

CHAPTER 6

The Role of Accounting in New Public Management

Jan Mouritsen

Abstract

Current research about the roles and effects of management accounting in the public sector is generally rather pessimistic. Drawing on institutional theory it typically depicts accounting as a vehicle to challenge professional logics by business logics. However, this pessimistic interpretation of the roles and effects of accounting pays too little attention to its enabling and constructive potential. Drawing on empirical research about accounting in the Danish state sector, the paper discusses the conditions under which accounting helps managers develop public institutions and shows that if accounting provides complex information, it allows action and possibly learning to occur compared with when it provides simple information about the state of affairs. The chapter ends by speculating on the conditions that would favour learning and action and suggests that the development of 'free spaces' may be one avenue towards such an outcome. It is a situation acknowledged to be difficult to bring about.

Introduction

The public sector has been a favoured topic in accounting research particularly through the critique of New Public Management; there seems to be no doubt, in accounting research, about its problems or even failure. Accounting in the public sector has often been described through an institutional lens by which it is used to act out some broader institutional requirements that then face local resistance and attempts at decoupling (Asdal 2011; Brignall and Modell 2000; Brunsson 1993; Llewellyn and Northcott 2005; Modell, Jacobs and Wiesel 2007). This is a public sector that struggles with accounting and sees it as coercive and as placing irrational constraints on its activities. Most of the effort goes into gaming with accounting and making it a force of injustice and irrelevance. Central authorities are understood as mean players who are interested only in barring institutions from reaching their calling, and institutions are understood as vigorously seeking to achieve their calling (Olson,

Guthrie and Humphrey 1998). There is a fundamental divide about the ambition of the public sector.

But why is accounting research of the public sector doing this? Firstly, the institutional model as a strictly hierarchical one where institutional coercive mechanisms are strong may not be the best model for understanding institutional formation and work. Czarniawska (2009), for example, distinguishes between an understanding of an institution as a pyramid, which resembles hierarchical and coercive institutional forces, and the anthill, where institutional form is primarily the effect of myriads of small decisions; this is a focus on the work carried out in institutions to handle not the big problems of institutional logics but the more mundane problems of institutional tasks and problems (see also Lawrence, Suddaby and Leca 2009). This changes the focus from strong and self-assured top-down processes to more probing and testing practices. It replaces the strong view of accountability with a weak view of accountability and more of a practice of learning what happens in the settings that actors face.

Secondly, the accounting angle on institutional life has typically been the top-down model where an agency attempts to act on other more remote agencies. This action at a distance has, as Asdal (2011) suggests, a focus on detached and analytical rationality. It acts purely on the representations of the world that accounting provides with only minor regard for the local practices that take place in situated action. However, this individualising, hierarchical, coercive, diagnostic view of accounting is not the only one possible. Accounting has also been described as involved in lateral, enabling and interactive learning processes (Ahrens and Chapman 2004; Simons 1995). This alternative perspective pays more attention to how accounting provides information and knowledge and procedures in relation to lateral or social accountability (Roberts 1991). The role ascribed to accounting in research on the public sector is therefore often focused more on how it is a problem rather than a solution, the latter being what other types of research on accounting pay more attention to.

For these two reasons, accounting in the public sector has primarily been understood as a problem rather than part of a solution and has been more focused on politics than on problem-solving. There is, almost needless to say, a lot of merit in this perspective, but it is one-sided. However, it seems that the more Scandinavian approach to institutionalism in organisation theory attempts to rectify some of this (Czarniawska 2009; Boxenbaum and Pedersen 2009); and not least it is noteworthy that the series of Scandinavian action research activities to develop accounting reports for local governments has much more clearly articulated the more enabling role of accounting in a political world (Mellemvik, Gårseth-Nesbakk and Olson 2005).

Accounting in institutional work

Theories of institutional work emphasise that it may be rewarding to investigate how actual practices of management and production happen in institutionalised settings. This implies a concern for the complexity of ordinary life and focuses less on the properties of institutional logic. Lawrence et al. (2009, 1) explain institutional work as follows:

The concept of institutional work highlights the intentional actions taken in relation to institutions, some highly visible and dramatic, as often illustrated in research on institutional entrepreneurship, but much of it nearly invisible and often mundane, as in the day-to-day adjustments, adaptations, and compromises of actors attempting to maintain institutional arrangements. Thus, a significant part of the promise of institutional work as a research area is to establish a broader vision of agency in relationship to institutions, one that avoids depicting actors either as “cultural dopes” trapped by institutional arrangements, or as hypermuscular institutional entrepreneurs.

Institutional work can be understood more as the variety of action that happens in public organisations rather than an overly hierarchical model that is accepted too hastily. This is where early Scandinavian research may have produced an alternative. This research follows more the anthill approach, where people are concerned with the ambiguous conditions that they face routinely (Czarniawska 2009). A set of Scandinavian researchers have investigated local government's need for and use of accounting information in Norway and Sweden (Mellemvik 1997; Mellemvik, Gårseth-Nesbakk and Olson 2005). This research is interesting because it shows that local politicians can be made much more interested in the details of the accounting report than institutional theory would normally suggest. So, while institutional theory would characterise accounting as a small medium to implement institutional rules and norms that make institutions similar (Asdal 2011; Llewellyn and Northcott 2005), Mellemvik et al. show how the work to develop the accounting report enabled local politicians to perform new activities and develop new ambitions. This is a move from understanding accounting as a singular black box with only a discernible set of concerns and properties to one where accounting becomes a mediator in the game for visibility with multiple potential dimensions and many types of uses.

Mellemvik et al. (2005) report, for example, that in the case of the City of Uppsala when managers and politicians were allowed to participate in the development of accounting they not only realised that accounting could be many different things; they also learned that concepts such as responsibility and activity were pivotal in understanding what accounting does. The talk about responsibility and activity influences talk about opportunity, decision and concerns. Accounting is therefore not a black-box monolith that performs only in one way. It is a multiple entity that provides a language of concern and

is therefore a mechanism that is involved in developing the specific attention that managers imbue with meaning (Boland 1993).

In the City of Bergen politicians learned that the format of accounting reports was important in clarifying decision options. For example, politicians preferred cash-flow accounting to accruals accounting and they preferred that cash flow accounting be adjusted by accounts receivable and payable. Such preferences were not pre-established. It was important that the design and use of the accounting report was a set of experiments by which the development of the reports went hand in hand with the development of the preferences for and knowledge about accounting's possible roles in decision making; experimentation was a vehicle for developing knowledge via accounting (see also Jönsson and Grönlund 1988; Jönsson 1996; Wouters and Roijmans 2011).

These experiments with accounting reports in Scandinavia integrate the development of accounting with the development of decision-making practices. It concerns the development of managerial and political work (Jönsson 1998); research is here integrated with use and application rather than an external tool. This perspective notes that the context of work has its own agendas. It is different from the more general idea that the public area is a setting for competing logics where, for example, administrative, political, economic and quality ideals are in continual conflict for supremacy (Lounsbury and Crumley 2007; Lounsbury 2008). When logics compete, what is left on the battle field is conflict and/or extinction rather than some sort of acceptance that difference is potentially useful (Stark 2009). At least this research shows that understanding institutional development primarily as one associated with isomorphic processes is to underestimate the practical activities that are related to work. Developing and using accounting reports is a concern in its own right.

Types of uses of accounting information

Using accounting may create variation because when exposed to what accounting can do, users can change views about how they understand their work. It may be that the development of accounting reports can be judged by users' satisfaction with these reports, as the research referred to above suggests. It may also be possible to go a bit further and investigate how different types of accounting configurations are related to decision-making practices.

A study of how accounting reports were involved in particular work practices in Danish state institutions concludes that this relationship is very strong (Mouritsen 1997). Based among other things on a large survey, the study identifies three ways in which users interact with accounting, firstly by identifying three styles of management and secondly correlating these with uses of accounting reports. The three styles were labelled Planning style, Competency style and Production style (see Table 6.1 for an overview).

Such styles are idealisations; they do not exist as clearly in practice, which is always more complex. Styles are therefore analytical categories that are ultra-clear compared with the practices of the setting. They may nevertheless be useful because they can be helpful in visualizing patterns of activities (rather than practice of activities) to explain what managers do.

The Production style applies to professional affairs of the institution. Then mechanisms of management are oriented towards the service, and (professional) ambition towards the institution, intertwining management activities with the things and services that are produced/provided to customers or clients. This is a management style that is oriented towards understanding and influencing the activities that have direct effects on the product or service.

Table 6.1 Three styles of management

| Styles of Management | Key activities | Characteristics |
|-------------------------|---|--|
| <i>Production style</i> | <ul style="list-style-type: none"> • Development of products and services • Development of methods in production • Development of productivity • Forecasting activity • Quality assurance • Pricing | This style of management is characterised by attempts at intervention into work activities. Such a management style is concerned with actual issues on the practices of the institution and attempts to be involved in production activities. |
| <i>Planning style</i> | <ul style="list-style-type: none"> • Coordination with other departments and functions • Coordination of activities within department or function | This style of management focuses on coordinating the institution's activities by coordinating the department's work and its relations to other departments. This style of management is characterised by attempts at structuring departments and their relations to other departments. |
| <i>Competency style</i> | <ul style="list-style-type: none"> • Staff development and education • Development of organisation • Hiring and staffing issues • Concern with employee satisfaction | This style of management focuses on developing conditions that increase individuals' creativity. Management happens through development of human resources. |

The two other styles of management are more oriented towards managing things at a distance. They use mediators to a much larger degree, which serve as translators of managers' ambitions. The Planning style uses structure and targets as mediators, and the Competency style uses people as mediators. The

Planning style has a strong focus on the planning mechanisms such as budgets and plans by which resources and targets are delegated to others. This is a style that attempts to make the organisational positions in the firms commit to a target and make them sufficiently independent of one other for them to be able to meet their individual expectations. This is a style concerned with structuring. In contrast, the Competency style is concerned with the development of human resources. The idea is that good management is achieved by recruiting and developing competent employees who will know on their own what the best courses of action are. This is a form of management that works directly on the capabilities and possible identities of the individual person. This is also where professional competence is understood as an asset for the production and delivery of the institution's services.

As mentioned above, the three styles are idealisations that hardly exist in their pure forms in practice. However, the advantage of this approach is that it is easier to draw conclusions about their statistical relations to accounting. Figure 6.1 illustrates condition correlations between the uses of accounting reports and styles of management.⁵⁴ The figure has a broad understanding of accounting reports, and the X-axis on the bottom provides a long series of possible ways in which accounting reports can tell something about the institution's financial and non-financial situation. It reflects four general ideas of how such information can be structured: by economic content, by organisational structure, by non-financial awareness and by its associated roles for management (Anthony and Govindarayan 2007).

The figure is interesting because it shows that the relation between managerial work and the accounting report is quite significant. The Competency style is a non-accounting style. The information made available by accounting reports makes little impact on practices of management. Even if certain items of non-financial information are marginally taken into account, this style of management is hardly aimed at mobilising accounting reports, and consequently it is not really concerned, as can be seen towards the right side of the figure, with making them count in managerial decision making. The idea is probably that to develop competencies, the time horizon of accounting is too short on the one side and too precise on the other. This style of management is concerned with developing the structure of competence rather than the actual involvement in the production and delivery of services.

In contrast, the Planning style is very concerned with parts of the accounting framework but not so much with the framework of non-financial information.

⁵⁴ The correlations are beta values in a multiple regression. The dependent variable is the style of management and the independent factors all the possible uses of accounting reports. Therefore, the correlational coefficients are partial in the sense that for each correlation the effect of the other factors has been removed. Therefore, the correlation is understood as the one remaining after the effects of the others have been removed: they are the partial effect of a particular independent factor on the dependent factor.

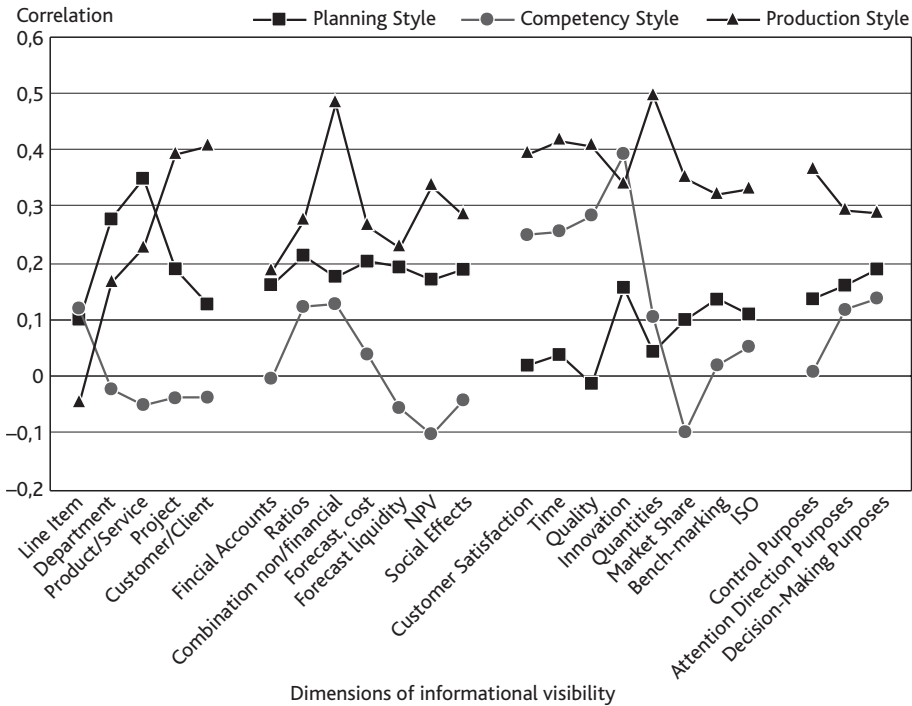


Figure 6.1 Relations between styles of management and accounting reporting practices (from Mouritsen 1997, 67)

It is noteworthy that the particularly interesting item of information is the one associated with organisational position. This is a hierarchical view of the institution where the key managerial issue is to define the targets and the concerns that can be circumscribed by the responsibility of the organisation position or project. It individualises the person in the organisational hierarchy and makes the organisation a hierarchical one which makes action at a distance possible (Asdal 2011, Roberts 1991); this is where the accomplishment of targets becomes the key driver for managerial action. As the figure shows, this is not a style of management which pays much attention to non-financial performance and therefore to issues of quality and development work. This is a style of management that focuses on making managers absent from the place of production. Such managers sit in their offices and see the world through variance accounting.

Last, the Production style is more lateral. This is a hugely information-intensive style of management. Compared with the other styles, its view on the accounting reports is related to its ability to reflect on the lateral by making customers and clients more visible. This visibility is lateral because orientation to customers and/or clients will often involve organised efforts across departments in an institution. This is a style of management which also pays a lot of attention to non-financial information that is directed towards specific

elements of the production activity. It is therefore interventionist in the sense that it directs attention to lateral practices more than hierarchal responsibility; it is lateral in its engagement, and this is supported by the structure of accounting reports which underscore the lateral dimension supplemented with production-orientated knowledge. Therefore, it emphasises the importance of integrating financial and non-financial information. This is also a type of knowledge which values ratio analysis. This property is claimed to enable an understanding of engagement and decision making through a sort of 'causal framework' where increases in one resource can be accompanied by increases in certain other types of output. This is a mechanism that makes the institution a relation between an input and an output. For the Planning style there is a relationship between targets and accounting, whereas in the Production style there is a relation between inputs and effects.

This research shows that there are complex relations between accounting reports and managerial or political attention. Above all it confirms the point that accounting is different things and that the generally accepted institutional argument that accounting as such is an isomorphic force, although correct to some extent and in some situations (Espeland and Sauder 2007; Llewellyn and Northcott 2005; Sauder and Espeland 2009), is too limited. Accounting's effects and involvement in managerial and political work is more heterogeneous and dynamic than the institutional understanding of accounting would normally convey. It is not only a resource that creates a coercive space where superiors hold subordinates in place; it also holds the potentiality of enabled action (Ahrens and Chapman 2004). Coercive action happens when accounting is separated from activity and when managers of political bodies who are absent from the space of action attempt to act radically at a distance, whereas enabling accounting happens when practices of production are related to accounting; where practices and accounting are put side by side.

Accounting in "free" institutions

At the very least, this hypothesis would be interesting for recent institutional theory that has recognised the problem of isomorphic influences and pays more attention to institutional work. In particular it has developed new propositions about space where the distinction between near/remote is not the only interesting item. It is more interesting to discuss relation space where boundaries are shaped by problem, participants and preferred solutions. Here it is possible to distinguish between surveyed/non-surveyed where the non-surveyed space is to some extent sealed off from external power-relations. It is a relational space where boundary setting helps collectives out of the maelstrom of institutional reproduction and where therefore it is possible to develop non-conventional activities and problems. This is largely because actors are shielded from premature institutional repercussions (Zietsma and Lawrence 2010).

Within the framework of ideas by social movement theorists who analyse institutions as less monolithic, it is possible to posit that pockets of resistance can develop via so-called free spaces. Such free spaces are not individualistic and one-dimensional. They are collective efforts, orientated towards one issue, which, importantly, means that participants of free spaces do not have to agree on all issues. In social movement theory, the characteristics of a free space are the absence of surveillance (Polletta 1999), restricted membership and structural isolation from ruling groups. Free spaces are relational (Kellogg 2009); they are autonomous and egalitarian places based on social relationships and actors engaged separate from, or outside, their daily lives. They allow unguarded conversations to take place without fear of reprisal. Issues normally considered taboo can be discussed. Free spaces can envisage alternative worlds, as participants may see 'glimpses of what is possible' (Breines 1980). In institutional theory, this has been transported into the potentiality of experimentation and knowledge-sharing (Kellogg 2009; Zietsma and Lawrence 2010).

It is possible that the Planning style develops more coercive relations because it is hierarchical. This is where resistance and attempts at decoupling happen (Brignall and Modell 2000; Covaleski and Dirsmith 1983; Modell, Jacobs and Wiesel 2007). This is a concern with the rules of hierarchical relations and where performance is primarily a deviation between expected and actual accounting results. In contrast the Production style is much more engaged in linking production and accounting practices. The space is here less surveyed and therefore more prone to linking things in a more adventurous set of activities. Accountability is lateral rather than hierarchical and this is perhaps where it becomes more enabling than coercive.

It is at least possible to see that institutional work is not only concerned with isomorphic processes. There are other processes that pay more attention to innovation and transformation. The institutional force is therefore not primarily an external force, even when it is part of the problem that 'the local' takes on to develop activity. This is how accounting becomes part of the mechanism that provides and creates knowledge and not only deviations from expectations. The Production style is concerned with transformation all the time; the Planning style is concerned with the status quo. If it were possible to predict all things at the outset, as the Planning style assumes, maybe there would be no need for knowledge development and innovation. The Production style pays attention to the learning that occurs all the time; otherwise intervention would not be an interesting and potentially worthwhile endeavour.

The 'freedom' from surveyed spaces is in practice only a partial one. There is no space which is absolutely free from other spaces but their interactions are multiple. The key point is that when accounting travels, it can be tied to something – to a location – by a certain type of accountability. This is why a free space may operate, for example, through a Production style but, on the other hand, it is not difficult to imagine that the Planning style will act

strongly if its results are generally disappointing. If this is the case, then pressure to conform to pre-established plans may be strong. Hence, the Planning style becomes the practice when results are lacking. So, the free space is only relatively free. At a certain time, even the free space has to show its relevance in more general terms and to audiences who do not really know what goes on.

Conclusions

In terms of the topical question in this chapter, namely whether accounting has an interesting role in a public sector that is highly institutionalised, the answer is yes. However, to get to this interesting role, it is important to be circumspect, because often this more interesting role can easily be forgotten behind institutionalised terminology which would tend to make accounting a small part of economics or of a hierarchical structure. When this happens, then inquiry into what the practices related to accounting are, has already been minimised. Instead, it is important to look for accounting in environments where it is not usually found. Normally in New Public Management accounting is made an element of a much broader process of surveillance and monitoring. This is probably correct, but as the chapter shows, the alternative to an accounting full space is not an account empty space; the alternative is a different type of accounting, different seasons of accounting and many versions of visibility and accountability. This relates to the heterogeneous possibilities that accounting can have and which managerial and political work is concerned with. These practices show that there is only one type of accounting.

So, go and look for yourself. Don't just observe! Examine! You will certainly discover variations that spark innovation. If you have already been blinded by institutional isomorphism, then more detailed studies will serve as eye-openers, and if you add a measure of theorising, there is little limit to what you will find.

References

- Ahrens, T. and C.S. Chapman. 2004. "Accounting for flexibility and efficiency: A field study of management control systems in a restaurant chain." *Contemporary Accounting Research* 21(2): 271–301.
- Anthony, R.N., and V. Govindarayan. 2007. *Management control systems*. Boston: Harvard Business School Press.
- Asdal, K. 2011. "The office: The weakness of numbers and the production of non-authority." *Accounting, Organizations and Society* 36(1): 1–9.
- Boland, R.J. 1993. "Accounting and the interpretive act." *Accounting, Organizations and Society* 18: 125–146.
- Boxenbaum, E., and J. Strandgaard Pedersen. "Scandinavian institutionalism – a case of institutional work." In T.B. Lawrence, R. Suddaby and B. Leca, eds. *Institutional work. Actors and agency in institutional studies of organisations*. Cambridge: Cambridge University Press. 178–204.

- Breines, W. 1980. "Community and organization: The new left and Michels' iron law." *Social Problems*, 27 (4): 419–429.
- Brignall, S., and S. Modell 2000. "An institutional perspective on performance measurement and management in the 'new public sector'." *Management Accounting Research* 11 (3): 281–306.
- Brunsson, N. 1993. "Ideas and actions: Justification and hypocrisy as alternatives to control." *Accounting, Organizations and Society* 18(6): 489–506.
- Covaleski, Mark A., and Mark W. Dirsmith. 1983. "Budgeting as a means for control and loose coupling." *Accounting, Organizations and Society* 8(4): 323–340.
- Czarniawska, B. 2009. "Emerging institutions: Pyramids or anthills?" *Organization Studies* 30(4): 423–441.
- Espeland, W.N., and M. Sauder. 2007. "Rankings and reactivity: How public measures recreate social worlds." *American Journal of Sociology* 113(1): 1–40.
- Jönsson, S. 1996. *Accounting for improvement*. Oxford: Pergamon.
- Jönsson, S. 1998. "Relate management accounting research to managerial work!" *Accounting, Organizations and Society* 23(4): 411–434.
- Jönsson, S., and A. Grönlund. 1988. "Life with a sub-contractor: New technology and management accounting." *Accounting, Organizations and Society* 13(5): 513–532.
- Kellogg, K. 2009. "Operating room: Relational spaces and microinstitutional change in surgery." *Journal of Sociology* 115(3): 657–711.
- Lawrence, T.B., R. Suddaby and B. Leca. 2009. "Introduction: Theorizing and studying institutional work." In T.B. Lawrence, R. Suddaby and B. Leca eds. *Institutional Work. Actors and Agency in Institutional Studies of Organizations*. Cambridge: Cambridge University Press, 1–10.
- Llewellyn, S., and D. Northcott. 2005. "The average hospital." *Accounting, Organizations and Society* 30(6): 555–583.
- Lounsbury, M., 2008. "Institutional rationality and practice variation: New directions in the institutional analysis of practice." *Accounting, Organizations and Society* 33(4–5): 349–361.
- Lounsbury, M., and E.T. Crumley. 2007. "New practice creation: An institutional perspective on innovation." *Organization Studies* (01708406) 28(7): 993–1012.
- Mellemvik, Frode. 1997. "Accounting, the hidden collage? Accounting in the dialogues between a city and its financial institutions." *Scandinavian Journal of Management* 13(2): 191–207.
- Mellemvik, Frode, L. Gårseth-Nesbakk and Olov Olson. 2005. "Northern lights on public sector accounting research – dominant traits in 1980–2003." In S. Jönsson and J. Mouritsen, eds. *Accounting in Scandinavia – The Northern Lights*. Malmö and Copenhagen: Liber, Copenhagen Business School Press. 299–319.
- Modell, S., K. Jacobs and F. Wiesel. 2007. "A process (re)turn?: Path dependencies, institutions and performance management in Swedish central government." *Management Accounting Research* 18(4): 453–475.
- Mouritsen, J. 1997. *Tællelighedens regime. Synlighed, ansvarlighed og økonomistyring gennem mål og rammer i statslige institutioner*. København: Jurist- og Økonomiforbundets Forlag.
- Olson, Olov, James Guthrie and Christopher Humphrey, eds. 1998. *Global warning, debating international developments in new public financial management*. Oslo: Cappelen.
- Polletta, F. 1999. "'Free spaces' in collective action." *Theory and Society* 28(1): 1–38.

- Roberts, J. 1991. "The possibilities of accountability." *Accounting, Organizations and Society* 16(4): 355–368.
- Sauder, M., and W.N. Espeland. 2009. "The discipline of rankings: Tight coupling and organizational change." *American Sociological Review*, 74(1): 63–82.
- Simons, R. 1995. *Levers of control, how managers use innovative control systems to drive strategic renewal*. Boston: Harvard Business School Press.
- Stark, D. 2009. *The Sense of Dissonance*. Princeton, New Jersey: Princeton University Press.
- Wouters, M., and D. Roijmans. 2011. "Using Prototypes to Induce Experimentation and Knowledge Integration in the Development of Enabling Accounting Information." *Contemporary Accounting Research* 28(2): 708–736.
- Zietsma, C., and T. Lawrence. 2010. "Institutional work in the transformation of an organizational boundary: The interplay of boundary work and practice work." *Administrative Science Quarterly* 55(2): 189–221.