number of products and services both to the general public and to specific citizens. However, to a certain degree financial and non-financial performance measures have always been present.

Contemporary interest in performance measurement in Dutch local government is often regarded as an example of the changes that many governments in Western countries have been going through in the past decades. In this period most Western governments have been confronted with tensions between increasing organizational size, growing demands for governmental services, the stress of fiscal scrutiny on the organization, as well as criticism from citizens. In response governments have changed their organizations, in order to improve both their managerial performance and their accountability to society (Accoin, 1990; Hood, 1995, Pollitt and Bouckaert, 2000).

“Bashing bureaucracy” has been a popular term for the solution to this challenge; or in the words of Osborne and Gaebler (1993, p. xvii):

“We believe that industrial-era governments, with their large, centralized bureaucracies and standardized, “one-size-fits-all” services, are not up to the challenges of a rapidly changing information society and knowledge-base economy.”

Although oversimplified, this basic view of the preferred direction of change for governmental organizations has stimulated a move towards a less centralized, less formalized, and more entrepreneurial government in many western countries, with more autonomy for managers and other employees (Hood, 1995). Hood (1995) related this public management reform to two doctrines: lessening or removing the differences between the public and private sector and shifting the emphasis from process accountability to accountability in terms of results. He actually labeled the reform as New Public Management (NPM), and added that *“the ideas of NPM were couched in the language of economic rationalism”* (p. 94). Business organizations were seen as role models, and their (assumed) economy, efficiency and effectiveness were used as goals, and a more businesslike use of planning and control instruments was addressed as one of the means for achieving it (Pollitt and Bouckaert, 2000).

The introduction of businesslike instruments in governmental organizations has stimulated the use of performance measurement and output control. A new generation of “econocrats” and “accountocrats” (Hood, 1995, p. 94) emerged, and promoted the use of more quantitative information and administrative control. “Businesslike use” of planning and control instruments became a label for the use of formal systems (especially accounting information systems) for organizational result control purposes. Businesslike use of planning and control documents refers in general to the use of businesslike instruments (i.e. decentralized organizational devices, output control, and performance measurement systems) and private sector management

styles (i.e. the usual employment and pay conditions in the private sector), with accounting and performance measures as key elements (Pollitt and Bouckeart, 2000).

This international trend has had an influence on the majority of Dutch governmental organizations in the past decennia. Two major changes are generally attributed to this influence: a changed organizational structure (decentralization of autonomy) and the introduction of businesslike planning and control instruments (such as medium-term plans, output budgets, hierarchical planning and control systems, and performance reports) (Van Helden, 1998; Van Helden and Ter Bogt, 2001; Van Helden and Jansen, 2003; Groot and Budding, 2004).

Businesslike use in practice

The introduction and adaptation of businesslike planning and control instruments in Dutch municipalities has developed gradually over the last 15 years. The initiative to change the control systems, in order to facilitate a more businesslike use, was taken by some large Dutch municipalities in the 1980s. Around 1990 all Dutch municipalities were stimulated by the Dutch central government to apply a set of specific businesslike instruments (Van Helden, 1998). Over this period the spread of businesslike ideas and instruments has diffused (Van Helden, 1998) and became part of the practice of local governments. Although the effects of the introduction of these instruments in Dutch municipalities, in terms of efficiency and effectiveness, has not been studied extensively to date (Van Helden and Jansen, 2003), recent empirical accounting research has given some insights into the use of businesslike instruments.

Research findings show that according to most municipal managers, one of the main objectives of the introduction of businesslike instruments was achieved: this was improving the information provided to the municipal council. Managers also seem to value the businesslike planning and control instruments positively, in terms of increased attention given to efficiency and division between political and managerial levels of the organization (Van Helden and Ter Bogt, 2001).

Research findings are, however, less clear on the effects of the businesslike use of planning and control instruments. The suggestion here is that the reforms have not significantly increased the attention to organizational efficiency or improved the clear division of responsibilities between the political and managerial organizational levels (Van Helden, 1998; Van Helden and Ter Bogt, 2001). It may have only increased the related number of documents and the time spent discussing them (Ter Bogt, 2005).

Accounting research analyzing the use of businesslike instruments in Dutch municipalities has concentrated mainly on two inter-related issues: the factors that have hindered the introduction and adaptation of businesslike instruments, and the use of performance measures.

Firstly, research has pointed to various factors that have probably hindered the successful introduction and adaptation of new accounting techniques in Dutch municipalities. Factors that have been recognized are, for example:

- limitedly homogeneous outputs (Bordewijk and Klaassen, 2000),
- difficulties in planning the output of non-programmable or ad-hoc tasks (Van Helden and Ter Bogt, 2001),

- ambiguous organizational objectives (Van Helden, 2001),
- instrumental approach during the adaptation process (Van Helden, 1998), or
- the underdeveloped planning attitude of municipal management (Ter Bogt and Van Helden, 2000).

Secondly, the use of performance information has also been researched. These types of studies reported, amongst other things, that performance information rarely seems to be used for motivating or evaluating managerial performance (Ter Bogt, 2001, 2004), is used only to a limited extent for variance analysis (comparing actual with planned performance) (Bordewijk and Klaassen 2000; Van Helden and Ter Bogt, 2001), or is used in a more ritualistic or symbolic way (i.e. Bordewijk and Klaassen, 2001).

The use of performance measures in a more ritualistic or symbolic way has also been documented in research findings on governmental and non-profit organizations outside the Netherlands⁷.

Pollitt (2001), an exponent of this viewpoint, argued that the real convergence of many West-European governmental organizations in order to improve outcomes may be a useful myth. In his words (p.945): “*Thus, ‘real’ convergence may be more story than fact, but if so, it is a myth that will support careers, enhance images and boost the incomes of those who purvey its sign and symbols*” (underlining added).

The above documented findings could give the impression that the introduction and the use of businesslike instruments have not contributed much to the improvement of financial management in Dutch local government. Businesslike instruments, such as the use of output control and performance measurement, may have only a marginal effect on the functioning of public sector organizations. To put it in other words, governmental organizations may have been changed, but it still remains questionable as to what extent they are being managed more businesslike than before the reforms.

But is this impression adequate, does it reveal the actual use of accounting information for controlling governmental organizations? Does recent accounting research fully explain the use of performance measures in these organizations, or are some aspects being overlooked?

These broadly stated and fairly general questions cannot be answered easily. Public accounting research delivers a rich flow of insights into various specific topics, theories and methods (Van Helden, 2005), and contributes to these questions in several ways. Thus, the general critique that accounting research overlooks relevant aspects

⁷ It has been suggested that, for example, these reforms have not only improved the use of accounting information, but also invoked more symbolic or ritual processes (Brignal and Modell, 2000). Modell (2001) argued that Scandinavian not-for profit organizations often lack a clear linkage between organizational goals and management information (as performance measures) and found evidence for a symbolic and ritualistic use of performance measures. Modell (2004) confirmed his earlier made assumption, and interpreted the use of performance measures in terms of emerging and declining organizational myths.

Lapsley and Pallot (2000), researching local government in Scotland and New Zealand, found in Scottish local government evidence of symbolic use, and argued that “*management of these local authorities adopted structures and practices which they can portray themselves as rational, modern organizations*”(p.227).

may be hard to support. However, in my opinion there is still an aspect that deserves more than passing attention. This aspect was addressed earlier and discussed by researchers, but leaves unresolved issues. This aspect is documented below.

Assuming performance measurement use

As briefly discussed in the previous section, businesslike use of planning and control instruments in Dutch municipalities was associated with the notion of business organizations as a role model. This role model was perhaps more a label than a complete blueprint of business organizations. It mainly emphasized specific aspects which were supposed to apply to business organizations, such as economy, efficiency, effectiveness, rational planning and control systems, decentralization of authority, and result control. For example, businesslike organizational control was often portrayed as on average rational and technical processes, in line with the traditional functional view on management accounting⁸. At the same time the attention to the more sociological and political influences on organizational control appears to be limited (Ter Bogt, 2005).

The motivation for accepting this “businesslike“ label as an achievable goal for organizational control appears to be built on at least two underlying assumptions:

- (a) performance-based output control can be a dominant control mechanism in public organizational control, and
- (b) performance-based output control is a dominant control mechanism in business organizations.

Support for assumption (a) can not be found easily. On the contrary, the majority of accounting theory delivers arguments against it. For example, in management accounting research two often applied theoretical perspectives (contingency theory and sociologic institutional theory) provide evidence against the dominant use of formal and rational controls in governmental organizations. Both theoretical perspectives are summarized below.

The first theoretical perspective is the contingency theory⁹. A general theme of the contingency theory is that formal controls (such as process and output control) are more appropriate for controlling routine tasks in a stable tasks environment, while informal controls (such as clan control (Ouchi, 1979), professional control (Abernethy and Stoelwinder, 1995), and political control (Hofstede, 1981)), are expected to control more non-routine tasks in a more dynamic or ambiguous environment (i.e. Perrow, 1970; Ouchi, 1979, Hofstede, 1981). Couched in this contingency theory is the notion that organizational decisions are made under varying degrees of uncertain

⁸ The traditional functional view on management accounting suggests that managerial accounting should reflect and promote rationality in decision making. Accordingly, management accounting information used by managers serves as quantitative expressions of organizational goals and is used to support rational decision making. (Covaleski e.a., 1996, p. 6).

⁹ These studies are in general researching the relationship between contingent factors (such as task technology and environment, organizational size or organizational strategy) and the design and functioning of the various organizational arrangements for coordinating and controlling tasks (Covaleski e.a., 1996; Chapman, 1997).

conditions and that the required information of decision makers is driven by uncertainty (i.e. Simon, 1945; Chapman, 1997). Managing routine tasks under stable circumstances is generally associated with a low level of task uncertainty; organizational goals are clear, and tasks are well understood and can be pre-planned. If tasks are less understood, more knowledge is required during task execution and fewer activities can be planned in advance. In such circumstances communication must be more sophisticated¹⁰ in order to align sub-unit decision making with organization objectives (Galbraith, 1973). Under these more uncertain conditions complete reliance on accounting information for organizational control can be inappropriate (Hofstede, 1978, Hopwood, 1972).

By applying this more technical perspective, contingency theory associates the use of performance measures for output control mainly with the presence of stable and certain organizational tasks for achieving formal, clear, and relatively unambiguous organizational objectives.

However, tasks in governmental organizations are often less stable and certain, and can be subject to more ambiguous and unclear objectives, resulting in the reliance on more political forms of control instead (e.g. Ouchi, 1979; Hofstede, 1981; Anthony and Young, 1994). The dominant use of performance measures for output control in governmental organizations is therefore not supported by these general assumptions of the contingency theory.

Limited studies have been made of the actual use of performance measures for output control in governmental organizations, referring to this general perspective of the contingency theory. Perhaps one of the most outspoken studies in this field is Ter Bogt (2004b). He tentatively concluded that aldermen (executive politicians) in Dutch municipalities, when responsible for less concrete and less measurable outputs, would be less inclined to decentralize control, and would prefer more sophisticated and less formal information. However, he also concluded that aldermen rarely used performance measures for control purposes at all, and suggested that more research on this issue was needed.

More research has been done into the actual presence of performance measures in planning and control documents. It was initially expected that output control in governmental organizations required a significant number of performance measures, which described concrete levels of products or services and focussed attention on data that could be useful in decision making (Mayston, 1985). In practice, however, performance measures in Dutch municipalities seldom revealed the total number of units to be produced or the desired cost per unit. Thus the relevance and controllability of the performance indicators were considered as rather poor (Bordewijk and Klaassen, 2000, Van Helden and Johnsen, 2002). The heterogeneous sets of inputs, processes, and products of Dutch municipalities were addressed as one of the main causes for this. Consequently, it was concluded that the standard format of output control (using variances between actual and budgeted performances, differentiated in volume and price variances.) was hardly applicable (Bordewijk and Klaassen, 2000).

¹⁰ Accounting instruments are classified as more sophisticated when they capture, for example, not only financial, historic, and internal oriented information, but also more non-financial, future, and external oriented information (Chenhall and Morris, 1986).

Instead, performance measures were used to characterize a wide range of desired or accomplished results (Van Helden, 2001).

The second theoretical perspective is the new institutional sociology (abbreviated in this study to “institutional theory”), which is associated with the legitimacy of formal structures¹¹. In this institutional perspective, the use of performance-based output control is mainly related to aspects of politics, power and gaining society’s continuous support for legitimizing and justifying decisions. This in order to promote specific interests and values, and to legitimize and rationalize an organization’s actions to dominant external stakeholders (Meyer and Rowan, 1983; DiMaggio and Powel, 1983, 1991; Burchell e.a., 1980). Confronted with the impact of conflicting institutional pressure, organizations can try to avoid conformance to these pressures, and can use accounting information in a more symbolic and ritualistic way. They can try to conceal the organizational activities behind a façade of acquiescence and can decouple¹² their internal control structures from external observation (Oliver, 1991).

Non-profit and public accounting research has frequently taken an institutional perspective to study organizational behavior¹³. These studies seldom support the suggestion that in practice output control is a dominant organizational control mechanism. On the contrary, the majority of these studies use concepts of institutional theory for explaining why performance-based output control has only limited relevance to organizational control. The use of performance measures has often only been related to gaining legitimacy or conformance to institutional pressure, although some recent research is adding nuances to these suggestions¹⁴.

¹¹ Traditional contingency theory accepts legitimacy as given and managerial decision-making as rational, being oriented on delivering the formal organizational objectives. Institutional theory suggests that an organization’s survival requires not only achieving production efficiency, but also conformance to social norms of accepted behavior. These social norms are part of specific institutionalized social structures, and are not to be regarded as general values (Meyer and Rowan, 1983; Covaleski e.a., 1986, 1996). The norms of rationality of highly institutionalized governmental organizations can thus differ from those of less institutionalized public organizations, and can be more infused with aspects of honesty, fairness and mutuality than the in general more economically oriented norms of business organizations (Hood, 1995), and can more be involved in processes of accommodating conflicting institutional demands as imitation, coercion, and legitimation (Meyer and Rowan, 1983).

¹² Decoupling implies that formal inspection, evaluation and control of the way operational activities contributes to formal objectives are minimized (Meyer and Rowan, 1983).

¹³ A few examples: Covaleski and Dirsmtith (1986) conducted a case study in six U.S. hospitals on the use of budgets. They concluded that budgets were not only for objective and rational control over sub-units, but were also an integral part of the politics and power of organizational life and are used to legitimize action. They suggested that a political view of budgeting definitely appears to be useful for understanding the budgeting process. Ansari and Euske (1987), analyzing the use of cost accounting data by military repair facilities in the US, concluded that there was little technical rational use of accounting. They suggested that the accounting system was mainly concerned with institutional notions of rationality, such as gaining external legitimacy and making the system “appear functional”.

¹⁴ Johnsen (1999) came to a different conclusion. Conducting a case study on the implementation of four performance measurement projects at Norwegian local governmental organizations, he suggested that loose coupling can act as a facilitator for instrumental or businesslike use of performance measures. The suggestion that loose coupling should not be regarded as a buffer between objectives and activities, but as a coupling device between different interests, is also supported by Collier (2001).

To summarize, in general contingency and institutional theories do not strongly support the assumption that performance measures for output control is a dominant control device in governmental organizations (assumption a).

Assumption (b), concerning the dominance of performance-based output control in business organizations, is both supported and nuanced by theoretical and empirical studies. The importance of performance measures has been extensively proposed in both theoretical and empirical literature, both for planning and implementing organizational strategy (Kaplan and Norton, 1996; Simons, 2000; Nørreklit, 2000; Chenhall, 2005)¹⁵ and for output control purposes (e.g. Merchant and Van der Stede, 2003, Anthony and Govindarajan, 2003).

Theoretical support for the use of performance measures for output control is found for example in economics and organizational theory¹⁶. Applying economic theory, the use of performance measures is expected when it can effectively communicate pre-set outputs, provide information on the performance of employees, or can be reliably and validly measured, (e.g. Ouchi, 1979; Merchant and Van der Stede, 2003). Applying organizational theory, the use of performance measures is often related to the execution of programmable or certain tasks (Galbraith, 1973; Chapman, 1997).

Empirical studies in business organizations convincingly document the use of performance measures, both for the purpose of strategic planning and for organizational control (e.g. Simons, 2000; Anthony and Govindarajan, 2003). These findings approach the use of performance measures mainly from a rational and formal perspective, seeing performance measures as being financial or non-financial, formal and written information related to formal preset objectives.

However, the importance of this formal information for organizational control in businesses can vary considerably. Performance measures and output control are not of equal importance for all firms in all environments. Even when the technical characteristics of organizational tasks contribute to the use of output control, and financial performance information reveals all necessary information, organizational control in firms is seldom built exclusively on performance measures and output control. Institutional, social and political influences can have a considerable effect on the control structure of businesses, and can vary considerably between businesses. Output control is therefore often dovetailed with more behavioral and political control mechanisms (Ouchi, 1979; Merchant and Van der Stede, 2003). Consequently, managers of businesses often prefer rapid, informal, and speculative information to precise, aggregated, written performance information (e.g. Mintzberg, 1972).

¹⁵ These theories build on Porter's (1980) concept of strategy, and state that a firm's strategy should be driven by its environment, and not by its competencies or resources. Performance measures are used as a tool for translating strategy into measurable objectives and to align departmental and personal goals to overall strategy (Kaplan and Norton, 1996).

¹⁶ Economic theory on organizations is often built, amongst other things, on basic assumptions of organizational theory; e.g. on the assumption that authority in organizations rests on the acceptance or consent of subordinates (Barnard, 1938), and on the principle of self-interested individuals with preferences over a wide variety of things but with limited capacity (Simon, 1945). Economic organizational theories further assume that firms will seek efficiency and try to maximize their value. Performance measures and output control will therefore be expected when they contribute to the motivation and evaluation of employees in order to achieve these organizational goals.

Thus, it seems that the general assumption that all private organizations rely significantly on performance measures and output control for organizational control purposes (assumption b) is not really supported. The general assumption would probably be more evidence based if it was re-phrased in terms of “The importance of performance measures use and output control in business organizations can vary significantly, and is always accompanied by forms of informal controls”.

Notwithstanding the fact that the previous discussion only documents some general findings on the use of performance measures and output control in governmental organizations, it is illustrative. It emphasizes that the rational use of performance measures for formal control in governmental organizations is not solidly founded on theoretical or empirical grounds. Suggesting that organizational control is (or can be) primarily achieved by the rational use of performance measures and output control may therefore be less realistic for contemporary governmental organizations (at least for local government in the Netherlands).

However, research findings clearly suggest that performance measures are being used in the planning and control instruments of Dutch local government. If they are not used in a rational and technical way for organizational control, what then are they used for? What is the role¹⁷ of performance measures? This study concentrates on this last question, and aims to explain the role of performance measures in Dutch local government.

The role of performance measures is the subject of study, but the focus of research is not limited solely to its use. Only researching the use of performance measures will not explain the different roles managers attach to them. By focussing on the role played by performance measures, attention is directed to the way accounting procedures and information are used and integrated into organizational control processes (Chapman, 1997), and on the way accounting can arise out of technical and political processes (Burchell e.a., 1980).

Research question

In accounting literature, explicit attention to the different roles of performance measures surfaced around 1970. By then authors focused on wider concept of accounting information, and defined accounting information as a function of a complex and institutionalized mechanism for economic and social management (Hopwood, 1972; Burchell.e.a., 1980). In the words of Burchell e.a. (1980, p.13): “*Accounting, it would appear, is made to be purposive rather than being purposeful*”.

¹⁷ Three fairly close related words can be used in this context: function, purpose, and role. This study is using role (meaning: usual or customary function, “what is his role in the organization?”), instead of function (meaning: intended purpose, “it is the function of the hammer to hit nails into wood”, or purpose (meaning: the reason for which anything is done) (source: Collins, 1986). By using the phrase “the role of budgeted performance measures”, this study is addressing a more general function for which performance measures are being applied. For example, roles can relate to more general reasons as to facilitate result control, or to learn. “Function” will be mainly used in this context for describing a more specific purpose (for example: the role of BPM can be broken down into several functions).

The role of accounting information has been theoretically and empirically researched, in both the public and the private sector (e.g. Burchell e.a., 1980; Ansari and Euske, 1987; Coveleski and Dirsmith, 1986; Simons, 1990; Vanderbosch, 1999). These studies often apply different concepts and research methods, and have produced many insights and nuances that can be used as a basis for explaining the role of performance information. Notwithstanding their differences, these studies are often built on the assumption that accounting information can simultaneously support more internally oriented processes of organizational control as well as more externally oriented processes of discussions with external agents. The differentiation between the internal or external organizational context is often characterized by its technical or its institutional environment (Meyer and Scott, 1983).

The technical context is in essence related to the technology and environment of the organizational task. Applying a technical context to control, the focus is on a more rational and technical use of performance measures and the importance of output control. Within this perspective, managers can use performance information not only to compare actual with expected performance and to manage by exception (Simons, 1990, 1995), but also for monitoring, detecting change, identifying problems and opportunities, and disseminating information (Mintzberg, 1972), or for operational planning, performance evaluation, communication of goals and strategy formation (Hansen and Van der Stede, 2004).

This context, associated with a more technical rationale on organizational control, is labelled as a "businesslike control context" in this study.

From a more institutional perspective, the organizational context is based on institutionalized social structures, processes and ideologies. Applying this control context, the focus is on conflicting institutional pressures on organizational goals and objectives. Within this perspective, managers use performance information to legitimize choices made by the organization and to create a common understanding of what is appropriate (e.g. Burchell e.a., 1980). This context is labelled as a "political control context" in this study.

In order to define both contexts in more general accounting based terms, contemporary accounting research on public and private sector organizations is used.

However, both types of research differ considerably, and cannot easily be used to complement each other. Private sector accounting research, especially that conducted by North American researchers, is more quantitatively oriented, appears to be more focussed on performance measurement, costing and cost management, using economics and organisation theory as theoretical frames of references (Van Helden, 2005).

Public sector accounting research, on the other hand, is rarely analytical or survey-based, is more qualitatively oriented, and appears to be more concerned with budgeting and performance measurement. Considering the importance of budgeting for resource allocation, the interest of public sector accounting research in this subject is

understandable¹⁸. Public sector accounting research mainly applies organizational and neo-institutional sociological theories (Van Helden, 2005). As a result, public sector accounting research is not primarily focussed on delivering statistical testing of more general hypotheses. Indeed, recent research has produced valuable and specific information, but has hardly explored the use of accounting information in more general terms (e.g. Bordewijk and Klaassen, 2000; Van Helden en Ter Bogt, 2001; Lapsley and Pallot, 2000, Van Helden and Johnsen, 2002, Ter Bogt, 2004)¹⁹.

In order to relate or preferably to integrate these differently-oriented approaches and concepts of the roles of accounting, a frame of reference is needed that connects or covers both. But using a more open and generally applicable framework is likely to result in a more simplistic concept, and will come at the cost of losing some of the details, variety and diversity of reality.

An appealing model that can be used for this purpose is the “traditional” model presented by Earl and Hopwood (1979). Taking a management information systems (MIS) perspective, Earl and Hopwood inventoried the problems in the development and use of MIS. Information overload on the one hand and information gaps on the other were used to express the disappointment of managers with the systems. They argued that information processing was viewed in a too narrow and technical manner. Information was seen as a “*thing*”, and “*the underlying concepts and languages tend to encourage the formalization, bureaucratization, standardization and mechanization of information processes*” (p.5). It was stressed that information systems often neglected the less formal and less routine information processes, and were neglecting the more social and political roles of accounting information. MIS, therefore, were only partly supporting the roles that information can serve in organizations. They composed a framework to define several different roles of accounting information use.

Although only focussing on a few explanatory factors and presenting archetypical roles of accounting information use, the use of the Earl and Hopwood framework for analyzing different roles of accounting information has three main advantages.

¹⁸ Budgetary control, however, is a complex organizational form of formal control. Private sector accounting research has often addressed the many limitations and major shortcomings of budgeting, and underlined that budgeting operates in a social context in combination with other forms of control (Birnberg e.a. 1983; Hansen e.a., 2003). Researching the use of accounting for budget control can therefore easily result in an inadequate or incomplete picture.

¹⁹ Survey-based management accounting research, testing more general hypotheses, is not often published. Cavalluzzo and Ittner (2004) is an example of a survey study into the development and use of performance measure (PM) in US federal state agencies. This study confirms several variables that are supposed to have a positive relation to the development and use of PM, such as information system capabilities, ability to specify performance measures, management commitment, managerial authority to make decisions on performance information, training, and legislative mandates to comply with performance measurement systems. Van Dooren (2005) is an example of a survey on the supply and demand of PM in Belgian sections within the Ministry of the Flemish Community. This study shows that implementation and use of PM are significantly correlated. Furthermore this study confirms positive relations between PM (implementation and use) and standardization of activities, political involvement, organizational size, street level discretion (only related to implementation of PM), and goal orientation (only related PM use).

Firstly, the framework explicitly addresses both the more technical and the more social-political context of the use of accounting information for decision-making and control, using uncertainty of objectives as a factor.

Uncertainty of objectives is applied to determine whether accounting information is likely to be used for (a) managing the organization in a technical goal directed way or (b) for more political reasons (such as gaining influence, or legitimizing and rationalizing executed tasks).

Secondly, the framework explicitly addresses the technical environment of the organizational tasks. Using differences in task uncertainty (i.e. managers' beliefs in the causal relationship between the means and ends of tasks execution) the likelihood of using accounting information for formal control is made operational.

Thirdly, the framework explicitly addresses different roles of accounting information use, corresponding for example to a mechanical use (control in a technical cybernetic way, correcting variances on pre-set targets) or to a rationalizing use (as a response to institutional pressures) of information. This framework of dimensions and archetypical roles is used in this study as a starting point and as a source of inspiration.

The use of this framework also has some serious limitations. First, it is more a statement than a theory. It is written to inspire system designers, managers and researchers to adopt new metaphors, language and frameworks (Earl and Hopwood, 1979). Secondly, the specified different roles are merely examples. Some normative and actual applied roles are documented, without the intention to be complete. Furthermore, the roles themselves are specified in a tentative and suggestive manner, and were not based on sufficient empirical studies of the organizational operations of the accounting systems (Burchell e.a., 1980).

Using this framework as a source of inspiration for further analysis, and not as a set of testable hypotheses, thus seems to be in line with the intentions that lie beneath it.

By researching the role of performance measures for controlling municipal organizations, this study focuses on the use of formal performance measures (PM). Most of the PM in municipal organizations are set in formal budgets (such as program and product budgets) and documented in formal reports (such as interim and annual reports). PM in governmental organizations can therefore be regarded as budgeted performance measures (BPM). So, BPM and PM are interchangeable, at least in this study.

By using budgeted measures, this study centres on dominant parts of public sector resource allocation (Anthony and Young, 1994; Hood, 1995), and on a complex organizational form of formal control which operates in a social context in combination with other forms of controls (Birnberg e.a. 1983; Hansen e.a., 2003). Researching the use of BPM can therefore reveal and enrich our knowledge of both the businesslike and the political use of BPM.

This study attempts to explain the practical use of information by answering the research question:

What is the role of budgeted performance measures in the organizational control of Dutch municipalities?

Using Earl and Hopwood's framework as a source of inspiration, and focussing the research on the use of BPM at the top of the organisation, where politicians are assumed to steer and managers to row, the main research question can be broken down into three more specific sub-questions:

- a) *Which aspects can explain the relationship between different contexts of organizational control (businesslike or political context) and the roles of BPM applied by top management and politicians in Dutch local government?*
- b) *To what extent do the aspects, introduced under a), explain the roles of BPM in Dutch municipalities?*
- c) *Do the applied roles of BPM explain the use of BPM by top management and politicians in Dutch municipalities?*

The first sub-question aims to provide a research framework, using existing, generally accepted accounting literature as sources and the framework of Earl and Hopwood (1979) as inspiration. The framework is used to provide more insight into the applied archetypes of budget use, and aims to recognize different roles of budget use and the aspects that can be used to characterize these roles.

The second sub-question aims to explore the research framework in practice, by researching Dutch municipal organizations. This study is designed to describe, explore and interpret. It does not test specific deductive hypotheses; it aims to document a way of measuring different roles of BPM, and to contribute to the formulating of hypotheses that can be tested later on. The third sub-question is focussed on the use of performance information, and analyzes whether the specific use of performance information can be related to the roles identified in Dutch municipalities.

Research motivations

The relevance of this study arises from theoretical and practical positions.

Management accounting literature clearly indicates that both the importance of budgets and the way of using budgets can vary under fluctuating levels of uncertainty, but it differs considerably on the underlying reasons (Earl and Hopwood, 1979; Ouchi, 1979, Hofstede, 1981; Simons, 1995, Abernethy and Brownell, 1999). By including both the businesslike and the political context, this study is intended to contribute to the currently limited knowledge on this subject, and aims to offer some relevant insights into the daily practice of budgeting in Dutch local government organisations. A better distinction and definition of different roles of budgeted performance measures may highlight relevant aspects that could influence the effectiveness of performance measure use. Also, and perhaps even more importantly, further insight into the actual use of performance measures could address the future design of accounting systems

and the use of performance measurement. By concentrating on the use of performance measures by the persons at the top of the organization (politicians and top managers), is not only the actual use of performance measures at the top of municipal organisations explored, but also the meaning of performance measures for both political and civil executives.

By addressing the different roles of performance measures explicitly, this study explores the contribution of existing theory to explaining empirical situations. As suggested by Abernethy and Brownell (1999), uncertainty of objectives (being an aspect of the control context) and task uncertainty are included as factors that can explain different ways of (budgeted) performance measurement use (see A in Figure 1). The existing theory on the relationship between these antecedents and roles is more indicative and suggestive than empirically and statistically affirmed. The relationship between the roles and the use of performance measures (see B in Figure 1) has only been partly researched. By exploring the relationships between multiple roles and performance measurement use, this study explores existing theory which may contribute to the identification of testable assumptions or hypotheses. Statistical testing of assumptions is beyond the scope of this research.

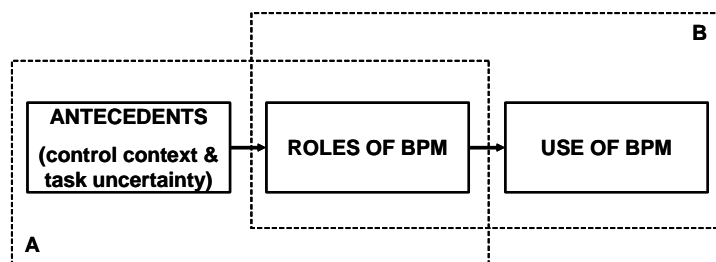


Figure 1 Research Questions

The relationship between the antecedents (with uncertainty of objectives and task execution as aspects) and (budgeted) performance measurement use (see A+B in Figure 1) has been researched frequently from a contingency theory perspective. This study mainly uses the more organisational design-oriented studies of Perrow (1970), Galbraith (1973), and Chenhall and Morris (1986), and aims to refine this relationship by analyzing the specific context of Dutch municipalities.

Locating the study outside the profit organizational context fills a void pointed out by prior researchers (e.g. Ittner and Larcker, 1998; Chenhall, 2003). Previous studies on the roles of accounting information and performance measures have been more focussed on profit organizations (e.g. Simons, 1990; Davilla, 2000; Lawson and Lillis, 2001), or on health care organizations (e.g. Abernethy and Brownell, 1999). Studying local governmental organizations can address some specific characteristics of government and their possible impact on performance measure use. Frequently recalled characteristics specific to local government are, for instance: the more ambiguous

objectives, its openness, its politically uncertain environment, and the lack of a “bottom line” (Anthony and Young, 1994, Pollitt and Bouckaert, 2000; Bovens e.a., 2001).

By focussing on organizational instead of managerial performance, this study can add some empirical knowledge to the contemporary stream of publications on reliance on accounting based performance measurement by managers (Hartmann, 1997; Ter Bogt, 2001, 2003, 2004).

The descriptive, explorative and more qualitatively oriented nature of case study methodology is chosen to describe and interpret the role and use of BPM, and to build knowledge about the phenomenon. This could provide a starting point for more quantitative studies later on (Yin, 1994; Brownell, 1995). The cases are basically intended to describe and explore the existing situation and to refine existing theory. Existing theory is addressed as a starting point, and is allowed to unfold gradually through interaction with data. By adopting this theory specification approach, the purpose of the scope of this study is to merge theory with the complexity and heterogeneity of practice, prior to subjecting the theory to more rigorous testing (Keating, 1995). As in any case study, this study’s possible weakness lies in controlling the effects of key variables. The “identification of all possible rival explanations is clearly a practical impossibility” (Brownell, 1995, p.62). To minimize possible bias, special attention is given to the selection of the case study sites and the design of the case study protocol.

Summary

Governmental organizations have incorporated a significant level of performance measures into their planning and control documents, but the role(s) of performance measure is still largely unclear. Recent research points to the limited use of performance measures in Dutch governmental organizations for budget-based output control, but has not yet analyzed other possible roles for the performance measures in depth. This study aims to clarify these roles and the related use of performance measures. However, a research framework for explaining differences in the use of performance measures, related to possible different roles of use, is not yet operational. This study aims to contribute to the construction and documentation of such a framework. A research framework is constructed, using three constructs: the control context (businesslike or political), the role and the use of BPM (budgeted performance measures). The next chapter documents in more detail the main accounting theories that are used to compose the research framework.

Structure of this dissertation

The outline of this dissertation is as follows. Chapter 2 presents a brief overview of the most relevant theoretical concepts which are used to compose a research framework. Chapter 3 documents the plan that is used to collect data for answering the research questions. Chapter 4 contains the reports of the four case studies. Chapter 5 is the last chapter and documents the analysis of the case studies and the answering of the research questions.

