**Accountability and performance management systems within private and public sector organisational change processes**

**Authors**

**Gloria Agyemang\***

**School of Management**

**Royal Holloway**

**University of London**

**Egham**

**Surrey**

**TW20 0EX**

**UK**

**Bill Ryan**

**Hult International Business School**

**46-47 Russell Square**

**London**

**WC1B 4JP**

**UK**

The authors would like to acknowledge with thanks helpful comments from Richard Laughlin. Kings College, London and Paul Robson, Royal Holloway, University of London, and the two anonymous reviewers.

**Accountability and performance management systems within private and public sector organisational change processes**

**Abstract**

This paper examines organisational change processes that occur when accountability demands from powerful external stakeholders change. It investigates, firstly, whether these external accountability demands impact on the performance management systems of two different types of organisations. Secondly, it considers whether the goals for improved performance contained within the external accountability demands are realised. The paper derives its primary insights from analysing in-depth interviews with managers working in a private sector company and in public sector organisations. The analyses reveal complex organisational responses. In the public sector case study, the organisations tended to reorient their performance management systems towards the external accountability demands; whilst in the private sector organisation, pressures from falling share prices forced managers to focus their decision making on the preferred performance measures contained in shareholders’ accountability demands. However, whilst there is some evidence of performance management system changes, the desires for improved performance subsumed by the external accountability demands are not necessarily realised through the performance management system changes.

**Introduction**

Accountability forms the cornerstone of performance management systems (Otley, 1994). Key stakeholders’ expectations of future accountability lead to organisations undertaking performance management and control activities to adapt to the environment. Strategies are devised, objectives are set, targets and performance measures are decided on, and information flows are devised, all with the aim of managing performance and providing an account of such performance (Merchant and Otley, 2007). A change in the nature of accountability demands from powerful external stakeholders (such as central governments in the public sector and investors in the private sector) may create significant “environmental disturbances” for organisations (Laughlin, 1991), for which there are likely to be a myriad of internal responses from managers (Ahrens and Chapman, 2002; Broadbent and Laughlin, 2009; Chenhall and Euske, 2007; Moynihan and Pandey, 2005, 2010; Ryan, 2005; Otley, 1999). However, the extent to which these external accountability demands lead to changes in performance management systems within organisations remains unclear.

Whilst there is a wealth of literature on accountability and performance management systems separately, there are fewer studies that analyse the reactions of organisations to changes in accountability demands (see for example Chenhall and Euske, 2007). Accountability broadly refers to the demanding and giving of accounts (Roberts and Scapens, 1985; Sinclair, 1995; Ranson, 2003). Greater accountability is often presumed to provide more visibility and transparency for organisational activity, enabling appropriate organisational behaviour and ultimately leading to improved organisational performance (Dubnick, 2005; Messner, 2009; Roberts, 2009; Joannides, 2012). Performance management systems,[[1]](#footnote-1) on the other hand, are overall control systems that extend beyond the “measurement of performance to the management of performance” (Otley, 1999, p. 364). Performance management systems cover a wide range of management control practices, including objective setting, developing strategies and plans for achieving objectives, measuring performance, evaluating performance of individual managers, identifying rewards for managers, and information-flow processes that enable organisations to learn and adapt to their experiences (Otley, 1999; Kloot and Martin, 2000; Ferreira and Otley, 2009; Broadbent and Laughlin, 2009; Adler, 2011). Essentially, performance management systems recount the internal workings of organisations as the organisations work towards achieving the multi-dimensional objectives that represent organisational performance (Otley, 2008; Chenhall, 2003).

The purpose of this paper is to analyse changes that occur within organisations when faced with changing external accountability demands. The paper’s uniqueness lies in studying external accountability demands and performance management systems together to consider whether the former impacts on the latter. The paper achieves its purpose by examining what happens in two pairs of organisations when these external pressures increase. The organisations belong to recognisably different sectors—the private and public sectors—and are chosen to illustrate the nature of organisational change processes. Whilst public sector organisations operate within the confines of governmental procedures, private sector organisations may have more freedom and flexibility to respond to changes (Mulgan, 2000a). The paper examines whether and (if so) how external accountability demands impact on the performance management systems of the organisations in question.

Laughlin (1991) provides a useful theoretical framework to analyse change processes that occur within organisations as a result of environmental disturbances. According to this framework, an organisation exists in a coherent, balanced state until a disturbance places stress on the underlying organisational values (*interpretative schemes*), management processes (*design archetypes*), and functions. Such disturbances lead to changes in the configuration of organisational values, management processes and functions. As explained in detail in the next section, Laughlin (1991) presents four possible pathways— *rebuttal, reorientation, evolution and colonisation*—reflecting on how the organisational change processes may develop, arguing that it is only by examining specific cases of organisational change processes that an understanding of the nature of organisational responses to external demands can be gained. The model has been used by researchers studying diverse organisational change contexts such as the impact of political and economic disturbances on legal and institutional changes in accounting and auditing (Seal et al., 1995); the impact of the environmental agenda on corporate social and environmental accounting disclosure and reporting (Gray et al., 1995; Larrinaga-Gonzalez and Bebbington, 2001; Tilt, 2006); the impact of the global and national external environment on management within universities (Parker, 2002); and the impact of New Public Management financial management changes on healthcare and schools (Broadbent and Laughlin, 1998; Broadbent et al., 2001; Mueller et al., 2003).

Using this framework, the paper argues that accountability demands from powerful external stakeholders may be theorised as environmental disturbances for organisations, whilst performance management systems may be theorised as examples of design archetypes or internal management processes. Accountability demands are often triggered by a perceived lack of organisational performance and are attempts at driving up performance. Whilst these accountability demands create disturbances for organisations which may impact on their performance management systems, performance management system changes may not reflect the goals of the environmental disturbances. Although external accountability demands may have intentions regarding performance management systems (for example, effecting changes in strategies, performance measures or performance evaluation and reward systems) with a view to improving performance, organisational responses do not necessarily result in these intentions being realised.The paper extends the Laughlin (1991) framework by analysing the impacts of specific environmental disturbances (changed accountability demands) on specific organisational design archetypes (performance management systems).

The case studies show organisational members in both sectors responding to the increased accountability requirements by changing elements of their performance management systems. The public sector organisations changed their performance management systems in order to provide evidence they were responding to demands from the government. A reorientation response was shown, with the design archetypes changing but the organisational interpretive schemes not changing. In the private sector case study, the external accountability pressure forced managers to focus on new performance measures. The design archetypes changed, forcing changes in the underlying interpretive schemes. Although the sources of external pressures differ, and the performance management systems also differ, the responses by both sets of managers are similar in that both are concerned about performance management system changes that they see as resulting from outside pressures rather than from their internal understandings of organisational activities. Both sets of managers protested that the changes were inappropriate. Resistance to the accountability demands was shown in different ways.

We contribute to the literature on accounting and organisational change by illustrating the complex reactions and changes of organisations regarding their performance management systems in their attempts *to appear* to respond to external accountability pressures. Tensions exist for organisations as they balance the need to respond to external forces for legitimacy and opportunities with ensuring that their operations reflect core values (Parker, 2002; Laughlin, 1991). Our contribution is significant for several reasons. It has examined the nature of external disturbances, demonstrating when and how to initiate change and when not to (Tilt, 2006). External pressures on organisational members are set to grow as organisations take more of a stakeholder approach to performance and try to meet the needs of multiple stakeholders. Private sector organisations increasingly require organisational members to accept accountability at more operational levels in order to remain accountable to all stakeholders. Public sector organisations continue to face changing policy demands associated with changing political imperatives, especially in the current period of fiscal austerity. Furthermore, central governments in most OECD countries persist in trying to encourage public sector organisations to behave and be managed like private sector organisations (Radnor and McGuire, 2004; Modell and Wiesel, 2008).

The paper is structured into four sections. The first section, after defining accountability and performance management systems, provides the underpinning theoretical background. External accountability demands are theorised as examples of steering mechanisms causing environmental disturbances for organisations, whilst performance management systems are theorised as the design archetypes or management processes guiding organisational action. Possible theoretical organisational reactions to disturbances from external pressures are presented. This theoretical section concludes by examining the differing pressures of external accountability on both private and public sector organisations. The second section then explains the research approach taken in the study. The third section analyses the research findings from the two case studies. In conclusion, the final section highlights and discusses the implications of the study for research and practice.

**External accountability steering organisational change through performance management systems**

*The nature of accountability and performance management systems*

Accountability in its broadest sense refers to the demanding and giving of reasons for conduct (Sinclair 1995; Roberts and Scapens, 1985; Ranson, 2003). This simple definition subsumes the problematic nature of the concept which has been recognised in the many studies reported in the accounting literature (see for example Ahrens, 1996; Boland and Schultze, 1996; Roberts, 1991, 1996; Roberts and Scapens, 1985; Sinclair, 1995; Shaoul et al., 2012). Whilst some researchers have debated definitional issues associated with accountability, others have focused more on methods and processes of accountability. Boland and Schultze (1996), for example, suggest that accountability partly involves the telling of a story as well as providing a form of reckoning. Some studies have centred on accountability relationships, looking at the relationships between givers and recipients of accounts (Roberts, 1991; Roberts and Scapens, 1985).

What seems evident from an analysis of the literature is that accountability is often discussed in a dichotomised manner. For example, some studies take a financial accounting perspective, whilst others consider accountability with a management accounting focus. From the financial accounting perspective, disclosure to external shareholders and other stakeholders forms the thrust of the research. Such accountability involves disclosure about financial performance, that is, the reporting of income, earnings and financial position. Within the management accounting literature, accountability research tends to concentrate on what happens internally within organisations once there is an external reporting of costs, profits and organisational performance issues (Ahrens and Chapman, 2002; Otley, 1994, 1999; Merchant and Otley, 2007). Performance is seen as a multidimensional concept, with a need for multiple performance measures that facilitate accounting to different stakeholders (Otley, 2008; Chenhall, 2003).

Although both financial and management accounting studies focus “on the content of accountability and/or on the social practice of demanding and giving accounts” (Messner, 2009, p. 920), the interrelationships between external accountability and internal accountability (as in management accounting) are complex and have not formed a feature of accountability research. Parker (2002) suggests emerging tensions between “internal-organisational accountability (between hierarchical levels of authority) and external organisational accountability (to stakeholders, government, and community)” (Parker, 2002, p. 606). Central to managing these tensions is the role that management-control systems plays in ensuring that resources obtained are used effectively and efficiently to achieve the organisation’s objectives. The transfer of funds to organisations from external stakeholders creates associated accountability demands for information about the use of the funds internally. Management control systems facilitate the management of performance, thereby connecting internal and external accountability.

Recently, the term “performance management systems” has been used to signify the holistic nature of management control systems, reflecting all the systems that organisations employ to plan, analyse, measure, reward and broadly manage performance (Ferreira and Otley, 2009; Broadbent and Laughlin, 2009; Adler, 2011). Performance management systems give expression to the ends the organisation wants to achieve (i.e. its visions, mission, objectives, key success factors, key performance indicators, and targets) as well as the means of action (strategies, plans, performance evaluation systems and reward systems) and the information-flows it uses to assess whether it has learned from its experiences (Ferreira and Otley, 2009; Merchant and Otley, 2007; Broadbent and Laughlin, 2009). Performance management systems establish the internal workings of the organisation which make things happen, providing a way of knowing whether current strategies are achieving organisational goals or whether they need to be changed (Broadbent and Laughlin, 2009, p. 292). As environments change, performance management systems may also need to change in order to sustain their relevance and usefulness (Ferreira and Otley, 2009, p. 275).

*Accountability demands and performance management systems*

Significant changes in accountability demands from powerful external stakeholders can create environmental disturbances for organisations. The power of these stakeholders derives from the resources they provide, upon which organisations depend (Pettigrew and McNulty, 1998; Pfeffer and Salancik, 2003; Morgan, 2006; Maclean et al., 2010; McNulty et al., 2011). Accountability demands are ways of questioning the general direction of policy and the activities of managers (Broadbent, 2011; Mulgan, 2000a, 2000b; Parker, 2002; Radnor and McGuire, 2004; Messner, 2009). Furthermore, external accountability demands often seek to promote organisational changes in order to improve performance (Dubnick, 2005; Moynihan and Pandey, 2005). Relatedly, Roberts (1991, p. 365) suggests that accountability “through the sanctions of power and money … create[s] internal divisions within local contexts.” Despite this, organisational responses to these demands and possible sanctions are by no means clear.

Greater demands for accountability may translate into the need for “tighter managerial controls within firms” (Messner, 2009, p. 918) because managers look for ways of improving future organisational performance in order to meet the next set of accountability requirements (Otley, 1994; Ferreira and Otley, 2009). Managers who give accountability reports—who are judged on their performances—may need to implement changes to performance management systems in order to improve performance as well as to provide the necessary information for the reports. The focus is turned onto those people whose work is being measured, of whom some will gain power and others lose power (Markus and Pfeffer, 1983). Resistance to changes may happen as a result of shifts in existing power bases, and this may be shown in a variety of ways (Modell, 2001). For example, people may become strategic with their responses to accountability reports and may attempt to “evade its discipline through repairing (explaining, justifying, and excusing)” actions (Kirk and Mouritsen, 1996, p. 251). Alternatively, they may develop coping mechanisms to absorb the turbulence caused by the changed accountability demands (Broadbent and Laughlin, 1998; Broadbent et al., 2001; Laughlin et al., 1994).

Otley (1994, p.297) challenges management control researchers to examine how organisations respond to changing environmental demands, cautioning that there will not be universal prescriptions but ones contingent on organisational type, the operating environment, culture and industry. This paper responds to Otley’s call and examines the organisational responses that two different types of organisations make to external accountability pressures. Laughlin (1991) provides a framework for analysing the impacts of environmental disturbances on organisational change processes. This framework is explained next.

*Conceptualising organisational responses to environmental disturbances*

Laughlin (1991) suggests that the manner in which organisations respond to environmental disturbances depends on what happens to three dimensions that structure organisations. These dimensions are the interpretive schemes, design archetypes and sub-systems. Interpretive schemes represent the underlying shared beliefs, values, mission and purposes of the organisation. They reflect what an organisation (through its members) considers it “should be doing, how it should be doing it and how it should be judged” (Starke et al., 2011, p. 29), and they “operate as shared fundamental assumptions about why events happen as they do and how people are to act in different situations” (Laughlin, 1991, p. 212, citing Bartunik, 1984). They provide underlying guidance for the organisation’s activities. For example, scholarship, knowledge transmission and critical enquiry may be considered interpretive schemes of universities; education may be the interpretive scheme for schools (Parker, 2002; Broadbent, 2011); and medical professionalism and clinical quality may be the interpretive schemes in health organisations (Broadbent et al., 2001; Mueller et al., 2001). Design archetypes are defined as the management processes, management information systems, communication systems and controls of the organisation that guide organisational activities. Both interpretive schemes and design archetypes are intangible. Finally, the sub-systems (for example, the buildings, machinery etc.) are the more tangible elements of organisations. At any one time, organisational interpretive schemes, design archetypes and sub-systems remain in a coordinated balance until this balance is disturbed by environmental changes.

Design archetypes are significant in the model as they exist to ensure the sub-systems reflect and express the organisation’s interpretive schemes. As management processes, they intervene to make sure the values of the organisation are achieved through its functions. Performance management systems are examples of design archetypes that denote managerial actions (the processes) that guide organisations towards their goals (the ends). Ferreira and Otley (2009) list 12 key questions (listed in Appendix 1) that characterise the nature of performance management systems, including questions about organisational vision, mission and goals (i.e. the interpretative schemes) and questions about the processes (the design of the performance management system) involved in achieving these goals. Performance management systems as outlined by Ferreira and Otley in the 12 questions are offered as a heuristic tool to facilitate the description of performance management systems-design; reflecting, therefore, that organisations have different design archetypes to guide their behaviour. This paper’s concern is question 11, which states:

How have the PMSs altered in the light of the change dynamics of the organization and its environment? Have the changes in PMSs design or use been made in a proactive or reactive manner? (Ferreira and Otley, 2009, p. 275)

However, whilst Ferreira and Otley’s question is concerned with the “antecedents (i.e. the causes) and the consequences (i.e. the outcomes) of change in performance management systems” (p. 275), this paper considers the processes of change.

Where the nature of external accountability changes, external stakeholders may be attempting, through their changed demands for information, to direct organisations towards actions they consider appropriate to those giving account (i.e. the *accountors*) (Broadbent et al., 1991; Laughlin, 1991; Broadbent and Laughlin, 2009; Broadbent et al., 2010). These accountability demands signal that the environment in which the organisation exists is changed. The expectation of having to report in the future towards the intentions of these accountability changes may or may not drive performance management system changes. The external environment provides challenges and opportunities to which the organisation will need to choose whether to react (Broadbent and Laughlin, 2009, p. 290). Different organisations, facing and existing in different contexts, may react in different ways according to how balances of organisational interpretive schemes, design archetypes and sub-systems are perturbed.

Laughlin (1991) suggests four possible tracks of organisational responses by exploring what happens to the underlying organisational interpretive schemes, design archetypes and sub-systems when there are environmental disturbances for organisations. A “rebuttal” response involves the organisation making minimal changes to its design archetypes to deflect the environmental disturbance but while keeping organisational activities, underlying values and ways of doing things basically the same. The rebuttal process of change involves the design archetypes changing initially to absorb the impact of the disturbance and then over a period of time reverting back to their original state. In the “reorientation” response, the design archetypes change and then guide the organisational functions and sub-systems into changing without impacting on the organisational interpretive schemes. Thus management processes and ways of undertaking tasks may change, but the core of the organisations’ values and beliefs remains unchanged. Both rebuttal and reorientation are examples of “first-order changes,” where the organisational changes do not penetrate to underlying interpretive schemes and so are not lasting.

The third possible response is an enforced change in all three elements: the interpretive schemes, design archetypes and sub-systems. The environmental disturbance initially leads to changes in the design archetypes and then to changes in both the sub-systems and interpretive schemes, leading to a completely new ethos within the organisation. This is the “colonisation” response in which the organisation, led by a group of dominant internal agents responding to environmental disturbances, is forced to completely change. The last possible response is the “evolution” change where environmental disturbances lead to organisational changes that are accepted and welcomed by all its members. Evolution changes encapsulate the ideal situation as they presuppose that organisational members have debated and accepted the changes in the design archetypes, sub-systems and interpretive schemes so that long-lasting “second-order changes” occur (Parker, 2002). Evolution changes reflect a situation where organisational members find that the changes are enabling of their responsibilities; that they allow them to perform their tasks and to feel they have contributed to designing them (Wouters and Roijmans, 2011). There are major changes in the organisational ethos and interpretive schemes that have been chosen and accepted by organisational members.

Table 1 summarises Laughlin’s (1991) model for analysing the impact of environmental disturbances and the responses made by organisations.

**Table 1: Organisational responses to environmental disturbances**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Rebuttal | Reorientation | Colonisation | Evolution |
| Design archetype  (these relate to Ferreira and Otley (2009) PMS) | Management processes change slightly but eventually revert back to original state | Management processes change | Management processes are forced to change | Management processes evolve significantly in response to changed interpretive schemes |
| Sub-systems | No change | Changes in response to design-archetype changes | Significant changes | Significant changes |
| Interpretive schemes | No change | No change | Forced changes led by a small group of organisational stakeholders | Changes occur after debate and acceptance |

Adapted from Laughlin (1991)

Organisational responses to external disturbances may be examined by exploring whether and how the management processes (the design archetypes) change, and also by whether and how organisational members change their ideas, beliefs and values. This framework is employed later on in this paper to consider how two organisations in different sectors responded to external accountability demand changes.

**Research approach**

Many researchers argue for the use of case studies as a research methodology in the study of accounting within organisations. A key advantage of this method is that it facilitates the discovery of anomalies in extant theories by illustrating areas of difference between actual practice and current theoretical thinking (Jensen and Rodgers, 2001; Humphrey and Scapens, 1996;Llewellyn, 1996; Eisenhardt, 1989, 1991). Carlile and Christensen (2005) argue that anomalies are valuable in theory building because the discovery of an anomaly is an enabling step to less ambiguous description and improvement in a body of theory. Indeed, productive theory-building research is almost invariably prompted or instigated by an anomaly or a paradox (Poole and Van de Ven, 1989).

The paradox prompting this paper was that external accountability drives changes in performance management systems, though these changes appear not to meet the intentions of the external accountability pressures. This relationship seemed to us to be one that required examination by considering how organisational members viewed it. Thus the focus was on the perspective of those on the inside and experiencing the demands. Case studies would enable us to achieve this depth of understanding, although these might be limited by not considering the viewpoints of those imposing the demands. Furthermore, there seemed to be the belief that in order to improve public sector management, these organisations needed to become more like private sector organisations, especially in the area of performance management. External accountability pressures would drive the efficient and effective deployment of public resources through performance management systems similar to those of private sector organisations in response to external pressures.

This paper is grounded in two studies that consider how the external pressures for accountability impacted on the operations of organisations in the UK schools sector and a global private-sector firm operating in the UK. Though the case studies were taken within the public and private sectors, they are not necessarily seen as representative of the two sectors but rather are used as illustrative examples. In the case of the public sector organisations, empirical detail was taken from two Local Education Authorities (LEAs). LEAs are political administrative organisations responsible for education administration within local government. They exist in the “middle” of the UK school education framework, between the Department for Education—the central government department at the apex, setting national policies and strategies—and schools, the delivery arms of the sector. The private sector case study is represented by two business units of Eurel,[[2]](#footnote-2) a U.S. divisionalised corporation. It is a global leader in industrial, consumer, office, and healthcare and safety products. In the 1990s, approximately 26% of its total global sales were made in the UK. During the period of the research, these sales and net income declined significantly by 45%, and the share price also lost a third of its value. However, during this time, the stock market as a whole soared, creating a premium on corporate assets (Biddle et al., 1997).

The empirical data is drawn from interviews and documentary analyses within the two research studies. The interviews were semi-structured and their objective was to draw out the views of organisational members about the accountability and performance management linkages. The topics discussed during the interviews were derived from the extant literature on accountability and performance management systems. Specifically, the interviews sought to understand how the external accountability demands impacted on the internal processes. A total of 60 interviews with senior managers and directors were held across the case organisations, with each interview lasting approximately one hour. The interviews were mostly taped, although notes were taken during some interviews. A list of managers interviewed is shown in Appendix 1. Subsequently, each interview was transcribed and analysed. The analysis of the data was undertaken by searching for relevant common (similar) themes as well as any differences in perceptions (Miles and Huberman, 1994).

The interviews were augmented by the analysis of documents. Atkinson and Coffey (1997) suggest that documentation is a way through which organisations represent themselves “collectively to themselves and to others,” including to influential outside stakeholders such as government departments and the powerful investment community. Documentary analysis can contribute to the understanding of substantive content of the documents and their context as well as illuminate the deeper meanings conveyed through their style and coverage, since they are socially produced (Macdonald, 2001; Ritchie, 2003).

In the next section, we present our findings in several subsections. We start with a general discussion of the nature of accountability demands in the public and private sector. Then the two case studies are analysed in terms of the specific external accountability pressures they faced and how the organisations and managers responded to these environmental disturbances. The extent of organisational changes is explored through analysing managers’ views about changing performance management systems. Laughlin (1991) is used as a theoretical framework to analyse the cases, looking at whether and (if so) how changes occurred in their interpretive schemes, design archetypes and sub-systems.

**Empirical findings**

*Accountability in the private and public sectors*

External accountability is a key issue in both private sector and public sector organisations. Within the private sector, there is a need for organisations to manage their accountability relationships with an ever powerful investment community; whilst within the public sector, there is an increasing level of regulation from central governments as they strive to make public sector organisations accountable for the resources they receive via taxation (Olson et al., 1998; Ranson, 2003).

A major aspect of private sector organisations and their environment is their primary relationship with shareholders. Recently, the traditional holding of shares has moved from individual share ownership to the fund management community, who along with investment analysts, have begun to exercise influence over organisations and their strategies. Shareholder expectations have started to filter into the performance management systems of organisations as organisations try to set performance hierarchies that achieve the required targets, as agreed or indeed demanded by the investment community (Gleadle and Haslam, 2010; Andersson et al., 2008). Andersson et al. (2008) discuss “financialisation of strategy” to depict the pressures that managers are under to create shareholder value by changing their strategies for wealth creation.

In the public sector, accountability is usually discussed as political accountability or the accountability of politicians to the electorate (Broadbent and Laughlin, 2003; Sinclair, 1995; Parker and Gould, 1999). Since the 1980s, and the introduction of New Public Management (NPM) ideas in many Western countries, there has been an increased recognition of consumer accountability in the public sector as the concern has been to meet the needs of the populace as consumers of public services (Farrell and Law, 1999; Hood, 1991; Parker and Gould, 1999; Dubnick, 2005). Invariably, this has meant attempts by central governments to change the behaviours of public sector organisations through making use of more hierarchical and managerial accountability relationships that exist between public sector organisations and central government. In the UK for example, the Labour government (1997–2010) attempted to make public sector organisations more accountable for output performance (Hood, 1991; Olson et al., 1998; Newman, 2001; Verbeeten, 2008). In their modernisation policy, the Labour government created new forms of accountability to users by focusing on the performance of these organisations through the use of a collection of measures such as league tables of school examination performance and star ratings for hospitals. Thus there was external pressure for changes in the performance management systems of these organisations. The NPM agenda also included a desire for public sector organisations to be managed like private sector organisations, in which there is a greater tendency to make individuals accountable for performance (Radnor and McGuire, 2004; Modell and Wiesel, 2008).

Whilst the origins of external accountability pressures in the two sectors have been shown to be different, it remains to be seen whether the responses of managers in private and public sector organisations also differ. Much discussion about the possible stresses caused by external accountability demands is theoretical, backed by little empirical evidence. In this paper, we provide empirical analysis of managers’ views about the internal impacts of external accountability demands in both the private and public sectors. We examine whether there are any performance management system changes and, if there are, whether these changes achieve the intentions of the external demands.

1. *The private sector case study*

The Eurel Company during the period of study (late 1990s) had worldwide sales of approximately US$16 billion and employed 72,000 people globally. Historically, it was a highly profitable company achieving a return on shareholder equity of 26% on average. Its commercial strength lay in having a rich pool of technology and innovative products. The business environment of Eurel had been relatively stable for a significant period of time. This stability enabled continuous growth in earnings, dividends paid and share price. Thus it had a good relationship with its shareholders, having provided increasing dividends over 25 years.

The company had a culture that encouraged and recognised the contribution of its organisational members. These values had developed over time and related to principles established by the founding president of the company.

As our business grows, it becomes increasingly necessary to delegate responsibility and to encourage men and women to exercise their own initiative. This requires considerable tolerance. Management that is destructively critical when mistakes are made kills initiative. And it is essential that we have people with initiatives if we are to continue to grow (founding president).

Managers suggested, during interview, that this encouraging corporate culture allowed there to be a constant flow of new products that fuelled company growth. The underlying interpretive scheme was one that valued individual creativity, empowered organisational members, and encouraged them to focus on innovation (Laughlin, 1991; Adler, 2011; Starke et al., 2011).

The performance management systems within the organisation supported this interpretive scheme. For example, the process of developing budgets took eight months, but this suited the culture within the organisation. Furthermore, external environmental considerations did not unduly affect the company strategy of product differentiation because of the stability in its own environment. Performance management systems that are “informal and qualitatively-based” often work well in such environments (Adler, 2011, p. 252). As Laughlin (1991) suggests, the role of design archetypes is to guide the organisation towards its interpretive schemes. At Eurel, the design archetypes supported the underlying interpretive schemes and were enabled by the stability of the business environment.

2. *Environmental disturbances: external accountability pressures triggered by declining performance*

Things started to change in the late 1990s. Total company sales and net income started to decline as the macro business environment became more competitive. The company struggled to commercialise the innovative capability that it was known for. The share price dropped from $100 to $84 during the period 1999 to 2003. Institutional shareholders, their fund managers, and investment analysts started to look critically at the company’s performance, wanting reports on what the company was doing to improve performance. A stronger focus developed on new key performance measures, such as the company’s share price and shareholder valuation. This created disturbances for the firm, especially as during this time period the stock market as a whole was buoyant, creating premiums on corporate assets (Biddle et al., 1997). The growth in the importance and influence of shareholders meant that the company had to make changes to return to a position where the “markets” had confidence in its ability to meet budgeted performance targets.

Each quarter, the chief executive officer and the finance director met with analysts to discuss the previous quarter’s financial results and the expected results for subsequent quarters. Such meetings form an important part of external accountability, both for fund managers (to their investees) and for the company to its owners (Roberts et al., 2006, p. 279), through the sharing of information about future strategies and company plans, as well as explaining past decisions. Eurel senior managers, for example, discussed planned moves into new a market focused on providing customer specific applications of their technology. However, external analysts and institutional investors continued to lose patience with Eurel as it continued to miss many of its projections on earnings.

3. *Design Archetype* c*hanges in performance management systems in the private sector*

In an attempt to manage the pressure from these dominant stakeholders, a new chief executive officer looked to Eurel’s performance management system for answers. A significant problem identified was the long budget and forecast time span, which meant forecasts were increasingly out of date by the time they were completed.

Eurel introduced a new performance management system operationalised through a budgeting system called the Continuous Improvement Plan (CIP). This system was more iterative than the previous forecasting system, and it aimed at facilitating a more continuous approach to the budgeting processes. The CIP was, in essence, a continuous rolling forecast that provided quarterly estimates to meet the need to respond to demands of the investment community for quarterly updates on results and expectations. Through the CIP, Eurel sought a credible merging of actual and forecasted results that could be aligned to the external demands for information; and in so doing, that could acknowledge the immediacy of the business environment.

However, it seems the intention of the external accountability pressures was for increased performance as well as improved information. The CIP gave the information, but actual performance had to meet the planned forecasted information. Examples of managers’ comments reported to analysts which denote the importance of meeting performance targets show that they recognised this aspect of the reporting pressures.

Quarterly targets are important… [I]t all hinges around the share price. We must hit our quarterly number.

The chief executive officer asked management to reduce their commitments by about 4%. … I guess he was trying to establish credible results with the stock market.

The use of the new CIP meant that the organisation started to concentrate on the short term achievement of results. It started to curtail longer term investments, demonstrating what has been described as one of the effects of financial performance “myopia” (Merchant, 1990; Roberts et al., 2006; Ezzamel et al., 2007). There was an almost maniacal focus on the immediate share price and the message about performance that the changing share price projected. Clearly, the company changed its design archetypes in changing its planning and reporting systems. The new design archetypes seemingly led to changed sub-systems as the managers started to concentrate on how to improve performance.

Initially, the new budget system was well regarded for its technical abilities. Managers saw the improvements it allowed for quick reporting. Many of the interviewees spoke about it positively as it enabled them to quickly communicate quarterly objectives and sales results to the external financial community. In this regard, accountability improved.

Financial and forecasting systems have been moved from an individual country perspective to a much “simpler” process which emphasizes the output requirements of the company and the shareholders.

The company has objectives to meet for its shareholders. It is reasonably fair.

This is what we plan (CIP) and what is then communicated to the shareholders as what we plan.

However, somewhere between the conception and operation of the CIP, employee opinions changed about the performance management system. Employees began to perceive negative effects on both individuals and their associated business groups from the implementation of the CIP. They recognised and resented the increased pressure on achieving improved performance. Where once the performance management system was characterised by a “forgiving” atmosphere—as exemplified, perhaps, in the stretching, longer term nature of the old budget process—it was now becoming more noticeably “punitive.” The CIP, as a new design archetype, had prompted changes in the organisation’s interpretive schemes. For example, whilst previously managers were allowed to spend 20% of their time working on individual product development, this practice disappeared as the company became more directive in its approach to achieving investor-required performance results.

There is far more measurement [as a result of the CIP system].

Managers suggested during interviews that not achieving projected results led to a punitive atmosphere throughout all levels of the organisation. For example, one manager suggested:

The forecasting language included terms such as personal credibility as well as group/business credibility.

Other managers made similar comments such as:

It is hard to accept this new formal cold regime—one that is almost totally based on numbers.

There is so much pressure from shareholders now for results that we can’t afford to carry either people or businesses that are not contributing.

The sense from these comments is that the managers were dissatisfied with the changes in how their performance was being measured. The new focus on shareholder-value performance measures was resented. The perception of the managers was that the investment community was in control of the organisation and that, as a consequence, the performance management systems had changed and become less forgiving.

These changes had been led by the new chief executive officer; who, through his interactions with the analysts and institutional shareholders, seemed to be forcing a change in the interpretive schemes of the organisation.

The new CEO is saying the right things about the future, but the future-talk is then blacked out by an emphasis on current profits and share price demands.

According to Laughlin’s (1991) framework, a colonisation organisational change pathway seems to have occurred. As the design archetype changed, the sub-systems and interpretive schemes of Eurel were also forced to change. The new performance management system, rather than being considered as enabling, was seen as coercive (Wouters and Roijmans, 2011).

I think that there has been a shift in the emphasis as to who runs the company. We had eras of marketing and manufacturing. Now, it seems to me, that we are rapidly being run by accountants and shareholders.

The shareholders are [considered] more important than the employees.

The interpretive schemes were forced to change by the actions of a few internal members intent on meeting the demands of owners, creating tensions within the organisation (Parker, 2002; Roberts, 1991).

4. *The private sector: achieving the intentions of the external demands?*

Demands from the outside investment community reflected a change in the external accountability demands for information about performance but also for improved performance. As Roberts et al. (2006) suggests, analysts’ and senior managers’ meetings give senior managers authority to force changes on the layers of hierarchical accountability within organisations, since financial directors especially are able

to speak on behalf of the “owners” to their colleagues within the business. The mirror of shareholder value then becomes the means whereby new demands can be made upon the corporate body enhancing the influence both of the finance function and corporate managers more generally (Roberts et al., 2006, p. 291).

Performance measurement—the changing share price—became a more overt feature of the new performance management system, as stated above.

Whether these changes achieved the powerful investors’ core intentions of their accountability demands for improved performance remains debatable. This is because lasting effective organisational change, according to Laughlin (1991), depends on whether the interpretive schemes of the organisation change after open discussion and acceptance by organisational members. The CIP system was a means for the organisation to respond to the increased “financialisation” because it enabled the company to communicate more effectively (Gleadle and Haslam, 2010; Andersson et al., 2008). But the new system only offered the managers a way to shape the expectations of the stock market and investors, shaping perceptions of performance rather than increasing performance (Dubnick, 2005).

In the next sub-section we consider the case study from the public sector; then in the concluding section we analyse, empirically and theoretically, the similarities and differences in the impact of external accountability demands on the performance management system changes in the two sectors.

5. *The public sector case study*

In the UK, local education authorities (LEAs) are administrative organisations responsible for education administration within local governments. As with other public service organisations, the new public management ethos impacted on traditional roles of financial resource management and decision making within the local government schools sector. LEA responsibilities changed significantly in 1988 as a result of the UK Education Reform Act (1988) which introduced local management of schools (Edwards et al., 1995, 1999, 2000). This legislation devolved funding away from the LEAs to schools, and schools were made responsible for their own day-to-day operational and financial management. The underlying theme of this legislation was that management efficiency and greater accountability to parents would be achieved through school self-management. However, the LEAs saw their roles as “absorbers” or “buffers,” protecting schools from shocks created by government policies (Laughlin et al., 1994; Agyemang, 2009). They responded to initial policy changes by reasserting that they had working relationships with schools which they labelled as “working together” and “family-like ties” (Edwards et al., 1997, p. 46). Such descriptions suggest that interpretive schemes underlying the work of these organisations are educational, similar to the educational values held by schools. One LEA document reviewed for this study projected the underlying interpretive scheme: “Belief in learning as a key element for successful life and work.”

6. *Environmental disturbances: increasing external accountability demands for educational performance*

The NPM changes entrenched policy making within central government, moving it away from local government (Newman, 2001; Olsen et al., 1998). These changes to the management of education continued with the Labour government introducing the School Standards and Framework Act (1998) when they were elected into power in 1997. Target setting and the use of performance indicators became key mechanisms used by the central government’s Department for Education to drive up educational standards. The School Standards and Framework Act (1998) also explicitly made LEAs accountable for raising standards of education, without giving them any direct levers of control over curriculum and managerial decisions, which were made by the schools themselves (Agyemang, 2009).

The changes outlined above represent significant external environmental disturbances for the LEAs, with the new accountability for school performance creating tensions within them. Furthermore, in the 1998 legislation, central government gave the LEAs four new roles, suggesting that changes in their performance management systems were desired—roles to change: strategic planning through a requirement for formalised educational development planning; the resource allocation between schools and LEAs, specified in an approach called Fair Funding; the relationship between schools and LEAs, as per the guidelines in the “Code of Practice on LEA–School Relations”; and how LEA performance was to be assessed through inspections.

Additionally, the central government employed several quasi-government agencies to direct and oversee the management processes of the LEAs to ensure they did change in response to the increased accountability pressures. The clear aim of the government was to change the design archetypes of these organisations. For example, the Audit Commission, which was responsible for auditing local authorities, stated in a report:

Expectations of them [LEAs] are clearer than ever before. … LEAs need to devote considerable energy and thought to their key processes of policy and direction, resource management and performance review if they are to meet the challenge (Audit Commission, 1999a, p. 70).

The Audit Commission produced reports directing the LEAs to focus on performance management system tasks such as strategy formulation, decision making, resource allocation and performance measurement (Audit Commission, 1999a, 1999b, 2000).

A second quasi-governmental body known as the Office for Standards in Education (OFSTED) was given the responsibility to inspect LEAs. Specifically within the inspections, LEA performance was to be judged by the extent to which there had been:

* clearly defined strategy, appropriately linked to other relevant activities, that set out priorities and targets derived from local needs and national policies;
* clearly defined action in support of priorities, set out in a manageable and properly resourced sequence, subject to scrutiny against best-value criteria;
* sufficient resources closely aligned to priorities (OFSTED, 1999, p. 8).

Again, performance management system design issues of strategy formulation, resource allocation and performance measurement (key organisation design archetypes) were targeted by external stakeholders. League tables of the examination performance of schools within local areas were published annually. Through these publications, LEAs were made accountable for the performance of schools in their localities. The Department for Education then employed the OFSTED inspection reports and the examination of performance indicators to make judgements about the success or failure of LEA performance. The intentions of the external accountability pressures were hence to improve the educational performance of children within LEA schools.

7. *Design archetypes: changed performance management systems*

In discussing the increased accountability pressures from central government, the officers who were interviewed in the case study accepted the *need* to respond to external demands from such a powerful stakeholder. For example, the officers were very keen to show that they were responding to the external demand for accountability by conducting their strategic planning in line with the requests of central government. They made comments such as:

Our literacy strategy, our numeracy strategies … are very much linked to the ideas and philosophies behind the Department of Education’s plans.

We are delivering the national agenda within our strategic plans.

Our strategic decisions are very much made on the basis of central government legislation.

There was a clear sense in these comments that the officers felt they needed to report plans that closely resembled the requirements of central government, or as one officer stated: “We have to pin on the specific government objectives.” There was a degree of compulsion because the environmental pressures from government had the backing of legislation. The accountability to government placed coercive pressure on the LEA planning processes, forcing the design archetypes to change (Wouters and Roijmans, 2011; Laughlin, 1991).

Even where there is compulsion, such as through legislation, organisations will tend to select the depth with which they engage with the external steer for change, often finding ways of coping with the external pressures (Broadbent et al., 1991; Laughlin et al., 1994). Comments made during the interviews seem to suggest that the officers resented the changes in their performance management systems, especially that aspect to do with performance measurement. It seems that the officers had their own beliefs about how performance should be measured. These reflected the organisational interpretive schemes (Laughlin, 1991; Starke et al., 2011). Comments such as:

I think the Audit Commission has generated an enormous number of performance indicators. I have a saying that I keep in front of me: “To learn to measure what we value rather than value what we can easily measure.” The Audit Commission and its indicators—when you have over 200 of them, you can be lost and be measuring what other people suggest you measure rather than what you really value. What we are trying to do is to wade through all of that and to measure what we really value. Why should we be counting this and counting that?

We make sure we do not lose sight of our logo [mission]. It puts the learner at the centre. … [W]e support whoever is interacting with the learner, to help access and to ensure pupils are striving to achieve their best…

The first comment particularly signals the frustration felt by officers and suggests that although the design archetypes (the performance management systems) had changed, these changes had not guided changes to the interpretive schemes of the organisations, which remained educational, as shown in the second comment. The comments suggest that officers had their own views and values about what successful LEA performance entailed, and these did not necessarily reflect the requirements of external stakeholders. Key among these values was the recognition of the variety of factors that could influence the performance of children. Educational performance included more than exam performance; it required the consideration of several qualitative factors.

Statutory performance indicators do not give a complete picture. There are a lot of intangibles that may measure quality. … [A] number of these are difficult to measure but are important.

It [performance] isn't as easy as all that. It is a bit more “fudgy.” … You could have an LEA that is doing everything right, but it may be in a particular area where there are particular problems and schools are not achieving academically. The social background of kids may be more favoured in other areas.

8. *The public sector: achieving the intentions of the external demands?*

The overwhelming message from the LEA officers was that their work with schools is relational and thus the assessment of their performance needs to be qualitative to capture the essence of their role. Relational performance management systems rely on discourse between stakeholders and an agreement of key elements of performance management (Broadbent and Laughlin, 2009). Officers argued that the government had a “political agenda of raising educational standards through the use of targets.” Rather than focusing on relational performance management systems, the government was employing transactional performance management systems, “[those] with a high level of specificity about the ends to be achieved (e.g. through performance measures, targets, etc.) and often a clear specification of the means needed to achieve these defined ends” (Broadbent and Laughlin, 2009, p. 289). Although the LEA officers complied with the directions from government, they were not convinced that the externally mandated approaches to performance management systems were the most appropriate. The underpinning interpretive schemes did not align with the changed design archetypes and remained educational.

But we are careful not to fall into the trap of working only on those activities that are going to be measured. We do not want to skew our activities. We want to do them because they are important and not just because they are easy to measure.

All of us do not lose sight of this. We are not here as a business. Our purpose is to maximise the achievement of our learners.

The performance management system changes had led to changes at the sub-system level of the organisation, but not to changes in the interpretive schemes signalling a reorientation or first-order change (Laughlin, 1991). Although the government’s strategies were followed, working together with schools in relational, “family” ways was maintained, as the following comment demonstrates.

A good LEA … it’s there, it is working, and it is translating government policy. It is working with schools to actually improve pupils’ attainments.

The organisational participants insisted on preserving their educational values. The performance intentions of central government that were subsumed in the increased accountability demands may not have been achieved because of the barrier of the unchanging interpretive schemes.

In the next section of the paper, we compare and analyse the responses from the public sector and private sector managers with a view to theoretically explaining the linkages between external accountability, performance management systems and organisational change.

**Discussion and conclusions**

This paper has provided two case study examples of what happens within organisations when they are faced with changing external accountability demands from powerful external stakeholders. These changes in accountability have been triggered by stakeholder perceptions of declining performance. Theoretically, the accountability demands have been analysed as examples of environmental disturbances for organisations. Empirically, in both cases, these disturbances have been analysed as accountability demands for both performance information and improved performance. The paper has shown that whilst these accountability demands create disturbances for organisations, it is by examining the design archetypes (management processes), sub-systems and interpretive schemes (organisational values) of the organisations that the extent to which any changes made within the workings of the organisation may be assessed. Our analyses of the changes to the interpretive schemes, design archetypes and sub-systems in the two case studies are summarised in Table 11.

**Table 11: Responses to external environmental disturbances**

|  |  |  |
| --- | --- | --- |
|  | Eurel Case Study | LEA Case Study |
| **Environmental disturbances** | * New focus on shareholder values * Declining profitability | * New Public management * Declining educational performance |
| **Interpretive schemes**   * Original beliefs and values before disturbance * Preferred means of performance measurement * Did the interpretive schemes change? | * Individuality * Creativity and innovation * Initially qualitative but quantitative measures forced upon organization * Managers were forced to see performance in terms of share price and profitability measures | * Educational * Relational * Both qualitative and quantitative measures * Officers maintained the above values and paid “lip service” to new measures |
| **Design archetypes**   * Did the performance management systems change? | * Budget-system changes * New quantitative performance measures adopted * Focus on short term profitability | * Strategies and planning changes * New performance measures * Focus on government requirements |
| **Sub-systems** | * Functions changes, including use of hard data to measure performance, but resentment shown * New computer systems | * Functions changes, including use of hard data to measure performance, but non-acceptance and resentment |
| **Overall pathway of change** | Colonization led by senior management | Reorientation to meet government requirements and to maintain LEA role |

Our analyses suggest that the managers in the two case studies were compelled by the increased accountability requests from external stakeholders to supply the information about performance that these powerful stakeholders demanded. The environmental disturbance created by the accountability demands could not be ignored. Changes were made to the performance management systems in both organisations to enable this to happen. In the private sector, the new CIP budgeting system allowed the managers to provide results quickly and reduce the variances that were previously a consequence of the protracted time between forecasts and actual results. In the public sector case study, the government demands for changes in strategic planning encouraged officers to refocus their strategic plans.

Ferreira and Otley’s (2009) 11th question asks whether changes in performance management systems design occur in a proactive or reactive manner to environmental changes. Our findings suggest the environmental disturbances led to some reactive changes in the design archetypes of both organisations. This is not surprising considering that both organisations depended on these dominant stakeholders for funding and resources. The continued need for financial support remains a strong “antecedent” for changing performance management systems (Ferreira and Otley, 2009; Broadbent and Laughlin, 2009; Laughlin, 1991). In the private sector, this is seen through the prominence given to shareholder value. Roberts et al. (2006) refer to the “authority of shareholder value” (p. 287) and the “sovereign power of shareholders” (p. 290), showing that these are powerful stakeholders who perhaps cannot be ignored. In the public sector, both strong political support and resources are essential for continued organisational activity (Moynihan and Pandey, 2005; Modell and Wiesel, 2008; Chenhall and Euske, 2007). The LEAs were faced with waning governmental support and constant pressure on their financial resources. In order to work with the schools and maintain their very existence, they needed the financial support of the government. One officer stated this clearly as:

You cannot separate the capacity to work with schools from the resourcing issue. Resources give the capacity.

Both types of organisations depend on the external resources required for organisational performance. Subsumed in the environmental demands from the powerful external stakeholders was the desire for improved performance. In the private sector organisation, this was shown through the prominence given to changing share prices; whilst in the public sector organisation, the use of inspections and the reporting of examination performance in league tables signified this. The extent to which these external accountability demands achieved their *intention* of improved performance is more difficult to see. Organisational performance is shaped by a multiplicity of factors interacting together, not all of which are controllable by organisations. Furthermore, although the aim of performance management systems is to facilitate organisational performance, there remains a lack of clarity as to how they actually do this (Broadbent and Laughlin, 2009, p. 292). Accountability demands may impact on performance management systems, and design archetypes may change, but this does not necessarily lead to improved performance.

In the case of public sector organisations, the ultimate performance of the services may be out of managers’ hands. Or as Moynihan and Pandey (2005, p. 433) suggest:

Quite simply, managers do not control all the levers that shape performance, a fact that must be borne in mind when demanding accountability.

In the case of education in particular, the performance of school children in exams is influenced by several factors (for example, the involvement of parents) not in the control of schools or LEAs. The focus on quantitative performance measures could drive out qualitative factors that were considered necessary for improved performance. Qualitative goals are unlikely to be achieved through the introduction of quantitative performance measures (Verbeeten, 2008).

Although facing different performance pressures, the private sector managers argued that important practices, innovation and creativity necessary for improved performance were being eroded by the intense focus on quantitative performance measures. Internal knowledge that may drive higher performance was not being well utilised as managers were distracted by the new performance management systems that had become associated with punishment. Where managers’ perceptions are of an “unforgiving nature of accountability,” then disturbances through accountability demands invade organisational practices (Messner, 2009). At Eurel, meeting performance targets developed into a quest for corporate credibility. In order to gain this credibility, the managers took a more short-term perspective, curtailing long-term investment to show short-term improved profits. By so doing, the accountability demands did have some effect on performance.

Both sets of managers perceived the external demands for accountability as representing external control. How this impacted on the interpretive schemes was subtly different. In Eurel, a colonisation change occurred as the design archetype changes were forced through by senior managers, who also forced some changes in the interpretive schemes of the organisation. The perceptions of the managers in Eurel, in the end, were that the investors were running the company as the previous interpretive schemes gave way to a more punitive atmosphere. In the case of the LEA case study, the performance management system changes did not penetrate to the organisational interpretive schemes. There were no real changes but rather first-order reorientation changes as the officers maintained their belief that their performance and school performance were linked and “fudgy.” They took on government strategies, changing some design archetypes, but continued to work with schools in the same familial ways associated with their shared educational values.

At the sub system level in both cases, there were changes with how data were collected and used. However managers and officers in the two case studies showed much resentment of these changes which they felt was imposed from outside the organisation.

This study has deliberately provided two examples of change processes that occur in two different types of organisations as they attempt to manage the pressures that external demands have on internal activities. A key difference between the case studies lay in the relationship between the institutional shareholders and the managers on the one hand, and the relationship between central government and public sector officers on the other. Accountability for profitability differs from public accountability and the pressures it creates for performance in public sector organisations. Mulgan (2000a) argues that in the private sector, the emphasis on profit does not prompt shareholders to be concerned with matters of process. Yet we see in the example of Eurel that the managers still felt compelled to change their approaches to managing, suggesting that there is for private sector firms what Mulgan (2000a, p. 93) calls a “higher degree of accountability for measurable results.”

In contrast, in the public sector study, environmental demands from the relentless promulgation of legislation during the NPM era of the UK Labour government were extended to supervision and inspections by enforcement agencies such as the Audit Commission[[3]](#footnote-3) and OFSTED, making it harder for the organisations not to show compliance. Public sector organisations are also more accountable for the processes by which they decide their general direction and policies (Mulgan, 2000a, p. 94). The LEAs, being sandwiched between central government and schools, were answerable to both. As a consequence, the LEA officers maintained their relational working practices with schools whilst espousing compliance to central government demands. Such was the determination to break the LEA–school relationship that in 2010, the new UK government created a new agency to support schools into becoming “academies” or “schools that were free from local authority controls” (UK Department of Education website). Research into the management processes of these new types of schools is urgently required to ascertain whether they are truly free from the local authority controls and whether this has enabled them to be more responsive to government demands. Such research would allow us to evaluate these particular government policies.

Our research findings relate to specific organisations facing specific challenges at a specific point in time and thus are not generalisable. Within the private and public sectors there are many different types of organisations that have different structures, and are involved with several different activities. Our findings relate only to the organisations researched. Moreover, in analysing the accountability and performance management system linkages, we know only the views of managers within these organisations. It is likely that external stakeholders who make the accountability requests have insights about how the demands might be used to encourage or motivate performance. This remains an area for further research.

This paper has concentrated on Ferreira and Otley’s (2009) 11th question of how organisations respond to changes in external accountability demands. Further research that considers the other ten questions they pose in terms of organisational change processes would help us understand performance management system changes as well as performance management systems design. It would be interesting to consider specifically, for example, how organisations change their information flows to meet changing accountability demands.

Organisational change, performance management systems and external accountability demands remain perpetual problematic aspects of organisational existence. There are no universal answers, and it is only through analysing particular cases that some understanding of the multiplicity of organisational responses may be gained.

**Appendix 1: Ferreira and Otley’s (2009) 12 questions on the design of performance management systems**

|  |
| --- |
| 1. What is the vision and mission of the organization and how is this brought to the attention of managers and employed? What mechanisms, processes and networks are used to convey the organization’s overarching purposes and objectives to its member? |
| 1. What are the key factors that are believed to be central to the organization’s overall future success and how are they brought to the attention of managers and employees? |
| 1. What is the organization structure and what impact does it have on the design and use of performance management systems (PMSs)? How does it influence and how is it influenced by the strategic management process? |
| 1. What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees? |
| 1. What are the organization’s key performance measures deriving from its objectives, key success factors, and strategies and plans? How these are specified and communicated and what role do they play in performance evaluation? Are they significant to missions? |
| 1. What level of performance does the organization need to achieve for each of its key performance measures (identified in the above question), how does it go about setting appropriate performance targets for them, and how challenging are those performance targets? |
| 1. What processes, if any, does the organization follow for evaluating individual, group and organizational performance? Are performance evaluations primarily objective, subjective or mixed and how important ate formal and informal information and controls in these processes? |
| 1. What rewards – financial and/or non-financial- will managers and other employees gain by achieving performance targets or other assessed aspects of performance (or, conversely, what penalties will they suffer by failing to achieve them)? |
| 1. What specific information flows-feedback and feed forward-systems and networks has the organization in place to support the operation of its PMSs? |
| 1. What type of use is made of information and of the various control mechanisms in place? Can these uses be characterised in terms of various typologies in the literature? How do controls and their uses differ at different hierarchical levels? |
| 1. How have the PMSs altered in the light of the change dynamics of the organization and its environment? Have the changes in PMSs design or use been made in a proactive r reactive manner? |
| 1. How strong and coherent are the links between the components of PMSs and the ways in which they are used (as denoted by the above 11)? |

**Appendix 2: Managers and officers interviewed**

|  |  |
| --- | --- |
| **Private sector case study** | **Public sector case study** |
|  |  |
| Divisional directors | Directors of education |
| Technical managers | Assistant directors: Special education needs |
| Research and development personnel | Assistant directors: Resource planning |
| Sales and marketing personnel at different  levels | Assistant directors: School standards and improvement |
| Administration staff | Assistant directors: Asset management |
|  | Councillor in charge of education portfolio |
|  | Finance officers |
|  | Education officers |
|  | Head teachers |

**References**

Adler, R. W., ‘Performance Management and Organizational Strategy: How to Design Systems That Meet the Needs of Confrontation Strategy Firms’, *The British Accounting Review*, Vol. 43, No. 4, 251-263, 2011.

Agrizzi, D., ‘Assessing English Hospitals: Contradiction and Conflict’, *Journal of Accounting & Organizational Change*, Vol. 4, No. 3, 222-242, 2008.

Agyemang, G., ‘Responsibility and Accountability without Direct Control? Local Education Authorities and the Seeking of Influence in the UK Schools Sector’, *Accounting, Auditing and Accountability Journal*, Vol. 22, No. 5, 762-788, 2009.

Ahrens, T., ‘Styles of Accountability’, *Accounting, Organizations and Society*, Vol. 21, No. 2-3, 139-173, 1996.

Ahrens T., and C. Chapman, ‘The Structuration of Legitimate Performance Measures and Management: Day-to-Day Contests of Accountability in a U.K. Restaurant Chain’, *Management Accounting Research*, Vol. 13, No. 2, 151-171, 2002.

Andersson T., C. Haslam, E. Lee and N. Tsitsianis, ‘Financialization Directing Strategy’, *Accounting Forum*, Vol. 32, 261-275, 2008.

Atkinson A., and A. Coffey, ‘Analyzing Documentary Realities’, in D. Silverman (ed.), *Qualitative Research: Theory, Method and Practice*, Sage Publications, 1997.

Audit Commission, *National Report: Held in Trust: The Local Education Authority of the Future*, Audit Commission, 1999a.

———, *Management Paper: Changing Partners: A Discussion Paper on the Role of the Local Education Authority*, Audit Commission, 1999b.

———, *Money Matters: School Funding and Resource Management*, Audit Commission, 2000.

Berry, A. J., A. F. Coad, E. P. Harris, D. T. Otley and C. Stringer, ‘Emerging Themes in Management Control: A Review of Recent Literature’, *The British Accounting Review*, Vol. 41, No. 1, 2-20, 2009.

Biddle, G. C., R. M. Bowen and J. S. Wallace, ‘Does Eva® Beat Earnings? Evidence on Associations with Stock Returns and Firm Values’, *Journal of Accounting and Economics*, Vol. 24, No. 3, 301-336, 1997.

Boland, R. J., and U. Schultze, ‘Narrating Accountability: Cognition and the Production of the Accountable Self’, in R. Munro and J. Mouritsen (eds.), *Accountabilities: Power, Ethos and the Technologies of Managing*, International Thompson Business Press, 1996.

Broadbent, J., ‘Discourses of Control: Managing the Boundaries’, *The British Accounting Review*, Vol. 43, No. 4, 264-277, 2011.

Broadbent, J., and R. Laughlin, ‘Organisational and Accounting Change: Theoretical and Empirical Reflections and Thoughts on a Future Research Agenda’, *Journal of Accounting & Organizational Change*, Vol. 1, No. 1, 7-26, 2005.

———, ‘Developing Empirical Research: An Example Informed by a Habermasian Approach’, *Accounting, Auditing and Accountability Journal*, Vol. 10, 622-648, 1997.

———, ‘Resisting the “New Public Management”: Absorption and Absorbing Groups in Schools and GP Practices in the UK’, *Accounting, Auditing and Accountability Journal*, Vol. 11, No. 4, 403-435, 1998.

———, ‘Organisational Resistance Strategies to Unwanted Accounting and Finance Changes: The Case of General Medical Practice in the UK’, *Accounting, Auditing and Accountability Journal*, Vol. 14, No. 5, 565-586, 2001.

———, ‘Control and Legitimation in Government Accountability Processes: The Private Finance Initiative in the UK’, *Critical Perspectives on Accounting*, Vol. 14, No. 1-2, 23-48, 2003.

———, ‘Performance Management Systems: A Conceptual Model’, *Management Accounting Research*, Vol. 20, No. 4, 283-295, 2009.

Broadbent, J., R. Laughlin, D. Shearn and N. Dandy, ‘Implementing Local Management of Schools: A Theoretical and Empirical Analysis’, in T. Wragg (ed.), *Research Papers in Education Policy and Practice*, Routledge, 1993.

Carlile, P. R., and C. M. Christensen, *The Cycles of Theory Building in Management Research*, Boston University, 2005.

Carnaghan C., M. Gibbins and S. Ikaheimo, ‘Managed Financial Disclosure: The Interplay between Accountability Pressures’, in R. Munro and J. Mouritsen (eds.), *Accountability: Power, Ethos and the Technologies of Managing*, International Thompson Business Press, 1996.

Carter C., and F. Mueller, ‘The Colonisation of Strategy: Financialisation in a Post-Privatisation Context’, *Critical Perspectives on Accounting*, Vol. 17, 967-983, 2006.

Chenhall, R. H., ‘Management Control Systems Design within Its Organizational Context: Findings from Contingency-Based Research and Directions for the Future’, *Accounting, Organizations and Society*, Vol. 28, No. 2-3, 127-168, 2003.

Chenhall, R. H., and K. J. Euske, ‘The Role of Management Control Systems in Planned Organizational Change: An Analysis of Two Organizations’, *Accounting, Organizations and Society*, Vol. 32, No. 7-8, 601-637, 2007.

Dubnick, M., ‘Accountability and the Promise of Performance: In Search of the Mechanisms’, *Public Performance and Management Review*, Vol. 28, No. 3, 376-417, 2005.

Edwards, P., M. Ezzamel, C. McLean and K. Robson, ‘Budgeting and Strategy in Schools: The Elusive Link’, *Financial Accountability & Management*, Vol. 16, No. 4, 309-334, 2000.

Edwards, P., M. Ezzamel and K. Robson, ‘Connecting Accounting and Education in the UK: Discourses and Rationalities of Education Reform’, *Critical Perspectives on Accounting*, Vol. 10, No. 4, 469-500, 1999.

Edwards, P., M. Ezzamel, K. Robson and M. Taylor, ‘The Development of Local Management of Schools: Budgets, Accountability and Educational Impact’, *Financial Accountability & Management*, Vol. 11, No. 4, 297-315, 1995.

Eisenhardt, K., ‘Building Theories from Case Study Research’, *The Academy of Management Review*, Vol. 14, No. 4, 532-550, 1989.

———, ‘Better Stories and Better Constructs: The Case for Rigor and Comparative Logic’, *The Academy of Management Review*, Vol. 16, No. 3, 620-627, 1991.

Ezzamel, M., K. Robson, P. Stapleton and C. McLean, ‘Discourse and Institutional Change: Giving Accounts and Accountability’, *Management Accounting Research*, Vol. 18, No. 2, 150-171, 2007.

Ezzamel, M., H. Willmott and F. Worthington, ‘Manufacturing Shareholder Value: The Role of Accounting in Organizational Transformation’, *Accounting, Organizations and Society*, Vol. 33, No. 2-3, 107-140, 2008.

Farrell, C. M., and J. Law, ‘Changing Forms of Accountability in Education? A Case Study of Leas in Wales’, *Public Administration*, Vol. 77, No. 2, 293-310, 1999.

Ferreira, A., and D. Otley. ‘The Design and Use of Performance Management Systems: An Extended Framework for Analysis’, *Management Accounting Research*, Vol. 20, No. 4, 263-282, 2009.

Gleadle, P., and C. Haslam, ‘An Exploratory Study of an Early Stage R&D-Intensive Firm under Financialization’, *Accounting Forum*, Vol. 34, No. 1, 54-65, 2010.

Gray, R., R. Kouhy and S. Laver, ‘Corporate Social and Environmental Reporting: A Review of the Literature and a Longitudinal Study of UK Disclosure’, *Accounting, Auditing and Accountability Journal*, Vol. 8, No. 2, 47-77, 1995.

Hood, C., ‘A Public Management for All Seasons?’, *Public Administration*, Vol. 69, No. 1, 3-19, 1991.

Hopwood, A. (ed.), *Accounting and Human Behaviour*, Haymarket Publishing, 1974.

Humphrey, C., and R. Scapens, ‘Rhetoric and Case Study Research’, *Accounting, Auditing and Accountability Journal*, Vol. 9, No. 4, 119-122, 1996.

Jensen, J. L., and R. Rodgers, ‘Cumulating the Intellectual Gold of Case Study Research’, *Public Administration Review*, Vol. 61, No. 2, 235-246, 2001.

Joannides, V., ‘Accounterability and the Problematics of Accountability’, *Critical Perspectives on Accounting*, Vol. 23, No. 3, 244-257, 2012.

Kenneth, A, M., ‘The Effects of Financial Controls on Data Manipulation and Management Myopia’, *Accounting, Organizations and Society*, Vol. 15, No. 4, 297-313, 1990.

Kirk, K., and J. Mouritsen. ‘Spaces and Accountability: Systems of Accountability in a Multinational Firm’, in R. Munro and J. Mouritsen (eds.), *Accountability: Power, Ethos and the Technologies of Managing*, International Thompson Business Press, 1996.

Kloot, L., and J. Martin, ‘Strategic Performance Management: A Balanced Approach to Performance Management Issues in Local Government’, *Management Accounting Research*, Vol. 11, No. 2, 231-251, 2000.

———, ‘Public Sector Change, Organisational Culture and Financial Information: A Study of Local Government’, *Australian Journal of Public Administration*, Vol. 66, No. 4, 485-497, 2007.

Larrinaga-Gonzalez, C., and J. Bebbington, ‘Accounting Change or Institutional Appropriation?—a Case Study of the Implementation of Environmental Accounting’, *Critical Perspectives on Accounting*, Vol. 12, 269-292, 2001.

Laughlin, R., ‘Environmental Disturbances and Organizational Transitions and Transformations: Some Alternative Models’, *Organization Studies,* Vol. 12, 209-232, 1991.

Laughlin, R., J. Broadbent and H. Willig-Atherton, ‘Recent Financial and Administrative Changes in GP Practices in the UK: Initial Experiences and Effects’, *Accounting, Auditing and Accountability Journal*, Vol. 7, No. 3, 96-124, 1994.

Llewellyn, S., ‘Theory for Theorists or Theory for Practice? Liberating Academic Research’, *Accounting, Auditing and Accountability Journal*, Vol. 9, No. 4, 112-118, 1996.

Macdonald, K., ‘Using Documents’, in N. Gilbert (ed.), *Researching Social Life*, Sage Publications, 2001.

Maclean, M., C. Harvey and R. Chia, ‘Dominant Corporate Agents and the Power Elite in France and Britain’, *Organization Studies*, Vol. 31, No. 3, 327-348, 2010.

Mazzola, P., D. Ravasi and C. Gabbioneta, ‘How to Build Reputation in Financial Markets’, *Long Range Planning*, Vol. 39, No. 4, 385-407, 2006.

McKernan, J. F., and K. McPhail, ‘Accountability and Accounterability’, *Critical Perspectives on Accounting*, Vol. 23, No. 3, 177-182, 2012.

McNulty, T., A. Pettigrew, G. Jobome and C. Morris, ‘The Role, Power and Influence of Company Chairs’, *Journal of Management and Governance*, Vol. 15, No. 1, 91-121, 2011.

Merchant, K., and D. T. Otley, ‘A Review of the Literature on Control and Accountability’, in C. Chapman, A. Hopwood and M. Shields (eds.), *Handbook of Management Accounting Research*, Elsevier Ltd., 2007.

Messner, M., ‘The Limits of Accountability’, *Accounting, Organizations and Society*, Vol. 34, No. 8, 918-938, 2009.

Miles, M. B., and A. M. Huberman, *Qualitative Data Analysis: An Expanded Sourcebook*, Sage Publications, 2002.

Modell, S., ‘Performance Measurement and Institutional Processes: A Study of Managerial Responses to Public Sector Reform’, *Management Accounting Research*, Vol. 12, No. 4, 437-464, 2001.

———, ‘Performance Measurement Myths in the Public Sector: A Research Note’, *Financial Accountability & Management*, Vol. 20, No. 1, 39-55, 2004.

Modell, S., and F. Wiesel. ‘Marketization and Performance Measurement in Swedish Central Government: A Comparative Institutionalist Study’, *Abacus*, Vol. 44, No. 3, 251-283, 2008.

Morgan, G., *Images of Organizations*, Sage Publications, 2006.

Moynihan, D. P., and S. K. Pandey, ‘Testing How Management Matters in an Era of Government by Performance Management’, *Journal of Public Administration Research and Theory*, Vol. 15, No. 3, 421-439, 2005.

———, ‘The Big Question for Performance Management: Why Do Managers Use Performance Information?’, *Journal of Public Administration Research and Theory*, Vol. 20, No. 4, 849-866, 2010.

Mueller, F., C. Harvey and C. Howorth, ‘The Contestation of Archetypes: Negotiating Scripts in a UK Hospital Trust Board’, *Journal of Management Studies*, Vol. 40, No. 8, 1971-1995, 2003.

Mulgan, R., ‘Comparing Accountability in the Public and Private Sectors’, *Australian Journal of Public Administration*, Vol. 59, No. 1, 87-97, 2000a.

———, ‘“Accountability”: An Ever-Expanding Concept?’, *Public Administration*, Vol. 78, No. 3, 555-573, 2000b.

Munro, R., and J. Mouritsen (eds.), *Accountability, Power, Ethos and the Technologies of Managing*, International Thomson Business Press, 1996.

Newman, J., *Modernising Governance: New Labour, Policy and Society*, Sage Publications, 2001.

OFSTED, *The Local Education Authority Support for School Improvement: Framework for the Inspection of Local Education Authorities*,OFSTED, 2000.

Olson, O., J. Guthrie and C. Humphrey (eds.), *Global Warning! Debating International Development in New Public Financial Management*, Akademisk Forlag, 1998.

Otley, D., ‘Management Control in Contemporary Organizations: Towards a Wider Framework’, *Management Accounting Research*, Vol. 5, No. 3-4, 289-299, 1994.

———, ‘Performance Management: A Framework for Management Control Systems Research’, *Management Accounting Research*, Vol. 10, No. 4, 363-382, 1999.

———, ‘Management Control and Performance Management: Whence and Whither?’, *The British Accounting Review*, Vol. 35, No. 4, 309-326, 2003.

———, ‘Did Kaplan and Johnson Get It Right?’, *Accounting, Auditing and Accountability Journal*, Vol. 21, No. 2, 229-239, 2008.

Parker, L. D., ‘It's Been a Pleasure Doing Business with You: A Strategic Analysis and Critique of University Change Management’, *Critical Perspectives on Accounting*, Vol. 13, No. 5-6, 603-619, 2002.

Parker, L. D., and G. Gould, ‘Changing Public Sector Accountability: Critiquing New Directions’, *Accounting Forum*, Vol. 23, No. 2, 109-135, 1999.

Pettigrew, A., and T. McNulty, ‘Sources and Uses of Power in the Boardroom’, *European Journal of Work and Organizational Psychology*, Vol. 7, No. 2, 197-214, 1998.

Pfeffer, J., and G. R. Salancik, *The External Control of Organizations*, Stanford University Press, 2003.

Poole, M. S., and A. H. Van Den Ven, ‘Using Paradox to Build Management and Organization Theories’, *The Academy of Management Review*, Vol. 14, 562-578, 1989.

Radnor, Z., and M. McGuire, ‘Performance Management in the Public Sector: Fact or Fiction?’, *International Journal of Productivity and Performance Management*, Vol. 53, No. 3, 245-260, 2004.

Ranson, S., ‘Public Accountability in Age of Neo-Liberal Governance’, *Journal of Educational Policy*, Vol. 18, No. 5, 459-480, 2003.

Ritchie, J., ‘The Applications of Qualitative Methods to Social Research’, in J. Ritchie and J. Lewis (eds.), *Qualitative Research Practice*, Sage Publications, 2003.

Roberts, J., ‘The Possibilities of Accountability’, *Accounting, Organizations and Society*, Vol. 16, No. 4, 355-368, 1991.

———, ‘From Discipline to Dialogue: Individualizing and Socializing Forms of Accountability’, in R. Munro and J. Mouritsen (eds.), *Accountability: Power, Ethos and the Technologies of Managing*,International Thompson Business Press, 1996.

———, ‘No One Is Perfect: The Limits of Accountability and an Ethic for “Intelligent” Accountability’, *Accounting, Organizations and Society*, Vol. 34, No. 8, 957-970, 2009.

Roberts, J., P. Sanderson, R. Barker and J. Hendry, ‘In the Mirror of the Market: The Disciplinary Effects of Company/Fund Manager Meetings’, *Accounting, Organizations and Society*, Vol. 31, No. 3, 277-294, 2006.

Roberts, J., and R. Scapens, ‘Accounting Systems and Systems of Accountability—Understanding Accounting Practices in Their Organisational Contexts’, *Accounting, Organizations and Society*, Vol. 10, No. 4, 443-456, 1985.

Ryan, B., ‘The Problematic Nature of Organization Culture and a Changing Control Context’, *Strategic Change*, Vol. 14, 431-440, 2005.

Ryan, B., ‘Budgeting, the Individual and the Capital Market: A Case of Fiscal Stress’, *Accounting Forum*, Vol. 31, No. 4, 384-397, 2007.

Seal, W., P. Sucher and I. Zelenka, ‘The Changing Organization of Czech Accounting’, *European Accounting Review*, Vol. 4, No. 4, 659-681, 1995.

Shaoul, J., A. Stafford and P. Stapleton, ‘Accountability and Corporate Governance of Public-Private Partnerships’, *Critical Perspectives on Accounting*, Vol. 23, No. 3, 213-229, 2012.

Simons, R., ‘Control in the Age of Empowerment’, *Harvard Business Review*, Vol. 73, 80-88, 1995.

Sinclair, A., ‘The Chameleon of Accountability: Forms and Discourses’, *Accounting, Organizations and Society*, Vol. 20, No. 2-3, 219-237, 1995.

Starke, F. A., G. Sharma, B. Dyck and P. Dass, ‘Exploring Archetypal Change: The Importance of Leadership and Its Substitutes’, *Journal of Organizational Change Management*, Vol. 24, No. 1, 29-50, 2011.

Sven, M., ‘Performance Measurement and Institutional Processes: A Study of Managerial Responses to Public Sector Reform’, *Management Accounting Research*, Vol. 12, No. 4, 437-464, 2001.

Tilt, C., ‘Linking Environmental Activity and Environmental Disclosure in an Organisational Change Framework’, *Journal of Accounting & Organizational Change*, Vol. 2, No. 1, 4-24, 2006.

Townley, B., ‘Accounting in Detail: Accounting for Individual Performance’, *Critical Perspectives on Accounting*, Vol. 7, No. 5, 565-584, 1996.

UK Government, *The School Standards and Framework Act 1998*, HMSO, 1998.

———, *About Academies*, Department of Education, 2012.

Verbeeten, F. H. M., ‘Performance Management Practices in Public Sector Organizations: Impact on Performance’, *Accounting, Auditing & Accountability Journal*,Vol. 21, No. 3, 427-454, 2008.

Wouters, M., and D. Roijmans, ‘Using Prototypes to Induce Experimentation and Knowledge Integration in the Development of Enabling Accounting Information’, *Contemporary Accounting Research*, Vol. 28, No. 2, 708-736, 2011.

1. The term “performance management systems” is used interchangeably with performance management control systems as well as management control systems. [↑](#footnote-ref-1)
2. The names of the organisations in the case studies are disguised in accordance with the wishes of the organisations and their members. [↑](#footnote-ref-2)
3. On the 13th August 2010, the new coalition government in the UK announced plans to disband the Audit Commission. [↑](#footnote-ref-3)