

Politicians, output-budgets and performance evaluation

case research in three Dutch municipalities

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SOM-theme A Primary processes within firms

Abstract

Since the mid-eighties many Dutch municipalities have divided their organizations into decentralized units. In addition, most municipalities have introduced management instruments derived from the private sector, and have been paying more attention to the outputs of the organizations. Nowadays, the political administration of a municipality says that it wants to hold organization units accountable for realized output performance.

This paper raises the question of whether politicians use the available quantitative output information to control their organization and in particular to evaluate the performance of top officials. In the paper the Hopwood evaluation-styles, which originally refer to the private sector, are further developed for the public sector.

Exploratory field research concerning the use of output data and the evaluation styles used has been conducted in three Dutch municipalities. The aldermen in these municipalities paid much attention to manager's activities and the organization's operations and relatively little to outputs. Based on these empirical findings the paper introduces an additional evaluation style, the 'operations-conscious' style. In this style of evaluation, quantitative outputs play some part, but the main question is whether a manager acts as a good 'facilitator', i.e. ensures that his organization is functioning well. This aspect is mainly judged in a qualitative way. Besides, important criteria are the way in which a manager deals with short-term problems and with the politician's opinions and personal wishes.

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1. Introduction

Information about proposed and realized performance can contribute to the effective control of an organization. What information should be gathered is determined by, for example, the nature, structure and objectives of the organization, but also by the competition facing the organization. A change in one of these elements can also mean a change in the performance data to be gathered.

In recent years the public sector in the Netherlands, just like that in several other Western countries, has been paying more attention to production, efficiency and management methods and instruments derived from the private sector. This international trend is referred to as 'New Public Management' (see for example Hood, 1991, 1995; Van Helden, 1998, pp. 85-88; Olson, et al., 1998). As far as control over Dutch municipalities is concerned, the emphasis has gradually shifted from budgets (input performance) towards products (output performance) since the mid-eighties. The municipalities have increasingly drawn up quantitative accounts of proposed and realized performance (see Van Helden, 1998a, pp. 1-5).

This paper focuses on the way in which the performance of professional (top) managers in municipalities is evaluated by elected politicians. The concept of performance includes not only totals of 'finished products' (goods or services), but also other production aspects, such as data on operations and the quality of products. The political administration of a municipality is divided into two groups, namely aldermen and (other, 'ordinary') councillors.² Empirical research was conducted in the municipalities of The Hague, Groningen and Leeuwarden.

Several studies have examined the more 'technical' aspects of performance

measurement in government organizations, e.g. 'what should be measured and how?', 'what is the effect of the nature of operations on performance measurement?' and 'how is a manager's behaviour affected by performance measurement?' (see for example Haselbekke, et al., 1990; Humphrey, et al., 1993; Smith, 1993; Osborne, et al., 1995; Van Helden and Jansen, 1996). It seems that no research has been conducted into the way in which politicians evaluate the performances of their professional managers and into the information they use for such performance evaluations.

The paper is organized as follows. The sections 2-4 are a (theoretical) introduction, which ends with the formulation of a few research questions. These research questions served as a guideline during the empirical research. A rather extensive theoretical part is necessary. We cannot directly go to the research questions, because we first have to find out how the economic theories presented, which mainly concern profit organizations, can be applied in the public sector. After an introduction to the empirical research and the research method used (section 5), the actual use of performance or product budgets and performance evaluation in municipalities is discussed (sections 6 and 7). In section 8 the research data are analysed and interpreted and the 'operations-conscious' style of performance evaluation is introduced. Finally, section 9 contains some conclusions.

2. Output control and performance measurement

Since the mid-eighties many Dutch municipalities have divided their administrative organizations into more or less independent units. In addition, a lot of municipalities started to pay more attention to performance and products (output). These developments were also encouraged by spending cuts, national legislation and the so-called Policy and Management Instruments project (PMI).³ Using contract management - a form of management by objectives - and performance or output

budgets, the municipalities made more concrete arrangements to meet performance targets with available resources. In this way, politicians can still have general control over more or less independent organization units (see Boston, et al. 1997, pp. 264 and 274-278; Ter Bogt and Van Helden, 1999).

Municipalities, like other authorities, have traditionally controlled organization units by means of budgets (input control). The fact that they are now paying more attention - at least officially - to products (outputs) means a wider scope and a shift in emphasis as far as control is concerned. In almost all municipalities the emphasis has shifted towards so-called businesslike control and proposed and realized production. The PMI project and most municipalities (and the consultancy firms which were involved) implicitly seemed to suppose that most relevant activities and outputs of municipalities are quantitatively measurable. Especially in the initial phases of the introduction of output budgeting a fairly uniform concept was used for all policy fields.

Now that the political administration of a municipality wants organization units to account for performance, it seems obvious that they should consider this element when evaluating the professional (top) managers of these units. The extent to which budgeted and realized production tally could be discussed in job appraisal interviews between politicians and managers. Research will show whether that is really the case.

3. Change in types of control used

Performance evaluation is usually an important element of the management and control of an organization. If there is a shift in emphasis in the management and control of a municipality, i.e. from inputs and observing rules towards outputs, this can have consequences for the types of control to be used.

A government body is obviously not a commercial business. Legal certainty and equality of rights often play an important part in a government organization.

Nevertheless, now that more attention is being paid to production and management methods derived from the private sector, business economics may become more important for the control of a municipality. The fact that municipalities want to put more emphasis on outputs could mean a shift in emphasis from 'action controls' towards 'results controls' (Merchant, 1982, pp. 45-46; 1998, pp. 27-35 and 69-81).

The aim of action controls is to influence a person's behaviour. By means of these controls, combined with rewards and sanctions, the management wants to encourage employees to perform only desirable *acts*. This involves for example procedural rules, supervision, separation of duties, and a superior's approval being required for the performance of acts. Action controls will only be useful if the management has a clear understanding of production processes and desirable acts. Action controls often lead to slower production processes and bureaucratic behaviour (Merchant, 1982, pp. 49-50 and 53-54).

Results control is focused on the *results* of an employee's work. If an organization mostly uses results controls, employees will be free to act on their own discretion, provided that they achieve good results and observe certain general rules. At the end of a specific period the employees have to account for the results for which they are responsible. A reward or sanction may follow, depending on the actual results. Results controls can be used in a meaningful way only if the results are measurable and if the management knows what results are needed to achieve their organization's ultimate aims (Merchant, 1982, pp. 49-50; see also Hofstede, 1981, p. 196). If the results are defined incorrectly, employees will be encouraged to perform undesirable acts, and if the results are barely measurable, it will be relatively easy for employees to manipulate their performance (Merchant, 1982, pp. 49-50 and 53; Birnberg, et al., 1983, pp. 120-126). If the outputs are only measured partially, employees will be encouraged to give too much attention to certain (measured) acts.

The fact that municipalities are paying more attention to outputs could mean a shift in emphasis from action controls towards results controls. The combination of

action controls and results controls will only function well if Merchant's conditions are fulfilled. That means that - assuming that action controls are used - an organization must have a clear understanding of production processes, whereas in the case of results controls, the organization must produce clearly measurable outputs and other relevant performances. These conditions are not always fulfilled by profit organizations and maybe even less by public authorities like municipalities (Anthony and Young, 1994, pp. 10-11 and 52-55; Ter Bogt and Van Helden, 1999, pp. 6-11). However, most Dutch municipalities formally intend to broadly introduce quantitative output measures which they consider as relevant for their policy fields.

The greater emphasis on outputs and conditions to be fulfilled have been summarized in research question 1 as follows:

If good quantitative performance measurement is possible, will politicians evaluate their professional managers mainly on quantitative performance data?

Understanding of production processes and the measurability of outputs and other performances can be considered 'technical' matters. They are connected with the nature of operations and products of an organisation. Various other factors also play an important part in managers' evaluations of their subordinates' performance and influence what steps they will take. Some of these are dealt with in the next section.

4. Relevant factors in performance measurement

4.1 Evaluation method

Do accounting data play a part in performance evaluation? If so, it is important to know whether these data are used rigidly or flexibly (see Hopwood, 1972, pp. 159-160;

1974, pp. 95-117). A manager's performance evaluation style is an important aspect of his management style. Hopwood distinguishes three styles of performance evaluation, which are based on research in the commercial sector, i.e. the budget-constrained, the profit-conscious, and the non-accounting style. These styles are in essence archetypes; to a certain extent the non-accounting style is a residual category. In practice, all kinds of intermediate forms are possible (see Hopwood, 1972a, p. 190).

In order to make clear what the three Hopwood styles amount to in the governmental sector, specific definitions of these styles are given below. The definitions largely follow Hopwood's definitions for the commercial sector, but the meanings of the terms used for the styles differ slightly from the meanings of Hopwood's terms.

- The '*output-constrained style*' of performance evaluation is related to Hopwood's budget-constrained style. Outputs are the 'products' (goods and services) produced by an organization. When this style is used in the governmental sector, the question is whether managers or their subordinates have met the quantitative targets defined in short-term output budgets. These quantitative output budgets are not strictly financial ones, but also refer to numbers (e.g. the number of square metres of newly paved public roads, the number of visitors to municipal museums, or the number of unemployed persons participating in an employment programme). The budgets also refer to quality aspects, which can be expressed as a percentage (e.g. the percentage of building permits issued within three months, the number of participants and the percentage of a particular target group participating in the municipal sports programme, the percentage of requests for social security benefits leading to appeals and the percentage of well-founded appeals). So the budgets are expressed in various quantitative terms.

- The '*outcome-conscious style*' of performance evaluation is more or less equivalent to Hopwood's profit-conscious style. 'Profit' is replaced by 'outcome' because profits, unlike outcomes, are usually not important goals in the public sector.

Outcomes are effects produced by outputs, i.e. the impact of municipal activities and outputs on society. Probably outcomes are closely linked up with politicians' and/or a municipal organization's goals. For example, the output of a municipal employment program may be defined as 'number of unemployed persons participating in an employment programme', and the outcome as 'number of unemployed persons who succeed in getting a paid job' or 'increased well-being of citizens'.

An outcome-conscious style of performance evaluation implies that managers' performances are evaluated on their contribution to the outcomes of their organizations. However, unambiguous data about the outcomes of governmental activities are frequently unavailable, e.g. because the outcomes are difficult to measure, because they can only be measured after a very long term, or because they are influenced by many factors outside the governmental organization. Accounting data and other quantitative data, such as data on budgets, outputs, and other performance aspects, therefore play an important part in a manager's evaluation in actual practice (see also Boston et al., 1997, pp. 274-277). These data are considered then to be more or less reliable proxies for outcomes. However, these quantitative data are used flexibly in this style of performance evaluation. What matters most in the end is the manager's contribution to realizing a balance between cost minimization and/or effect maximization and the organization's long-term continuity. Besides accounting data, all kinds of quantitative and qualitative data and probably also subjective information play a part in this kind of performance evaluation.

The quantitative information concerning the municipality may include data on budgets, costs per unit, output, percentages, and the total number of complaints made by citizens. In addition, (quantitative) information about external developments and developments which can only slightly be influenced by the manager and the municipality may be relevant to the performance evaluation. Developments in the municipality are therefore compared with national data on economic and other trends when it concerns, for example, the total number of houses built and the number of

square metres of new office space realized, the average scores on a yearly national test for children leaving primary schools, and the number of new clients of the social services. More subjective factors may also be considered, like the manager's interactions with subordinates and his 'entrepreneurial flair' (which in the 'new' public sector may relate to factors such as enthusiasm, innovation, and risk-taking).

To summarize, all kinds of information can be considered in this kind of performance evaluation, but accounting and other quantitative data play quite an important part.⁴

- The '*implicit style*' of performance evaluation closely resembles Hopwood's non-accounting style. In this type of performance evaluation accounting information and other quantitative data play only a minor part. Probably there is no formal evaluation at all. This style may imply that a superior, i.e. a politician, only wants to discuss his subordinate's performance when he is quite dissatisfied with it. The politician will probably base his performance evaluation of the manager on changeable, rather subjective and qualitative elements, such as the relationship between the manager and himself, and much less on 'objective' criteria (see also Collins et al., 1995, p. 67). The implicit style of performance evaluation involves the use of such criteria as a manager's observance of rules, behaviour like a good colleague, interactions with employees and politicians, and 'entrepreneurial flair'. In other words, subjective criteria can play an important part in this style of performance evaluation.

This paper does not examine in a systematic way to what extent Dutch municipalities have explicitly evaluated (top) managers' performance in the past. Considering the general delays in making annual accounts and other accounting information available, it is assumed that, if performance evaluation did take place, the implicit style was used most often. Of course, many municipalities used to focus their attention on inputs, officially at least. This did not result in strongly financial budget-oriented performance evaluations. After all, until the early 1990s many municipal annual accounts were not

published until one or two years after the financial year in question. Interim financial reports often were not drawn up at all.⁵ Although available information about financial budgets could have played a part in evaluations, in practice the most importance was attached to observance of rules and good relations with politicians.

A person's style of performance evaluation can be influenced by personality traits (e.g. cognitive style), as well as by changes in his organization. An increase in municipal departments' independence, political control at arm's length, and a greater emphasis on realized outputs and other performance aspects can result in a change in a politician's way of evaluating professional performance. Simple straightforward reasoning could lead one to expect that a greater emphasis on outputs will mean that politicians choose a more output-constrained style of performance evaluation instead of the implicit style. But assuming that politicians are especially interested in outcomes, it is perhaps more likely that they will move to a more outcome-conscious style in which quantitative output data play a part (see also Collins et al., 1995, pp. 67-68). This starting point is expressed in research question 2, which is an addition to research question 1:

If municipalities decide to use political control at a distance and emphasize quantitative performance in their formal control mechanisms, will there be a shift:

- a. from an implicit style to another style of performance evaluation?;*
- b. if so, will this be a shift from an implicit style to an output-constrained or an outcome-conscious style?*

4.2 Other aspects of management style and performance evaluation

Clearly, subordinates' 'budget behaviour' and their superiors' management styles are influenced by many factors. However, this paper does not examine the way in which

(quantitative) budgets are determined, managers' involvement in this process, and to what extent managers find budgets challenging (see for example Hofstede, 1967, pp. 122-161; Emmanuel et al., 1991, pp. 165-182 and 212-214). Nor does this paper examine the way in which evaluators' personality traits, such as extrovertedness and cognitive style, can play a part in performance evaluations (see, for example, McGhee, et al., 1978, pp. 692-696; Brownell, 1983, pp. 312-319).

Planning attitude is also an important part of a person's management style. A highly developed planning attitude means that the politician plans his normal work to a large extent. Activities and policies are prepared thoroughly and they clearly form part of long-term policy frameworks. The emphasis is on such aspects as the planning and thorough preparation of policies and not on such aspects as improvisation and acting intuitively and quickly (see also Ho and Rodgers, 1993, pp. 104-109; Scholtes, 1997, pp. 7-11).

However, it remains to be seen whether politicians really take it for granted that more attention should be paid to outputs - and therefore to professionalism and planning, i.e. whether they focus naturally on outputs during their day-to-day activities. It is conceivable that a politician with a well-developed planning attitude holds professional managers more accountable for outputs and other quantitative performance data than a politician with a less developed planning attitude. This assumption was originally expressed in a third research question (see also Ter Bogt, 1999a, p. 675). However, in the empirical work it proved not to be possible to research this, because most of the aldermen interviewed turned out to have an 'improvising style'. The rest of this paper therefore does not focus on (differences in) individual styles of performance evaluation. It concentrates on giving an overview of the forms of evaluation used in the three municipalities.

5. Research method and introduction to the empirical research

The empirical research for this paper can be defined as descriptive and exploratory fieldwork (Ryan, et al., 1992, pp. 113-115). The aim of the research was to determine whether politicians attach value to quantitative output information and whether they use this sort of information to control an organization and to evaluate the performance of professional top managers. This information will show whether the introduction, in municipalities, of management instruments which are used in decentralized units of private sector organizations also results in the use of private sector types of control and performance evaluation by politicians who are politically responsible.

The field research took place in the municipalities of Groningen, Leeuwarden, and The Hague, which are by Dutch standards (fairly) large municipalities with about 170,000, 90,000 and 440,000 inhabitants respectively on 1 January 1999. Large municipalities were selected because the size of these organizations was such that there would probably be some distance between politicians and professional (top) managers. The research focused on official output data which were produced during planning and control processes as well as on politicians' evaluations.

To determine to what extent the idea of focusing on outputs had actually taken root, first a number of official planning and control documents of two departments in each municipality were analysed.⁶ Additional information was gathered during informal talks with employees of the organizations involved. In each case, the documents in question were the department's budget for 1999, its annual accounts for 1997, and one or two management reports for 1998. In a few cases, management contracts and other memorandums or documents with important performance information were studied as well. The number of full-time jobs (fte's) in the six departments in question ranged from more than 150 to 800 plus.

After the analysis of the planning and control documents, a number of aldermen and 'ordinary' councillors from each municipality were interviewed in the period from

January to July 1999. A total of eight aldermen and five councillors were interviewed.⁷ The interviewees were fairly diverse as far as experience, policy areas, and political parties are concerned. No aldermen responsible for finances, personnel, and management were interviewed, because they were generally responsible for introducing and promoting new management instruments. It seemed more interesting to hear the opinions of politicians who were not directly involved in the introduction of new instruments.

The formal interviews with the 13 politicians were mainly concerned with the use of performance information available in budgets, management reports, and annual accounts, and with ways of evaluating the performance of professional managers. These subjects were discussed in greater detail in the interviews with the aldermen. The interviews ranged in length from over one hour to about two hours. A list of open questions was used during the interviews, but other subjects could be added. A detailed written report was made of each interview and sent to the interviewee concerned to comment on. Any comments made by the interviewee were incorporated in the final report on the interview.

The aldermen were interviewed because it was expected that they, charged with the day-to-day management of a municipality, were involved in the performance evaluation of (top) officials. 'Ordinary' councillors usually come into contact with top managers as well, for example during official consultations with council committees and during informal meetings. The councillors were included in the research because it was not immediately apparent to what extent they had (some) say in performance evaluation, for example by expressing their opinion of municipal departments in council committees.

Obviously, the interviews do not contain all necessary information about the activities and working methods of local authorities (Lukka and Kasanen, 1995, pp. 75-86). However, they indicate how the politicians concerned use performance information and evaluate managers' performance.

6. Focus on outputs in planning and control processes

Have the six municipal departments mentioned above already developed sophisticated performance or product budgets? If not, do their planning and control documents contain at least more general, but clear quantitative data on outputs? A few general conclusions about the six departments are presented in the following brief summary.

Although the degrees in which the departments focused on outputs differed, e.g. because the top management of some departments was rather 'traditional' and the management of others was 'modern', all departments of the three municipalities were clearly encouraged to pay more attention to outputs. Since about 1990 the municipality of The Hague and its departments have used performance budgets which contain various budget items and relevant information about performance. Groningen has incorporated performance information into its budgets since the early 1990s and has been using product budgets since the budget year 1997. In a product budget all receipts and expenditure are attributed to a particular product. Usually, it also contains information about performance, such as product totals and costs per unit. Leeuwarden used to prepare traditional financial budgets which did not contain much output information, but it has been using product budgets since the budget year 1998. Trial product budgets were drawn up for 1997.

The budgets that were studied contained several quantitative output goals, such as the number of hectares of industrial estates to be sold over a year, the increase in the number of jobs within the municipal boundaries over a particular period of time, the number of environmental, building, traffic, and other permits to be issued, the minimum percentage of these permits to be issued within a certain term, the number of children participating in summer camps, the occupancy rate of sports and community centres, the number of visitors to municipal museums, the number of pupils

participating in truancy prevention projects, the desired fall in the sick rate concerning teachers, the number of books borrowed from the public library, the percentage of the population that are members of the public library, the number of subsidies to welfare work that are granted, and the degree in which particular municipal rates have to cover particular costs. Obviously, the municipalities did introduce certain quantitative output goals to their departments.

However, the budgets did not contain clear quantitative data on all relevant outputs. Generally speaking, the budgets and other documents that were analysed contained incomplete information about output and performance. Sometimes they yielded hardly any quantitative performance data, only irrelevant performance data or they contained vague and not very informative performance data. Usually, no product costs had been calculated. Moreover, products were sometimes defined in rather abstract terms, partly due to the combining of actual products into one aggregate product. Management reports provided some information about developments in policies, organizations, and about major changes in plans. However, they contained mostly financial data, as did annual accounts. Performance targets that were announced in budgets were hardly ever commented on in annual accounts. There was not much difference between the degrees of attention paid by the six departments to quantitative outputs, so it seems that the concreteness and measurability of the departments' tasks hardly mattered.

To summarize, a certain amount of quantitative output information was available in budgets and other official documents, but this information was far from complete. It seems that, up to 1999, the official interest in outputs shown by politicians and expressed in municipal policies was not strongly noticeable in planning and control processes and in policy documents. However, it should be noted that several employees and politicians in the municipalities emphasized that their documents were still being improved. They put forward that future documents would contain more quantitative output data, that the quality of the data would improve, and that the

documents would contain more details about product costs. The implementation of major accounting changes often takes years. This may particularly be the case in the public sector, for example, because organizations in this sector are usually protected from fierce external competition (see also Burns and Scapens, 2000; Ter Bogt and Van Helden, 2000).

7. Interviews with aldermen and councillors

7.1 Introduction

This section focuses mainly on the general characteristics of the three municipalities. It is hardly concerned with specific details about the interviewees, departments, and municipalities. The section contains a broad overview of the interviews, including opinions expressed by individual aldermen and councillors. A few illustrative quotations have been added.

7.2 Value attached to quantitative performance information

The successful implementation of major changes in accounting systems might be influenced by the motives for changing the accounting system and the value which persons involved give to the changes (see Ter Bogt and Van Helden, 2000). So the interviewees were asked some questions about these subjects.

Why do the municipalities wish to pay more attention to products and other aspects of performance? In Leeuwarden and especially in The Hague several interviewees referred to the (very) bad financial position and problematic financial management of their municipality in the early 1990s. Interviewees from the three municipalities also mentioned the politicians' wish to control their organization in a

better and more businesslike manner, or the council's wish to debate policies in more concrete terms. Most of the interviewees also pointed to the general trend in society towards professionalization, which prompted municipalities to strive for more insight into production and costs. Alderman B said:

One consideration is that a municipality should keep up with the times. But our greater focus on products and performance is also due to internal factors. In the past politicians did not have a firm enough grip on the running of a municipal organization, partly due to a lack of all kinds of important information. They tended to draw up lots of plans, but did not really concern themselves with their implementation.

Do the councillors and aldermen attach any importance to quantitative performance information and current planning and control documents?

The aldermen said it was important that their professional managers should perform well. In recent years there has been a general increase in the pressure on organizations to perform well. The aldermen attached varying degrees of importance to quantitatively measurable performance, depending on personality and policy area. According to them, however, statistics tell only part of the story, as far as important performance aspects are concerned.

Both the aldermen and the councillors said that some performance aspects could be measured quantitatively. Nevertheless, in certain policy areas it would not be possible to evaluate proposed and realized performances on numerical data only, in their opinion. They stressed the importance of providing qualitative information and explanations to complement the quantitative data. A few interviewees suggested that more attention should be paid to benchmarking, i.e. comparisons with other municipalities, but alderman L commented critically:

You can measure all kinds of things. ... At the moment we still do not have all the instruments we need for a decent measurement of outputs. But you must ask yourself what you want to do with all that quantitative information and what you expect to achieve. ... A lot of quantitative information about outputs and performance is in fact non-information, because you cannot use it to control your organization and policies.

... To control an organization, you need not only numerical data, but also a lot of explanatory, qualitative information. ... If you put too much emphasis on figures, employees will focus their attention too much on those figures, because they know that their performance will be evaluated on those criteria. Besides, if you focus too much on output measurement, you run the risk of getting fixated on benchmarking. ... In practice, the usual effect of benchmarking is that everyone is pretty satisfied if their municipality turns out to be about average. And that is the danger: if you become addicted to benchmarking, you will never be a leader.

Most of the ordinary councillors still regarded quantitative performance data in budgets, management reports and annual accounts to a certain extent as a source of information. However, nearly all aldermen said that they hardly ever used the information available in these documents. The interviewees generally thought that the documents did not contain enough specific information. Alderman E remarked:

In fact, budgets and annual accounts contain only indicators of performance at the macro level, always assuming they provide performance information. Indicators may be interesting information for an outsider, but such general data on performance at a macro level are rather irrelevant to day-to-day management. In that situation you need information on performance at the meso level and maybe even the micro level. Besides, it is usually mainly financial information. ... Management reports are primarily a financial management instrument.

The aldermen made slightly more use of management reports than of budgets and annual accounts. They did think, however, that management reports contained a lot of 'ancient history' as certain developments and problems had often been common knowledge for some months (and sometimes had ceased to be problems or had been solved). But the overview provided by management reports was sometimes appreciated. A few aldermen and councillors were particularly interested in the risk section of a management report.

Some of the councillors expected that, with the increasing experience of the municipalities in drawing up budgets etc., the quality of the information in product budgets and other documents would increase in the next few years. Not all

interviewees shared this optimistic view.

The interviewees expressed the following opinions on planning attitude. Most of the councillors were (quite) in favour of planning and thorough preparation of policies. On the other hand, six of the eight aldermen said that they, like other politicians, often had to act quickly and improvise. They admitted the importance of long-term policies and plans, but also said that all kinds of incidents, sudden problems, and opportunities played an important part in their day-to-day work. However, one aldermen also explicitly mentioned that planning and quantitative output goals could diminish his flexibility. Alderman B put it as follows:

I think that you have to act quickly as an alderman. You know that you will be an alderman for four years, if all goes well. ... In those four years you also have to spend a lot of time doing all kinds of work besides realizing your actual policy plans. So you often do not have the time to pursue well-considered policies; politics is usually a hasty business and you have to face up to that.

A few aldermen indicated that they certainly used the information available in 'progress reports' which they had developed in cooperation with municipal departments. A progress report, which is not an official planning and control instrument, is a report by a municipal department which is drawn up for example every three months and which contains a brief summary of the progress of operations, projects, and activities based on certain policies, and also points out any problems. In addition, an alderman can obtain management information on a weekly or monthly basis. The alderman consults with top officials on the basis of such reports and, if necessary, will make adjustment to the organization or plans.

7.3 Evaluation of manager's performance by politicians

How is the performance evaluation of professional managers by politicians organized in the municipalities?

It is the three municipalities' custom to hold official job appraisal interviews with managers of municipal departments. One or more members of the Municipal Executive are involved in these job appraisal interviews. The alderman who cooperates most closely with a particular manager is present at the interview. In Leeuwarden and Groningen the town clerk leads the job appraisal interviews with professional managers, or he attends the interviews. The town clerk also sees to it that an official report of an interview and any arrangements made during the interview is drawn up.

All ordinary councillors who were interviewed said that the performance of top officials was evaluated primarily by aldermen. In other words, aldermen are the only politicians to play an important part in the performance evaluation of managers. All aldermen indicated that they wanted to have a major say in the performance evaluation of top managers, especially when they were dissatisfied with their performance. However, most of the aldermen were of the opinion that they had limited means at their disposal to reward or 'punish' the performance of top officials. Alderman E said:

After a good evaluation someone can get a pat on the back or a financial incentive, for example in the form of an extra increment or gratuity. The financial rewards for good work are relatively modest. ... No, in an administrative organization you have only limited means to offer people who perform well more than average financial prospects.

When they are not quite satisfied with the managers' performance, the aldermen use various methods to encourage them to perform better. There are only a few things they can do to improve performance in harmony with all those concerned, in their opinion.

Most of the aldermen regularly have an informal talk with each professional manager. In such a 'private' conversation a manager's performance can be discussed in the hope that his performance will improve. Most of the aldermen prefer to express their dissatisfaction in this way. If the manager's performance does not improve, however, then the 'informal performance evaluation' may affect an official

performance evaluation. The alderman may decide to discuss a list of complaints during the official job appraisal interview. The manager may also be encouraged to attend a course, or a file on the manager's work may be kept - a means to exert some pressure.

Alderman H stressed the possible consequences of informal talks:

By the way, the fact that the talks were fairly informal meetings did not mean that they were not important. The talks could have serious consequences. ...

Several aldermen said that, if these measures were ineffective, they would either reconcile themselves to the situation or take more drastic measures. They could decide to change a manager's range of duties, transfer him, pressure him to leave, or dismiss him. The aldermen concerned were the opinion that in most situations such sanctions would be rather severe in proportion to the extent of their dissatisfaction. That does not alter the fact that all aldermen said that they had used or would use such sanctions, when necessary.

Up to now, this section has been mainly concerned with procedural aspects of performance evaluation. But on what criteria do the aldermen evaluate managers' performance? Do they attach great importance to quantitatively measurable performance?

The aldermen's responses show that they tend to monitor their professional managers' performance carefully, but that they are not particularly interested in quantitative data. According to the aldermen, the concept of performance cannot be defined in quantitative terms only. A manager's performance is determined not only by his organization's finished products, i.e. outputs, but also by the way in which the organization and the manager are functioning. Information about the manager's activities (work processes) and the organization's operations play an important part in his performance evaluation.

Alderman A attached great importance to the increased interest in performance, but said about quantitative performance information:

It is ... important to realize that quantitative measurement is often used to determine short-term performance. The question is: how important is that short-term performance to your long-term objectives?

Alderman B stressed the importance of successful policy implementation to the performance evaluation of managers:

Organization development ... is a very important point in the evaluation. ... This form of performance evaluation, which is based on the actual management of an organization, is obviously more about impressions ... than about judging exact figures. ... In addition, we have to consider the manager's performance with regard to policies.

The aldermen take quantitative performance data in consideration if they think it is useful. According to one alderman, his initial judgment about operational performance in the field of spatial planning is based mainly on a few quantitative data on investments such as the number of houses built, m² realized office space, and m² finished public space. Numerical data also play a part in the evaluation of operations in the fields of education, minorities, culture, city sanitation, and social services. These data include information on the number of truants per school, participation of immigrant children in municipal sports events, sports centre utilization ratios, museum-goers, quantities of household rubbish collected, hours of road sweeping/brushing, the number of people having jobs in or leaving employment schemes, and orders placed with sheltered workshops for the handicapped. The aldermen's responses show, however, that it is unlikely that quantitative data will become the deciding factor in performance evaluation, even if the quality of quantitative information improves.

When they were asked to mention the most important criteria on which they based their evaluations of professional managers, nearly all aldermen said that they

paid special attention to the functioning of the managers' organizations.⁸ Good control over an organization and a good work climate were considered to have a great impact on the organization's performance. Alderman L remarked:

My main criterion is: is the manager in control of things, is his organization functioning reasonably well? If the organization is functioning well, then you can be fairly sure that it will perform reasonably well, that the work that has to be done will be done, and that your objectives will be achieved in the end.

Several aldermen also mentioned the following important criteria:

- the extent to which managers succeed in achieving the objectives formulated in, for example, an Municipal Executive's manifesto, management contracts, and specific policy documents;
- the extent to which managers react quickly to incidents and problems, so that an alderman does not have to get involved;
- the extent to which a municipality's administrative organization helps an alderman to function well;
- the extent to which managers have a feeling for developments in politics and policies.

Quantitative data on outputs and other performance aspects can especially be used when performance is evaluated on the first criterion mentioned above, i.e. the extent to which managers succeed in achieving certain objectives.

The aldermen subsequently responded to a structured list of possible criteria. Their responses show that most of them also attach considerable value to goal-orientedness, entrepreneurial flair, encouraging a municipal department to work quickly and flexibly, and a co-operative attitude. Some aldermen stressed the importance of observing rules and procedures, which may be an indication of a great emphasis on action controls. However, most of them regarded observance of rules and procedures as a less important criterion.

All aldermen also indicated that the degree of success in keeping within

financial budgets played an important part in the performance evaluation of managers. Most of the aldermen said that they wished to be informed quickly and in full of any differences. Alderman F said:

Budget overruns are a serious matter. They can cause big problems for people, not least aldermen.

So, the interviews made clear that, generally speaking, the aldermen considered several factors to be (quite) important for the performance evaluation of managers. Outputs and other quantitatively measurable performance aspects play a part in the performance evaluation, but they are not the deciding factors.

8. Interpretation: 'operations-conscious' style of performance evaluation

The research shows that the three municipalities do not pay much attention to quantitative performance data in the official planning and control documents that were studied - although they are now more concerned with it than in the past. As yet the aldermen do not evaluate the performance of (top) managers primarily on quantitative performance data. A possible explanation is that the public sector's professed interest in outputs is mainly a matter of rhetoric and rituals, or a (quasi-) striving for rationality (Miller, 1994, pp. 8-10; see also Humphrey et al., 1993, pp. 15-18; Meyer, 1994, pp. 124-128; Olson et al., 1998a, pp. 455-458). However, there might be other relevant reasons for the aldermen's behaviour. It seems therefore worthwhile to examine the developments in the three municipalities in more detail.

The modest role of quantitative performance data may be due to the fact that not all performance aspects can be measured quantitatively. The public sector has always conducted many activities that are difficult to measure (Mintzberg, 1996, pp. 79-80). Officially, the municipalities may want to focus on outputs and therefore on results control. But in practice, a largely quantitative performance evaluation is possible in

only a few cases, according to the councillors and aldermen. This may be due to the low quality of current quantitative data. The aldermen think, however, that qualitative information will remain important for performance evaluation, even if it were possible to improve the quality of quantitative data. Several aldermen also attach some importance to observance of rules and procedures, but most of the aldermen do not emphasize this criterion (*see research question 1*).

It follows from the conditions formulated by Merchant that barely measurable outputs make it difficult for an organization to shift the emphasis from action controls (have the 'right' acts been performed?) towards results controls (result-based control). For certain tasks and activities, like policy preparation, municipalities probably also do not have a clear understanding of the production processes underlying them. In that situation even 'traditional' action controls cannot be used properly, so control is more like social and ritual control ('clan control'; Ouchi, 1979, p. 843).⁹ In practice, the selection of a method of performance evaluation can also depend on the extent to which outputs are influenced by external circumstances (cf. Govindarajan, 1984, pp. 128-129).

The research does not show the importance of planning attitude for the use of quantitative output data in performance evaluation. Most of the aldermen stress that they work quickly and tend to improvise. Conclusions about the role of planning attitude can be drawn only when it has become clearer how planning-oriented aldermen evaluate performances. Only a limited number of people were interviewed for this study, so it is not possible to draw general conclusions. However, the finding that six out of eight aldermen were only moderately interested in planning, suggests that the planning attitude deserves to be looked into in more detail in future research.

The aldermen think it is important that their professional managers should perform well. Generally speaking, the municipalities and politicians have become more interested in performance. However, the aldermen do not really use an outcome-conscious method of performance evaluation (and certainly not an output-constrained

style). Only limited importance is attached to accounting data and other quantitative information. Even when the quality of quantitative data improves sufficiently, it is likely that qualitative information will still play an important part in performance evaluation. The aldermen's method of performance evaluation is not implicit in style either. The aldermen show a strong and probably rather consistent interest in the performances of their managers. All kinds of factors which affect the long-term functioning and outputs of the organization have a great impact on their evaluation of top managers' performances. The conclusion can therefore be that their evaluation style is not implicit (*see research question 2a*). However, the evaluation style used is neither really output-constrained or outcome-conscious (*see research question 2b*).

Perhaps the politicians' method of performance evaluation should be regarded as a fourth style, which should be added to the three styles which were derived from the Hopwood-styles. This fourth style could be called the '*operations-conscious style*' ('facilitating style'). In this case, the question is whether a manager acts as a good 'facilitator', i.e. ensures that his organization is functioning well, and performs activities which will enable an alderman to function well in the short and long run. Quantitative outputs play some part in this method of evaluation, but are not its main focus. In the operations-conscious style, a lot of attention is paid to the activities of managers and processes in the organization and relatively little to its outputs. The interviews indicated that the aldermen generally evaluated their managers in such a way. The outcome-conscious style more strongly focuses on outputs - as a proxy for the outcomes -, whilst it pays less attention to activities and processes.

Tailoring the operations-conscious style somewhat more to the political environment in which a municipal organization is functioning, the style could involve:

- on the one hand, some attention being paid to quantitative output data, but more emphasis being placed on all kinds of other performance aspects (manager's activities) which affect the functioning of the organization and which are regarded as being important to long-term outputs and outcomes;

- on the other hand, attention being paid to the way in which a manager deals with all kinds of short-term problems and politicians' subjective or personal opinions and wishes.

9. Conclusions

The field research shows that official planning and control documents in the Dutch municipalities of Groningen, Leeuwarden and The Hague contain some quantitative information about outputs and related performance aspects. However, this information is often incomplete. According to the aldermen and 'ordinary' councillors concerned, the quality of these documents leaves something to be desired. Most of the councillors, and the aldermen in particular, do not make much use of the information available in planning and control documents. A few aldermen make frequent use of progress reports for internal purposes which are drawn up for example every three months.

The following can be said about the performance evaluation of top managers. According to the aldermen, the concept of performance cannot be defined in terms of quantitative data on outputs and related performance aspects only. Performance is also determined by a number of specific and/or subjective factors, such as a 'feeling for politics' and a 'co-operative attitude'. However, most of the criteria used in performance evaluation relate to managers' activities (work processes) that affect the current or future functioning of their organizations. Some aldermen explicitly stated that these activities also have an indirect effect on current and future outputs.

The nature of various criteria mentioned by the aldermen is an indication that they tend to judge a manager on his role as a 'facilitator'. The act of facilitating includes such activities as seeing to it that his department is well-organized, 'helping' the alderman concerned, showing enterprise, and foreseeing new developments.

Perhaps most of the aldermen are of the opinion that a department's output

performance will be good if only the manager is a good facilitator. Nevertheless, (quantitative data on) outputs still play a minor part in performance evaluation. This may be due to the (current) lack of high quality output data, the aldermen's planning attitude or to other factors. According to most of the aldermen, their work usually forces them to act quickly, improvise, and pay relatively little attention to planning. Their tendency to put limited emphasis on planning could mean that they also tend to pay little attention to the information in planning and control documents.

Politicians' limited use of quantitative output data can probably be explained by several factors. For example, it could take a long time to actually implement major accounting changes and to change habits. Several politicians may have a low interest in quantitative data and planning because they are of the opinion that they are the most successful in their political activities when they can act flexibly. Or perhaps it is very difficult to measure all relevant performance aspects quantitatively. No definite conclusions can be drawn from the present research, but future research may elucidate such and other aspects.

Anyhow, several of the findings mentioned above are probably not only true for organizations in the public sector. Managers in commercial organizations, too, often use qualitative information, e.g. from conversations, personal impressions and external contacts, while they often do not make much use of official accounting reports (see for example Emmanuel et al., 1991, pp. 87-104; McKinnon and Bruns, 1992, pp. 105-124 and 215-216). Qualitative information and information about operations can also play an important part in the performance evaluation of employees in profit organizations.

It can be concluded that the politicians interviewed in the Dutch municipalities of Groningen, Leeuwarden and The Hague had only slightly shifted their attention to results control, outputs and instruments like output budgets. They attached relatively little value to quantitative output data and did not use an output-constrained or an outcome-conscious evaluation style. Rather, most of the politicians interviewed evaluated the performances of their top managers in an operations-conscious style.

Notes

1. The author is indebted to Professor G. Jan van Helden (University of Groningen) and Professor Robert W. Scapens (University of Manchester and University of Groningen) for their helpful comments.
2. In the Netherlands, the municipal council is the highest authority in a municipality. Municipal council elections are held every four years. Citizens can elect representatives who are supposed to stand for a particular political programme. In practice, almost all representatives are put forward by political parties, including local parties. The elected representatives together form the municipal council. The members of the municipal council elect from their midst the members of the Executive Committee (the aldermen). The number of councillors and the number of aldermen depend on the number of inhabitants of a municipality. In municipalities with about 30,000 inhabitants or more, being a member of the Executive Committee is a full-time job in practice. For the other councillors (the 'ordinary' members), being a member of the council is mostly only a part-time activity. They are not directly involved in the everyday governance of the municipality. When the majority of the councillors pass a vote of no-confidence in an alderman, he loses his position and becomes an 'ordinary' councillor again.

Unlike these politically elected members of the municipal council, the mayor is appointed by the Crown. The mayor is the chairman of both the municipal council and the Executive Committee.

Professional managers and other employees of the municipal organization are usually not politically appointed. The duration of their contracts is unrelated to the four-year term of the municipal council.
3. The Dutch name for the PMI project is Beleids- en Beheers Instrumentarium (BBI). The PMI project was an initiative of the Ministry of Home Affairs to stimulate municipalities to apply business tools, such as output budgeting, responsibility accounting and cost allocation (Van Helden, 1998, pp. 85-90).
4. The balanced scorecard developed by Kaplan and Norton can be regarded as a more concrete version of Hopwood's profit-conscious style (Gelderman, 1998, pp. 4-5).
5. Together with output control, some elements of an output-constrained style came into vogue in the 1990s. Formally, various quantitative output data are evaluated now and not only the financial budgets.
6. The following departments were studied: the Department of Education, Culture and Welfare, and the Town Planning Department in The Hague; the Department of Education, Sports and Welfare, and the Department of Social Affairs and Employment in Groningen; the Town Planning Department and the Department of Welfare in Leeuwarden. These six departments represent a fairly

wide range of the activities in large municipalities. Central Administrative Departments, which are engaged in co-ordinating activities and supporting the council, were not included in this study, because these departments might only want to set a good example to others in the municipal organizations.

7. The interviewees, aldermen and other councillors, were promised anonymity to encourage them to speak candidly during the interviews. The letters A to M refer to the interviewees and the order in which they were interviewed. Interviews were held with 3, 2, and 3 aldermen and 1, 2, and 2 councillors in Groningen, Leeuwarden, and The Hague respectively. The interviewees were selected in consultation with contact men from the municipalities concerned.

Most of the 'ordinary' councillors were (very) experienced; they had been on the councils for about 3 years to more than 15 years (on average more than 8 years). The aldermen had been in office for about 1 to 10 years, apart from their years as ordinary councillor. The 5 councillors who were interviewed included 4 chairmen of council committees (a council committee is an official group of councillors from different political parties who are involved in specific policy areas). The number of interviewees from a particular party is roughly proportional to the number of seats of the party on the three municipal councils (see CBS, 1999, pp. 41-55).

8. First, the aldermen were asked to mention the criteria on which they evaluated managers' performance. The interviewers did not suggest any criteria. This paper is mainly based on the responses to the questions. At a later stage in the interviews, the aldermen were given a structured list of specific evaluation criteria. The aldermen could indicate to what extent they thought these criteria were of importance. Their answers to the questions in this structured list and their first, unprompted responses tally. The terms used are not quite the same, but their answers do not differ in content.
9. Clan control involves asking such questions as 'are employees working according to certain rules and customs?' (although it is not clear why those rules and customs have to be complied with) and 'are employees acting in conformity with group norms?'

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