

**DIFFERENT USE OF PERFORMANCE INDICATORS BETWEEN
HIERARCHICAL LEVELS IN DUTCH MUNICIPALITIES -
AN INSTITUTIONAL APPROACH**

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ABSTRACT

Recent changes in public sector accounting were central to the rise of New Public Management and its associated doctrines of public accountability. As a result, management accounting researchers have paid increasing attention to the design and implementation of performance measurement systems. Institutional theory shows that success of management accounting change depends to a large extent upon the institutionalization of new routines within the organization. Loose coupling between intention and action may be administratively rational to buffer the system from politics and resistance during the implementation stage of new accounting initiatives. This paper aims to provide insight into how new performance initiatives effectively work at several hierarchical levels in Dutch municipalities.

Data of this study are derived from in total 24 interviews with decision makers at several hierarchical levels in Dutch municipalities between July 2008 and January 2010 as well as from several documents like the municipalities' main budget. The documents have been extensively investigated by determining which outcome, output, process and input indicators have been provided in the documents and how these indicators relate to the organizational goals. The interviews have been used to provide explanations for the extent to which indicators have been developed and are being used. We show that the development of performance indicators is loosely coupled between political bodies and the bureaucracy, mainly due to the importance of showing legitimacy in the political bodies. This issue of legitimacy is much less important within the bureaucracy. We observe great variation in the level of orientation on performance indicators among several hierarchical levels. The pressure to develop performance indicators from the Municipal Council as well as within the Bureaucracy, seem to play an important role in the way municipalities cope with metric difficulties in the development of performance indicators.

INTRODUCTION

Since the 1980s many countries have developed initiatives to improve accountability, measurability and transparency within the public sector (Pollitt and Bouckaert, 2004). In general, these initiatives have been taken together with the term New Public Management. Although the central elements as indicated by Hood (1995) are more or less the same, success of these initiatives varies to a great extent. The way in which changes become to be institutionalised within the organization seems to be an important indicator (Kasperskaya, 2008; Modell, 2001; Modell, 2003; Scapens, 2006). In this research, we investigate how initiatives to improve accountability by introducing performance indicators have been developed in Dutch municipalities. In particular, we examine differences and similarities on the development and use of performance indicators at several hierarchical levels in these municipalities.

New Institutional Sociology (NIS) shows that organizations respond to institutional pressures by buffering their formal structures from the uncertainties of technical activities by becoming loosely coupled. This means, building gaps between formal structures and actual work activities in order to maintain conformity to institutional rules (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Oliver, 1991). Several forms of loose coupling can be distinguished. First, loose coupling can be recognized in the distinction between organizational members' actions and intentions. In our setting with a change in control orientation from a behavioral orientation towards a result orientation, this means that, although politicians and managers favor a more output-oriented control style, this may not necessarily lead to the development and use of output based performance information. An aura of rationality is provided, but there is no follow-up in concrete actions. However, loose coupling can not only be considered as a response to institutional pressures, the process of institutionalization within the organization needs to be examined as well. In this respect, Burns and Scapens (2000) refer to the taken-for-granted ways of thinking that underpin the routines and actions of individual actors within the organization. An organizational change should not only be applied in rules and formal statements but also be internalized among the individual actors within the organization (Dambrin et al., 2007). In this situation concrete actions have been taking, however they did not really influence employees' behavior.

Second, loose coupling can also be observed when we look at linkages between decision making units or between hierarchical levels. It suggests that any location in an organization (top, middle or bottom) contains interdependent elements that vary in the number and strength of their interdependencies (Orton and Weick, 1990; Weick, 1976).

We investigate this issue by analyzing current performance practices in Dutch municipalities. These municipalities are highly institutionalized organizations and recently, several accounting initiatives have been implemented in order to improve transparency and efficiency. There may be a lot of variation in the process of institutionalization at different locations in the organization, either between hierarchical levels, or between different departments at the same hierarchical level. Our expectation is that intentions and actions related to performance management will be loosely coupled among different locations in the organization. We conduct interviews with decision makers at several different hierarchical levels within the organization to find out and explain how activities become loosely coupled.

To be more specific, we investigate the orientation on performance indicators as well as the development of performance indicators and relate these to the use of indicators for management and evaluation purposes. Several political and institutional factors play a role in the decision to start PM initiatives and this is effectuated in the actual development of performance indicators. Lack of strategic vision, political opportunism and a focus on details and on recent developments seem to be important reasons. A competitive political situation might decrease the incentive to specify goals in a measurable way. This low orientation on performance indicators in the political bodies works through in the Bureaucracy. Although top managers in the Bureaucracy seem to be reasonably enthusiastic about the development and use of performance indicators, metric difficulties negatively affects further institutionalization within the Bureaucracy. Especially the link between results and efforts seems to raise problems. The use of indicators seems to vary a lot between hierarchical levels. In the Bureaucracy, the use of performance indicators seems to depend on the measurability of the activities.

Concluding, we show that the attention and perceived importance of new performance initiatives is loosely coupled between hierarchical levels. The coupling of intentions and actions is less in the political bodies, compared to the bureaucracy.

The paper is structured as follows. The next section is a literature review on institutional theory and loose coupling. The state of affairs with regard to performance evaluation in Dutch

municipalities and the research questions will be presented in this section as well. This is followed by a description of the study design and method. We will then present the findings of this study. The paper concludes by discussing the main findings.

LITERATURE REVIEW AND RESEARCH QUESTIONS

PMM has derived much attention recently in management accounting literature. A distinction can be made between the technical issues that affect the success of PMM systems and the influence of institutional issues (Kwon and Zmud, 1987; Shields and Young, 1989). Some attempts have been made to investigate quantitatively which contextual factors explain the propensity for loose coupling (Modell, 2009). Cavalluzzo and Ittner (2004) showed that manager's commitment, their autonomy to manage their unit independently and the level of participation in the system's implementation contributed positively to the development of new output PMM systems, whereas measurement difficulties contributed negatively. The use of PMM systems was found to be positively related to the level of PMM systems development and the level of accountability required, while it is negatively related to measurement difficulties. They found little evidence that the mandated performance measurement initiatives led to greater benefits, which seems to be consistent with institutional theories arguing that the implementation of mandated organizational changes in government organizations tends to be symbolic, with little effect on internal operations (Cavalluzzo and Ittner, 2004). In Johansson and Siverbo (2009a) and Gomes et al. (2009) a multi-theoretical approach was used including economic, political and institutional explanations for the utilization of more result oriented accounting techniques in local government. The three categories of explanations seem to be heavily interwoven and often playing a role at the same time. However, it is the institutional sociological perspective that has been dominant in recent research on PMM practices (Brignall and Modell, 2000; Modell, 2001; Burns and Scapens, 2000; Scapens, 2006; Kloot and Martin, 2000; Modell, 2009; Johansson and Siverbo, 2009b).

Institutional theory

Institutional theory has been the subject of many investigations for several decades. In Meyer and Rowan's (1977) seminal paper the central element was the goal to acquire legitimacy. To maintain ceremonial conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures/procedures and actual work activities (Meyer and Rowan, 1977; Hallett and Ventresca, 2006; March and Olsen, 1975; Weick, 1976). In the early stages of New Institutional Sociology (NIS) environment is not conceptualised as a source of task constraints or a relational network (of customers, suppliers and other near constituencies) that poses demands for operational coordination and control on an organisation. Rather, it includes the cultural rules and social norms that are reflected in specific formal structures and procedures of the organisation (DiMaggio and Powell, 1983). That is, institutionalised organisations tend to adopt structures and procedures that are valued in their social and cultural environment. They do this in order to achieve legitimacy and to secure the resources that are essential for their survival (Ribeiro and Scapens, 2006). Oliver (1991) even expects organizations to respond strategically to institutional pressures. This stream of literature focuses on institutionalization and loose coupling as an outcome rather than a process. A critique on these researches is the conceptualization of organizations as actors that respond in a relatively unified fashion to environmental stimuli or to pressures from the networks in which they are involved (Ribeiro and Scapens, 2006; Cruz et al., 2009). These researches neglect issues of internal conflict, distributions of power and place organizational practices and characteristics beyond the reach of interests and politics (Dillard et al., 2004). Siti-Nabiha and Scapens (2005) show that loose coupling can arise through the working out of resistance to an accounting change by the different groups within the organization, rather than as a specific organizational response to institutional demands. They make a distinction between loose coupling as a *process*, arising out of social interactions, characterized by tensions and differences in work-related meanings, values and norms, and loose coupling as an *outcome* from a situation of conflicting interests, decoupling in order to maintain conformity (Meyer and Rowan, 1977; Oliver, 1991). This research fits in a more recent research that focuses on the internal processes that underlie the institutionalization (neo-Old Institutional Economics, neo-OIE). The main concern of neo-OIE is to understand processes through which management accounting rules and routines come to be

institutionalized in the organization. In other words, how management accounting practices are shaped by the “taken-for-granted assumptions which inform and shape the actions of individual actors” (Burns and Scapens, 2000). What becomes institutionalized depends on the power of the organizational actors’ translation and use of societal expectations (Dillard et al., 2004). In respect to institutional changes it is important to what extent new practices become to be internalized within the organization. Active adoption occurs when implementation (in behaviors and actions) is combined with internalization. This means that employees view the practice as valuable and become committed to the practice; new rules become incorporated in daily routines (Lukka, 2007). When implementation occurs without internalization, loose coupling emerges and practices are adopted on a ceremonial basis (Dambrin et al., 2007).

Nor-Aziah and Scapens (2007) identify several concepts explaining the *process* of loose coupling: resistance and conflict due to institutional contradictions, shifting power relations between professional groups, mechanistic formal accounting control for hierarchical accountability, and lack of mutual trust and cooperation between professional groups. Furthermore, they provide several concepts explaining the *consequences* of loose coupling: persistence of prevailing institutions, ritualistic/ceremonial budgets and low acceptance of accountants, lack of cooperation and integration between functional groups/systems, and organizational stability: gap between intentions and actions. The process of loose coupling and the consequences of loose coupling are often heavily interwoven and difficult to separate. They can co-exist at the same time in the same organization (Nor-Aziah and Scapens, 2007; Siti-Nabiha and Scapens, 2005).

Dutch Municipalities and the research questions

Central government in the Netherlands has launched several projects stimulating municipalities to improve their planning and control processes (Aardema, 2002; Helden van, 1998). An important and central element in these initiatives is the attempt to make activities and performances more visible to internal and external stakeholders. In 2002, central government enacted the new law “Dual Municipal Administration.” This dual system makes a distinction between the municipal council on the one hand – expected to focus its attention more on policy making and evaluation of policy execution – and the board of mayor and aldermen on the other hand – expected to focus its attention more on the daily management of the municipality and the

bureaucracy (Hendriks and Tops, 2003). Although this new law mainly applied to the political system, it also brought about changes in the bureaucracy and in the planning and control processes. The law makes a distinction between the program budget and the product budget, which are directed to the municipal council and the Board of Mayor and Aldermen respectively. The program budget is the municipal council's policy document, stipulating political priorities, future activities, the resources involved and the outcomes to be achieved. It is supposed to contain clear information on the municipal council's political program, enabling political decision makers to focus on the main political issues in coherent policy programs. By requiring municipalities to provide insight in their activities and performances, central government forces municipalities to start up initiatives to develop indicators, to set targets and to make decision makers accountable. However, municipalities are free in the way how they implement these initiatives, how much energy they spend on development of indicators and how much attention there will be on holding decision makers accountable for agreed performances. For each municipality this can be discussed in meetings of the Board of Mayor and Aldermen and the municipal council. To pay more attention to outputs means a broadening and shift of emphasis in control for many municipalities. In fact, this shift of emphasis means that less attention will be paid to control of processes and specific actions ('action control' or 'behavioural control') and more attention is paid to results ('results control') (Bogt ter, 2003). In our setting, the intention of politicians in the municipal council to use a more output oriented control style may not convince the political executives and municipal top management to use a similar output-oriented control style in managing the bureaucracy. Loose coupling can be defined as the process of partly decoupling organizational members' actions from intentions (March and Olsen, 1975). This means that, although politicians and managers favour a more output-oriented control style, this may not lead to the development and use of output based performance information. Some recent research projects in the Netherlands showed that initiatives to introduce performance-based accounting systems only had limited effect on the use of performance indicators. Also, it is not so clear whether these initiatives contributed to efficiency and effectiveness of governmental organizations (Bogt ter and Helden van, 2005; Helden van and Bogt ter, 2001; Helden van and Jansen, 2003; Jansen, 2008). The use of performance information seems to vary between politicians and municipal managers (Bogt ter, 2001; Bogt ter, 2004).

Since accounting initiatives seem to follow a different path at different locations in highly institutionalized organizations like Dutch municipalities, we come to the following research questions:

1. What institutional and political factors affect the development and use of performance indicators in Dutch municipalities?
2. What technical factors affect the development and use of performance indicators in Dutch municipalities?
3. How are PM initiatives interrelated at different hierarchical levels in Dutch municipalities?

RESEARCH DESIGN

In order to analyze the aforementioned questions, we performed qualitative research to get explanations on daily practice in Dutch municipalities with regard development of performance indicators at the different hierarchical levels in the organization. Furthermore we did a document analysis of several documents like the municipalities' main budget en the related, but more detailed product budget.

Local government in the Netherlands is considered the most important and visible level of sub-national government in the Dutch decentralized unitary state (Hendriks and Tops, 2003). It has an autonomous position and can initiate local policies it considers important for the local community. This freedom is constrained by general rules and requirements set by national and regional governments – governments that in turn are constrained by a general commitment to subsidiarity, power sharing and decentralization, and a particular dependence upon local knowledge and implementation capacity vested in local government (Hendriks and Tops, 2003). Municipalities employ important activities such as physical planning, public housing, transport, social services, education, culture and welfare.

The municipal council (MC), elected by citizens every four years, is the superior body in the local political bodies (PB), deciding on the most important issues (see Figure 1). Mayor and aldermen form the board of mayor and aldermen (BMA), which has executive duties in managing daily operations. The mayor, whose executive powers are limited, is appointed by the

Crown (i.e., the Minister of the Interior and Kingdom Relations), whereas aldermen are elected by the MC. The BMA needs the support of the MC majority. Usually, parties represented in the BMA form a majority in the council. The mayor is first and foremost a manager whose role is to encourage and coordinate actions, but the mayor also has certain statutory and representative duties.

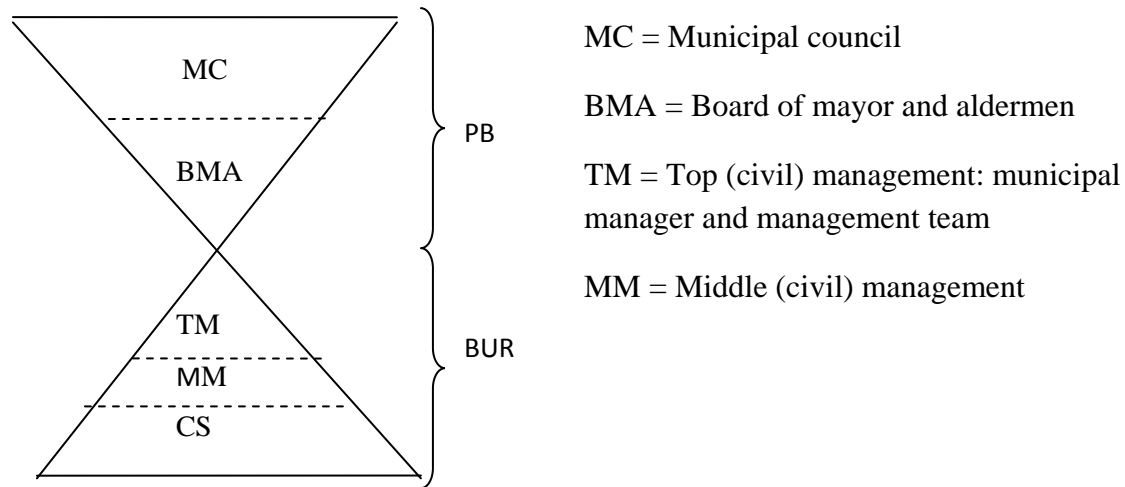


Figure 1: Dutch municipalities' structure

The municipal bureaucracy (BUR) can be organized according to different organizational models. Most frequently, the top level civil manager in the bureaucracy is the municipal manager. He is also the *linking pin* between the political bodies and the bureaucracy. Normally, the bureaucracy is structured in divisions, each covering a policy area. The division managers are individually responsible for policy development and execution in their area. The municipal manager and the division managers usually constitute the management team (Top Management = TM). Each division consists of departments. The heads of these departments are the middle (civil) managers (MM) who manage the civil servants (CS).

Data of this study are derived from a series of semi-structured interviews in the period from July 2008 till January 2010 with decision makers at several hierarchical levels in six Dutch municipalities. In each municipality we had an interview with an alderman, the municipal manager and two department managers. By choosing these hierarchical positions we were able to

include both the political level as well as the bureaucratic level. Furthermore, we were able to examine the process of institutionalization within the bureaucracy at the top level compared to lower levels in the organization. To meet effects from complexity at the department level we chose two different departments. First, we chose the department of garbage collection whose activities are more or less standardized. Second, we chose the department of delivering permits whose activities are less standardized. To meet size effects in the sample, municipalities of different sizes were selected. Size was based on number of inhabitants. We distinguished three categories: large (more than 100,000 inhabitants), medium (50,000 till 100,000 inhabitants), and small (less than 50,000 inhabitants). In total we had 24 interviews.

After conducting the interviews, all of them have been transcribed for analysis purposes. The data were imported into a so-called computer assisted qualitative data analysis software (CAQDAS) package for data analysis. CAQDAS packages are powerful software tools that help the researcher to analyze qualitative data in a rigorous and systematic way (Budding and Cools, 2007). We used a grounded theory approach to analyze our data. We did not start with a theory we wanted to approve or disapprove, but looked systematically at our data aiming at the generation of theory. We had a pre-arranged coding list with answers that could be expected based on existing theory. We coded the text fragments with these codes and when a new argument or statement was detected, we created a new code that we added to our coding list. This open coding (Strauss and Corbin, 1990) was used to uncover any relevant topics. We constantly compared our findings and ideas with our data (Glaser and Strauss, 1967). All three authors were involved in the coding process and differences in the coding have been discussed till consensus had been achieved. After coding all interviews, we created family codes for all codes that referred to the same topic. The most frequently mentioned arguments in the different family codes are presented in the next section.

For the document analysis we gathered the program budget as well as the product budget from each municipality in our sample. We counted goals as mentioned in the budget and counted to what extent these goals have been quantified and in what way (outcome, output, process and/or input measures).

FINDINGS

The qualitative data, generated by conducting interviews, provide a rich understanding about the state of affairs concerning the development of performance indicators. The document analysis enabled us to provide some numbers on the actual development of performance indicators in the municipalities in our sample. In this section we would like to provide explanations for current practices with regard to the development and use of performance indicators at several hierarchical levels as given by the interviewees. The section is split into several parts. First, we look at the institutional and political factors that affect the development and use of performance indicators. Next, we look at more technical elements that influence the development of performance indicators in the municipalities in our sample. Finally, we discuss how PM initiatives are related between different hierarchical levels. To be more specific, we investigate the interrelations between Board of Mayor and Aldermen (BMA), Municipal Council (MC), top management of the Bureaucracy (Top BUR) and two departments: Permits Delivery and Garbage Collection.

1. Institutional and political factors

PM initiatives in the political bodies

The dual system in The Netherlands makes a distinction in the tasks between the Board of Mayor and Aldermen and the Municipal Council. The idea is that the Board of Mayor and Aldermen will focus on the management of daily operations, whereas the Municipal Council will focus on headlines, on strategic decisions regarding the near future of the municipality. This requires some kind of strategic vision in the Municipal Council. Second, the Municipal Council will hold the Board of Mayor and Aldermen accountable for managing the Bureaucracy. This requires some distance from daily work and performance indicators provide a certain level of abstraction that enables the Municipal Council to control in a reasonable way. However, what we see in our conversations with municipalities is that the Municipal council often lack a strategic vision and have a strong preference for details instead of a focus on more strategic decisions. A municipal manager declared: *“When the Municipal Council does not have a clear vision, you often fall to a more micro level. The current Municipal Council did not really show what they wanted, what the vision was. And this doesn’t become clear, they lack a clear vision. Maybe there is some kind of*

vision, but it doesn't become clear. Consequently, the discussions are about current issues and current problems. There is no vision about how the municipality should look like in about 10 years."

Both the municipal council and the public opinion put a lot of pressure on the Board of Mayor and Aldermen to focus on results and show what has been done with the taxpayers' money. Also, political opportunism makes concrete subjects much more important than developments on abstract subjects. However, this pressure of, mainly, the municipal's council is very general in nature. For the council members it is their task to closely follow the Board of Mayor and Aldermen and be critical about the progress of the activities. But a lot of opportunism plays a role here: *"In the municipal council, management is mainly not on headlines. Politically you can score better on a detail issue than on a headline."* [Alderman] Another alderman went one step further: *"Actually, it is even more important to ask critical questions about a subject than the effectiveness of the subject itself."* Media attention plays an important role in this issue since politicians try to show to citizens that their interests are being looked after well. One alderman gave an example: *"If you have an objective for elderly policy, then in the municipal council it is more challenging to ask why the club for elderly people doesn't get a subsidy instead of criticizing the effectiveness of the elderly policy."* Also, the Municipal Council tend to put more emphasis on financial results than on nonfinancial results, especially in a bad financial situation. Recent budget cuts made them closely look at the efficiency of several activities. *"Discussions in the municipal council are always about money. In my opinion the role of finance in the discussions is too big. The discussions should be about the policy, the things you want to realize. Money is just a way to get there."* [Alderman].

However, all these arguments – which in itself seem reasonable – cast some doubts about the real intentions of the municipal council to develop performance indicators and to control in result oriented way. The focus on main issues in the municipal council is in practice very moderate. Many individual members in the Municipal council see it as their task to ask very specific questions about the operational management and they often do not care very much about the strategic direction of the municipality. Municipal Council members have a different view on what is expected from them than the dual system prescribes. Consequently, what we see is that the institutionalization of performance initiatives in the political bodies is rather low. Members of the municipal council lack an intrinsic motivation to make some progress in the use of

performance indicators. One Alderman declared that members of the municipal council see performance indicators just as some background information, not as something that you can use for decision making. In some municipalities in our sample we see a tendency that the municipal council actively participates in initiatives to make organizational goals more quantitative which is a good step forward in itself. However, the participation in the PI initiatives seems a way to show some ceremonial conformity and to acquire legitimacy. When the use of indicators still remains low, the institutionalization of the PI initiatives is not really making progress.

Conflicting interests

The use of performance indicators is heavily influenced by the intentions, the institutionalization and the actual development of performance indicators. However, even if performance indicators exist and are available, the use of performance indicators is not automatically granted. The reason is that conflicting interests between political parties makes politicians less specific in their objectives. As long as the coalition consists of more than one party – which is the case in all municipalities in The Netherlands – compromises have to be made in order to continue the cooperation. The intention in the municipal council is to provide smart (specific, measurable, achievable, realistic, time-lined) objectives. However, this is not always possible as one alderman explained: *“A subject like traffic is examined in a different way by different political parties. For one party, a measure to discourage cars entering the city center is explained as a positive step towards sustainability, whereas this same measure is explained as bullying car drivers, decreasing approachability and beating off the bottom of the entrepreneurship in the municipality by another political party. This has an effect on the selection of performance indicators. One party would like to measure this, and another party would like to measure that. There is always a political dimension, because societal effects can be examined in different ways.”* When no agreement is being reached about the objectives, then we see in our sample that no outcome-indicators have been defined. However, the activities are still going on and have been going on for a long time till now. They are often going concern activities and these processes still have to be monitored. We then see that process-indicators are still in use. The managers of these activities still need to show what has been done with the money and instead of outcome indicators, process-indicators are being reported.

What we also see is that when there is agreement on the objectives (ends), there still can be a lot of discussion about how to reach these objectives (means). Especially when the municipal council focuses heavily on details and concrete issues, many discussions on the right actions will come up. When there is agreement on the actions to be taken, a cascade from outcome, output and process indicators should be possible. However, what we often see is that there is no agreement on the means and consequently, only measures about the outcomes have been provided. Alternatively, a combination of outcome measures and a lot of process indicators have been provided. However, in this case the provision of many process indicators is just symbolic since there is no agreement upon the way the objectives should be reached. The big number of process indicators provides an aura of rationality but since no agreement has been reached, decision makers cannot be held accountable on the basis of these numbers.

PM initiatives at the top of the Bureaucracy

The low orientation on performance indicators at the political bodies works through in the Bureaucracy. The program budget is the document that is expected to provide the municipal council the necessary data to control the Bureaucracy. However, when political bodies are not really willing to manage on quantified objectives, the Bureaucracy do not have the incentive to start developing performance indicators. In some municipalities however, we see that the municipal council pursues the Bureaucracy to develop performance indicators and here we see that within the Bureaucracy, there seems to be an atmosphere where the development and use of performance indicators is encouraged. This is reflected in the involvement of individual members from the municipal council in the process of developing performance indicators. However, the interest from these council members is often very general and not very strong. An important facilitator in the development of performance indicators is a department or person that encourages the rest of the organization to participate in the development of indicators. It is often the department of Finance and Control that takes this role, but sometimes it depends on individuals, either in the Board of Mayor and Aldermen or in the top management of the bureaucracy. It seems that this is an important factor in order to get things going and convince organization members of potential benefits of the use of performance indicators. One Alderman declared: *“In the beginning you meet skepticism and resistance. But then you start a project with some people who are willing to participate. Then, these people can show other people how it*

works and other people become enthusiastic too. In our municipality it is really the case that everyone agrees that this is something important. Now, it is a central element in the steering of the organization.” (However, in the same municipality the department manager of Permits Delivery was not so enthusiastic at all about performance indicators.)

In some cases external committees or consulting companies have assisted the municipalities in developing indicators. In some, especially smaller municipalities, the education level of the staff seemed to be an obstacle in developing performance indicators. It requires some abstract thinking in order to be able to develop and eventually use performance indicators. In these municipalities trainings have been organized in order to improve the education level of the staff.

From the document analysis we see a great variation in the way the municipal council is being informed by the bureaucracy. The municipal council is informed by the program budget and the product budget. The latter is expected to be a more detailed document about the plans and targets for the bureaucracy and the Board of Mayor and Aldermen.¹ The program budget varied to a great extent in the number of objectives, the number of indicators and the extent to which information is on main issues or on details. This seems to affect the way the municipal council is controlling the Bureaucracy. When the municipal council is provided a lot of very detailed information, this also elicits many detailed questions. On the other hand, when the program budget contains a lot of very general objectives with a very limited amount of additional information we see that the municipal council asks for more information and consequently get silted in detailed questions again. Some municipalities however seem to have found some optimum in the amount of information that is provided to the municipal council and this enhances the possibilities for the municipal council to focus on main issues.

PM initiatives at the department level

When we investigate the intentions to develop performance indicators at lower levels within the Bureaucracy we see a different situation. Earlier we saw that the PM initiatives often lack follow up within the Bureaucracy because of rather low institutionalization of these PM initiatives in the

¹ However, only two municipalities completely applied to these rule by providing a program budget as well as a product budget that contained objectives as well as intended actions to reach those objectives. With the other four municipalities in our sample, the product budget was a spreadsheet, directly from the financial system with no textual elements at all.

political bodies. However, at the department level there sometimes seems to be some kind of intrinsic motivation to develop performance indicators in order to stay in control at the department level. One manager of the department of garbage collection explained: *“We are put on a distance. That means that we are financially responsible for our activities. It is simply my responsibility that at the end of the year, we have a financially positive result. That is quite challenging.”* In order to stay in control this manager decided that performance indicators are very useful and play an important role in managing the activities. However, it might well be that this manager regards performance indicators to be very important, it must be said that for his type of activities, performance indicators are quite easy to develop. In other departments, e.g. the department of permits delivery, the development of performance indicators is more difficult, just because of the measurability of the activities. The department managers often feel the need to stay in control and it largely depends on the measurability of the activities whether they use performance indicators for this purpose.

We saw quite some variation in the level of acceptance of the use of performance indicators within the bureaucracy. Although the use of quantitative information for managerial and even assessment purposes has not been very common in the past, employees seem to understand the necessity to make effectiveness quantitative in order to be able to evaluate it. It is still not widely accepted, but there is a growing appreciation. One Alderman pointed out that transparency about expectations in a quantitative way gives clarity for employees, and employees appreciate this clarity. The city manager of another municipality pointed at the organizational culture within the Bureaucracy and advocated a culture of constructive evaluation with an emphasis on improving instead of a culture of destructive evaluation with an emphasis on penalizing. In the first situation employees are willing to show initiative and take risks, whereas in the latter situation employees feel some stress for making mistakes and restrict themselves to what is formally expected from them without showing any initiative. An atmosphere of constructive evaluation will enhance institutionalization.

2. *Technical factors*

A first premise for providing transparency about performance is the necessity of clearly formulated objectives. However, in our data the specificity and measurability of objectives vary to a great extent among the municipalities, and within the municipalities there is also a lot of

variation among hierarchical levels and among several departments. Outcome measures are the best reflection of societal desired effects, and they are the main objective for the municipal council. However, the ability to influence outcome measures by concrete actions is not always clear. Consequently, the goals seem to be rather abstract and the cascading of these goals to lower levels in the organization is often problematic. In order to cope with the situation of unclear goals at the operational level, decision makers have defined clear output goals at the department level. Since these goals are being aggregated to goals at higher levels in the organization, this can be regarded as a bottom-up approach. However, the downside of this approach seems to be the fact that even the goals at the level of top bureaucracy are highly output-oriented and the link to societal effects is often weak. The municipal council, which is supposed to make policy and evaluate policy execution on societal effects, has the tendency to heavily focus on details and control in terms of output instead of outcome. These observations indicate that more abstract objectives for the municipal council result in more output-oriented control instead of outcome-oriented control by the municipal council.

The most frequently mentioned difficulty in developing performance indicators is to link efforts to results. This was already mentioned in the previous subsection. At the political level the relation of action to desired results is often weak and consequently, it is difficult to develop indicators that relate to the desired societal effects. An alderman explained: *“The difficulty with performance budgets is that the societal effects that we intend cannot be measured or cannot be directly coupled to the allocation of resources, with a 1-to-1-result. That is because performance is often qualitative and about the feelings of citizens. Of course, we would like to cause a subjective effect, but this does not mean that we are focused on the subjective effect. We focus on an objective measurable effect, but we face the fact that the effect has a subjective dimension. This will give measurement problems.”* In other words, it is the main problem to distinguish effects (outcome), from performances (output) that can be influenced by the municipal bureaucracy. Another Alderman explained: *“What you would like to do is to write down in the budget what you are going to do and what societal effect is to be expected of these activities. However, sometimes you can only write down what you are going to do and you agree with everyone that it is inherently good to do this, without formulating a quantified effect to be achieved.”*

Also some technical obstacles were frequently mentioned: availability of the data, reliability of the data, cost of data collection. The information system also caused several difficulties, e.g. the use of external data sources that do not use exactly the same definition for equally labeled variables, extraction of data from existing information systems, timeliness of data and frequency of measurement. Especially surveys for citizens are not conducted very often and consequently, effectiveness of certain operations can hardly be connected to these results. In most municipalities decision makers had found a way to cope with these obstacles. However, the interpretation of the indicators also caused several difficulties, e.g. lack of trend information. Of course, this is only the case in the start-up phase, since while you get going you get more and more trend information. Interpretation is also problematic when important external factors that you cannot influence affect the results or the result on the indicator largely depends on one big project that causes 90% or even more of the outcome on the indicator. There can be a registration effect as one alderman explained: *“We had a project with some flats where we wanted to improve the cohesion between citizens, also in support with the police. As a consequence, the area became much more unsafe, just because citizens now notified when something bad was going on. The situation was exactly the same, but the numbers identified a worse situation.”* Also seasonal effects and a big time lag between effort and result can make interpretation very complex. Comparability between municipalities can become difficult when different services are provided.

The process of developing performance indicators did not take a fluent course as was explained in several municipalities that enthusiastically started to develop indicators. There seemed to be a tendency to make almost everything measurable, resulting in a huge lot of performance indicators, but many of them eventually turned out not to be useful for managerial purposes. What we see in these municipalities is that the number of indicators sharply increases at the beginning of the process and is gradually decreased after some time of reflection about the usefulness of the indicators. Also, the municipal council is not able to control on too many indicators. Initially, municipal council members highly appreciated the initiatives to be given more performance indicators; however, after some time they came up with the criticism that it was too much, resulting in a smaller set of indicators to be calculated and reported.

3. Interrelations of PM initiatives at different hierarchical levels

In this section, we discuss how PM initiatives are related between different hierarchical levels. To be more specific, we investigate the interrelations between Board of Mayor and Aldermen (BMA), Municipal Council (MC), top management of the Bureaucracy (Top BUR) and two departments: Permits Delivery and Garbage Collection. The municipalities, which vary in size, have been coded A-F. See table 2. The table provides a brief description on the current state of affairs on 1) the orientation on performance indicators, 2) the development of PI, and 3) the use of PI. This information is provided for each hierarchical level in our sample in the municipalities.

		Orientation	Development	Use
A (big-sized)	MC - BMA	Municipal Council focuses on some main big projects, intention to include PI is rather low	Program budget: # outcome indicators: 119 # output indicators: 138 # process indicators: 146	MC uses PI only now and then to ask critical questions
	BMA - Top BUR	intention is to become a more professionalized organization, including PI, but it seems in a start-up phase	See above	If PI are available, top Bureaucracy use process indicators for managing Bureaucracy, this use however, is only moderate
	Top BUR - Permits Delivery	"PI is no part in the organizational climate"	only mandatory indicators are available	use of PI for managing the department is very low
	Top BUR - Garbage Collection (outsourced)	Orientation on PI is low	only mandatory indicators are available, management relates efforts to financial results	mainly use of financial numbers
B (big-sized)	MC - BMA	PI are moderately important for MC; BMA regards PI as an important way to provide transparency	Program budget: # outcome indicators: 37 # output indicators: 38 # process indicators: 35	MC uses PI moderately for accountability purposes
	BMA - Top BUR	Managers within the Bureaucracy understand the necessity to provide transparency by using PI and are willing to participate	See above	If PI are available, top Bureaucracy use process indicators for managing Bureaucracy
	Top BUR - Permits Delivery	PI is not institutionalized in this department; "PI is something from Finance & Control"	only mandatory PI are being calculated	mainly behavioral controls
	Top BUR - Garbage Collection	Everyone is rather positive about performance indicators	many process indicators are available	Department manager uses a lot of process indicators for managing the department and evaluation of employees
C (medium-sized)	MC - BMA	An increasing interest in PI in the Municipal Council	Program budget: # outcome indicators: 21 # output indicators: 47 # process indicators: 22	MC uses PI moderately for accountability purposes
	BMA - Top BUR	Managers and employees are increasingly positive about performance indicators	Product budget: # outcome indicators: 9 # output indicators: 28 # process indicators: 135	PI is seen as an important instrument for steering the organization
	Top BUR - Permits Delivery	Potential advantages of PI are hardly recognized	only mandatory PI are being calculated	mainly behavioral controls
	Top BUR - Garbage Collection	"PI is a necessity to stay ahead of potential competitors"	Combination of outcome, output and process indicators	PI is very important for managing the department

		Orientation	Development	Use
D (medium-sized)	MC - BMA	focus MC is very detailed and fragmented, no focus on main issues, no focus on PI	Program budget: # outcome indicators: 80 # output indicators: 41 # process indicators: 24	only output indicators are being used for accountability purposes
	BMA - Top BUR	intention is to become a more professionalized organization, including PI, but there is no coordination in developing PI	See above	Each department has its own indicators, no aggregated coordination of PI
	Top BUR - Permits Delivery	PI is hardly recognized as a useful instrument for managerial and accountability purposes	only mandatory PI are being calculated	PI are hardly used, mainly behavioral control
	Top BUR - Garbage Collection	Orientation on PI is high; use of process and output indicators is more or less standard procedure	A lot of output and process indicators exist; relation to outcome indicators however, is weak	PI are leading in the discussions with top managers in the Bureaucracy
E (small-sized)	MC - BMA	MC focuses on very detailed and concrete projects; no real intention with MC to formulate smart objectives	Program budget: # outcome indicators: 7 # output indicators: 12 # process indicators: 10	Use of PI is low
	BMA - Top BUR	employees and managers hold on existing routines which are without the use of PI	See above	Performance indicators are hardly being used
	Top BUR - Permits Delivery	Orientation on PI is low	No useful measures have been developed, many metric difficulties	PI are hardly used, mainly behavioral control
	Top BUR - Garbage Collection (outsourced)	Orientation on PI is low	some mandatory performance indicators, but mainly financial numbers	focus on financial results
F (small-sized)	MC - BMA	MC has the intention to formulate smart objectives	Program budget: # outcome indicators: 3 # output indicators: 3 # process indicators: 4	MC do not use any PI, because they are not yet reliable and usable
	BMA - Top BUR	employees and managers hold on existing routines which are without the use of PI	Product budget: # outcome indicators: 2 # output indicators: 46 # process indicators: 95	Top Bureaucracy made start to develop PI (mainly process indicators); use is still very moderate
	Top BUR - Permits Delivery	Orientation on PI is low	Some (mandatory) process indicators	PI are hardly used, mainly behavioral control
	Top BUR - Garbage Collection (outsourced)	Orientation on PI is low	some mandatory performance indicators, but mainly financial numbers	focus on financial results

When we examine the relation between political bodies and top management of the Bureaucracy we see that in municipality B and C the intention to develop and use performance indicators in the Municipal Council has found its way in the Bureaucracy. Within the Bureaucracy performance indicators seem to play an important role and there is a link between process indicators, output indicators and outcome indicators that can be used in the political bodies for accountability purposes. It is remarkable that these municipalities have a more or less average number of performance indicators in their program budgets, whereas other municipalities have either much more indicators (A and D), or much less indicators (E and F). In municipalities A and D we see that performance indicators are not very much institutionalized in the relation between BMA and MC. However, the Bureaucracy already developed quite a lot of performance indicators. Furthermore, they indicated that within the Bureaucracy a movement towards a more professionalized organization plays an important role. Size seems to play a role since the bigger municipalities A till D have developed much more performance indicators than municipalities E and F. Intuitively this seems logical since bigger municipalities have a more complex organization in which the abstraction in performance indicators is necessary much sooner in order to control in a proper way. However, in municipalities A and D this is not yet reflected in a manageable set of performance indicators for the Municipal Council. This development plays in two directions since the MC is not going to focus more on PI as long as the quality of the PI have not improved. And the other way around, the Bureaucracy do not have the incentive to improve the quality of the performance indicators as long as the Municipal Council is not going to focus on these performance indicators. In municipalities E and F we see a very small number of performance indicators in the program budget. Both the Municipal Council and the Bureaucracy are not really willing to make that step forward and hold on existing routines without the use of performance indicators. It must be said that municipality F is a little further since they provided quite some indicators in the product budget. In municipality, the Municipal Council do not seem to bother about performance indicators, the Bureaucracy however, do seem to regard PI as an important instrument to control the organization.

When we investigate the development and use in the department of Permits Delivery, the orientation on performance indicators is really low. All municipalities only provide some mandatory performance indicators (e.g. the handling time for a permit), but hardly use any other indicators for control or evaluation purposes.

For the department of Garbage Collection a distinction should be made for municipalities A, E and F where the service is outsourced. In these municipalities is almost solely based on the relation between finance and efforts. In municipalities B, C and D which have garbage collection in their own activities, we see that process indicators play a very important role. This is not so strange since the measurability of the activity is rather high and consequently, the use of performance indicators is quite natural. Coupling of PM initiatives from the department level towards the top of the Bureaucracy seems to largely depend on the measurability of the activities.

CONCLUSION AND DISCUSSION

The development of performance indicators starts with the *intentions* to develop these indicators. Several political and institutional factors play a role in the decision to start PM initiatives. In the political bodies, a lack of strategic vision with the Municipal Council seems to play an important role. Consequently, members of the Municipal Council tend to focus on very specific issues without being really interested in the main lines and their reflection in performance indicators. Political opportunism seems to be an important factors that affects council members' behavior in this matter. Furthermore, the Municipal Council tends to focus more on financial results than on non-financial results. All these arguments cast some doubts about the real intentions in the Municipal Council to develop performance indicators. But even if performance indicators exist, the use of performance indicators is not an automatism. Conflicting interests between political parties makes politicians less specific in their objectives. Consequently, objectives are quantified only to a limited extent.

This low orientation on performance indicators in the political bodies works through in the Bureaucracy. Although top managers in the Bureaucracy seem to be reasonably enthusiastic about the development and use of performance indicators, metric difficulties negatively affects further institutionalization within the Bureaucracy. Especially the link between results and efforts seems to raise problems. The goals at the level of the municipal council seem to be rather abstract and the cascading of these goals to lower levels in the organization is often problematic. In order to cope with the situation of unclear goals at the operational level, decision makers have defined clear output goals at the department level and these goals are being aggregated to goals at higher levels in the organization. The downside of this approach is that even the goals at the level of top bureaucracy are

highly output-oriented and the link to societal effects is often weak. Next to this difficulty, several data related technical difficulties have been observed. But even when indicators have been developed and reported, also several difficulties in interpretation have been signaled.

An important facilitator in the development of performance indicators is a department or person that encourages the rest of the organization to participate in the development of indicators in order to get things going and convince organization members of potential benefits of the use of performance indicators. It is often the department of Finance and Control that takes this role, but sometimes it depends on individuals, either in the Board of Mayor and Aldermen or in the top management of the bureaucracy. In the municipalities that actually started to develop performance indicators there is a tendency that the number of indicators sharply increases at the beginning of the process and is gradually decreased after some time of reflection about the usefulness of the indicators. Furthermore, the municipal council is not able to control on too many indicators.

The use of performance indicators at the department level largely depends on the measurability of the activities of the department. The indicators that are being used are mostly output-oriented and mostly used for managerial purposes. It is very difficult to relate the operational indicators to the related desired societal effects to be achieved and for this reason these indicators are not being used for evaluation purposes. For evaluation of individual employees a combination of behavioral arguments and indicators that are closely related to day-to-day operations is being used.

Loose coupling

When we analyze to what extent the intentions to provide transparency have been effectuated in actions to develop performance indicators at the political level, we see a loosely coupled situation. The desire for transparency is heavily embraced by politicians in the municipal council; however, they show only limited affinity or at least involvement in actual initiatives to develop performance indicators in order to enhance this transparency. The intention to develop performance indicators is heavily induced for legitimacy purposes. Consequently, the use of performance indicators at the political level is also very limited and very incidental. However in the Bureaucracy, the intention to develop performance indicators is more an intrinsic motivation to give insight in the effectiveness of the activities and to be able to evaluate and, if necessary, change management. These intentions have been effectuated in concrete development initiatives in many municipalities and we can conclude that intentions and actions seem to be reasonably coupled. However, the use of performance indicators

seems to be loosely coupled with the development. It is difficult to develop meaningful indicators for several technical as well as organizational reasons and consequently, the use of indicators is only moderate. It is regarded as something 'new' and when the newly developed indicators lack any meaning; the institutionalization of these indicators is very limited. The benefits of conforming to the newly developed system are not convincing and consequently, there exists resistance to the change. In this respect loose coupling can be seen as a process, arising out of social interactions, characterized by tensions and differences in work-related meanings, values and norms (Nor-Aziah and Scapens, 2007; Siti-Nabiha and Scapens, 2005).

When we compare the use of performance indicators at the political level and the top bureaucratic level we see a loosely coupled situation. For politicians the outcome indicators seem to be the best reflection of the effectiveness of their efforts. These indicators are hardly being used for several political reasons. For the top of the bureaucracy it is difficult to relate the outcome measures to output measures that can be directly influenced by the municipality. In order to cope with this situation, decision makers in the bureaucracy have defined output measures to be able to evaluate the current management practices. At the department level several output measures are in use for managerial purposes and these seem to be loosely coupled to the aggregate measures at the top bureaucratic level. Metric difficulties make the connection of lower-level indicators to indicators at a higher aggregation level problematic. Despite all initiatives by the Bureaucracy to provide meaningful performance indicators to the municipal council and thereby the possibility to control in a result oriented way, politicians seem to have different priorities.

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