Performance Measurement in New Zealand Local Government -
Assessing the Influence of Technical and Institutional Environmental Demands.

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¹ This paper was prepared before Gianni joined Audit New Zealand. The contents of this paper and related comments made by Gianni should not be treated as reflecting the views of Audit New Zealand or the Auditor-General.

Abstract

Local government performance reporting has changed since the Public Sector reforms in the late 1980s. Currently, under the Local Government Act 2002, New Zealand local authorities are required to measure and report on their performance in terms of inputs, outputs and outcomes. However, there is no formal prescription on what performance measures local authorities have to report on with regard to outputs and outcomes. This paper examines the internal and external environmental influences and factors that play a role in the development of the performance measurement framework within local authorities and how these authorities respond strategically to these influences and factors. A theoretical framework based on institutional theory is developed and a two-case study approach adopted.

The results suggest that local government performance-measurement frameworks are influenced by a number of institutional and technical demands from a variety of potentially conflicting environmental sources. These demands, or pressures generally meet very little resistance from the local authorities with then conforming (acquiescing) to, or balancing (compromising) with the demands. This low level of resistance was influenced by the amount of resources the local authorities had available. The acquiescence or comprising with institutional demands, made predominantly by the auditors, resulted in unsatisfactory performance measures being incorporated. In addition, institutional pressures were found to exist both externally and intra-organisationally. However, intra-organisationally the local authorities used an avoidance or decoupling strategy to distinguish the performance measures used in formal reporting and those designed for internal operations used to manage the organisation.

These results suggest that the intentions of the Local Government Act 2002 are not being achieved which has implications for the communities the local authorities serve and, the local authorities themselves as some performance measures adopted are neither relevant nor useful. These findings will be of potential interest to academics, managers, accountants, other professionals, government and policy makers and the local authorities.
1. Introduction

Since the late 1980’s, there have been a number of changes in the accountability requirements of local government in New Zealand. The resultant local government legislation shifted accountability from ‘managing inputs’ to ‘working towards achieving outputs’. The most recent revision of the Local Government Act (LGA, 2002) has formally moved the performance goal post to ‘managing outcomes’. This shift in accountability was accompanied by a change in performance measurement and reporting requirements.

The New Zealand local government reforms are a product of, and driven by the wider new public management (NPM) initiatives (Hood, 1991 & 1995). Since the late 1980s there have been a number of changes in accountability requirements in New Zealand (Boston, Martin, Pallot & Walsh, 1996; Hood, 2006). The recent changes to the local government act are consistent with the NPM initiatives of the mid 1990s (Boston, et al, 1996; Norman, 2002) and represent a logical extension to outcomes focused accountability and management. However, they seek a change in performance measurement and accountability that is still the cause of much debate (Wilkins, 2002; Norman, 2002; Modell, 2004; Cavalluzo and Ittner, 2004; Johnsen, 2005).

The recent Local Government Act 2002, in addition to working towards achieving and reporting on outputs, requires local authorities to manage the effects of their outputs on the communities they serve. They now need to identify the desired community outcomes by consulting with their local communities and through community consultations, develop performance measures by which their progress towards achieving those community outcomes can be evaluated. In terms of the performance measures required under the LGA 2002, there is little formal prescription about what local authorities should be measuring and reporting. Local authorities are generally given the freedom to decide what they measure and report on to central government and their communities so long as it meets the legislative requirements.

This paper examines the discretion local authorities have in respect of performance measurement and reporting. In doing so, investigates the role internal and external environmental influences play in shaping the performance measurement framework of local authorities and how the local authorities react to these influences. Thus, it asks:

*What are the internal and external environmental influences and factors that play a role in the development of the performance measurement framework*
of local government and how do local authorities respond to these influences or factors?

Using an institutional theory framework, two case studies based on territorial local authorities were conducted. The focus of these cases was on the performance measurement framework they operated during the 2006/2007 financial year and how it was derived. Information obtained from the interviews was supplemented with publicly available information and internal documentations received from the interviewees. The results of these cases will be of interest to academics, managers, accountants, other professionals, government and policy-makers.

This paper begins with an outline of local government in New Zealand and performance measurement at that governmental level. It then develops an institutional theory based framework and utilises this in a discussion of legitimacy and performance measurement in New Zealand local government. The research objectives and propositions are then given and method used outlined. This is followed by the presentation of the results and subsequent discussion of them using the theoretical framework developed. Lastly, the implications of the results are considered and conclusions reached presented.

2. Local Government in New Zealand and Performance Measurement

Local Government in New Zealand is currently comprised of local authorities at the regional and territorial level. The functions of regional councils include resource management, bio-security, regional civil defence and land transport. In contrast, the functions carried out by territorial authorities are aimed towards a more ‘local’ level; a level where their function’s revolve around community well-being and development, the environment, local infrastructure, recreation and culture and resource management (Laswad, Fisher & Oyelere, 2005). Local Government is generally independent of Central Government; receiving no funding for its activities, except for some subsidies for activities relating to land and transport. The majority of local authority revenue and funds are predominantly community-sourced through property rates and user charges. Therefore, local authorities should be accountable to their communities, as it is effectively community money the local authority spends, and it is the community that elects them.

Local government performance measurement has received much attention from a range of interested parties, including the Office of the Controller and Auditor-General (OAG), local authorities, and academics, both domestic and internationally (Kloot & Martin,
The NPM based local authority reforms of 1989 represent the biggest change in local government since the abolition of provinces in 1876, and has been described as being without parallel in New Zealand history, and potentially internationally (McKinlay, 1998). The result was a reduction of 800 local authorities to 74 district or city councils and 13 regional councils. However, not only did the reforms reorganise areas and functions, they became a driver for the development of clear objectives and strong accountability mechanisms (McKinlay, 1998). As such, these reforms introduced a new set of accountability requirements including increased community consultation and the annual plan & report cycle.2

Of particular significance was the new requirement to produce an annual plan to outline: intended significant policies and objectives; significant activities to be undertaken; and, the performance targets and other measures by which performance against the objectives was to be judged.3 The local authorities were also required to prepare an annual report, which was to include an assessment of their performance against the policies, objectives, activities, performance targets, indicative costs, and sources of funds specified in the annual plan4.

In the first year of auditing the legislated reports, “almost all received qualified opinions” and there were calls from government departments and local authorities for the audit office to communicate the criteria that they were being audited against (Neale & Pallot, 2001: 29). It also produced a feeling among public sector-type organisations that the performance information was being produced “for the auditors” and that the reliability of the measurements was being “emphasized at the possible expense of their usefulness”. (Neale & Pallot, 2001: 29). A criticism targeted for remedy in the latest local government legislation along with other changes.

Once of these major changes regarding local government structure was achieved, the Central Government turned its attention to the purpose, powers and accountability of Local Government to the local community. Some felt that the focus of the annual planning and reporting cycle was too short term, especially when the long life cycle of infrastructure assets was considered. To remedy this, the Local Government Amendment (No. 3) Act 1996 (LGAA 1996) introduced a requirement for local authorities to produce a Long-term Financial Plan (LTFP), which was to cover a period

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3 Local Government Amendment (No. 2) Act 1989, section 223D
4 Local Government Amendment (No. 2) Act 1989, section 223E
of no less than 10 years. The intended result of this was for the local authority to undertake a strategic planning exercise to determine the levels of service and funding required (McKinlay, 1998; Neale & Pallot, 2001). However, the policy makers’ intended results were not achieved. The level of strategic planning required to properly develop a meaningful LTFP was not undertaken by many local authorities. This resulted in the LTFP often being a mere extrapolation of the annual plans (McKinlay, 2004). In 2002, the LGA 2002 replaced the Local Government Act 1974 (LGA 1974) and its subsequent amendments. It gave local authorities a broader purpose including a community outcome focus, but retained the principles on which the Local Government Amendment Act (No.2) 1989 (LGAA 1989) and LGAA 1996 were based, including the requirement for performance reporting and long-term financial planning (McKinlay, 2004).

The activities undertaken by the local authorities are designed to achieve the broad purpose as given in the LGA 2002; that is “to enable democratic local-decision making and action by, and on behalf of, communities” and “to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.”5 To achieve this purpose, Parliament conferred onto local government bodies the power of ‘General Competence’ (Scott, Laking, Reid, Yeasbsley & Zöller, 2004). This generally means that the local authority has full capacity to carry out, or undertake any activity or business, do any act, or enter into any transaction related to this activity or business and generally has the full rights, powers and privileges6 of a natural person. The LGA 2002 prescribes very few obligations that local authorities have, most of which relate to water supply, sanitary services, parks and reserves, and libraries7 (McKinlay Douglas Ltd, 2006).

The power of ‘general competence’ is new for New Zealand local authorities. Historically, there was the view that “local or regional government should be selected [to perform a function] only where the net benefit of such an option exceeds all other institutional arrangements” (McKinlay, 1998: 11). Thus, the local governments were seen as merely the providers of traditional services such as roading, water and waste management (McKinlay, 2006); a view reinforced by the local government legislation of the day. However, others believed local authorities should also be organisations that create a vision and direction for their communities, as well as identify and respond to

5 Local Government Act 2002, Part 2, Section 10
6 Local Government Act 2002, Part 2, Section 12
7 For example: section 130: Obligation to maintain water services; section 139: Protection of regional parks; section 140: Obligation to provide free membership of libraries
local needs (Local Government New Zealand, 2007; McKinlay, 1998). It is the latter view that was incorporated into the LGA (2002). In doing so, the legislation formally recognised that local authorities should consider and engage in a range of issues and activities beyond the traditional ‘core business’ emphasised in previous legislation (McKinlay Douglas Ltd, 2006). Consequently, the LGA (2002) gave the communities a larger role in choosing the long-term direction of their community. This required the local authorities to conduct extensive community consultation regarding long-term community outcomes and issues that they desired the local authorities to pursue.

Under the LGA (2002), the scope of the required reported performance information was expanded from that required previously. Central to this expansion was a statutory requirement to produce a long-term council community plan (LTCCP). The LTCCP describes, among other things:

- the community outcomes for the local authority’s district or region;
- how the local community outcomes have been identified;
- how the local authority will contribute to furthering community outcomes;
- what measures will be used to assess progress towards the achievement of community outcomes; and
- a statement of the intended levels of service provision for the group of activities, including the performance targets and other measures by which actual levels of service provision may meaningfully be assessed (emphasis added).

Thus, while preserving the LGAA (1989) annual plan/annual report accountability requirements relating to performance information, the LGA (2002) expanded the scope, requiring outputs and outcomes to be identified and measured including performance measures relating to the long-term outcomes of the local government.

Currently, the LGA (2002) and the OAG do not stipulate to the local authorities what performance they should measure and how they should measure it. The LGA (2002) only requires that the local authority provide a:

statement of the intended levels of service provision for the group of activities, including the performance targets and other measures by which actual levels of service provision may meaningfully be assessed.9

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9 Local Government Act, schedule 10, part 1, clause 2(2)(a).
and that they “report the results of any measurements undertaken during the year towards the achievement of those [community outcomes]”\textsuperscript{10}. The OAG recognises that there is no specific standard or guidance that we can rely on when considering whether local authority has complied with the Act’s requirements for performance framework and information” (Office of the Auditor General, 2007: 51.)

The OAG have issued reports providing guidance for local government on good performance reporting (Office of the Auditor-General, 2002; Neale & Anderson, 2000; Neale & Daken, 2000). However, these reports are strictly guidelines, and not a prescription for what local authorities have to report. What, and how, local authorities report is ultimately decided by them, provided they meet the statutory requirements.

While the changes to local government legislation promote community informed outcomes, there does appear to exist a potential for the local government performance management issues raised by Kloot and Martin (2000) to persist. That is, there is little guidance provided in the legislative reforms about the strategic performance management need to align activities, processes and outcomes. Without such an alignment, it will be only coincidental that meaningful outcome focused performance management information will be achieved. This will be particularly the case if management decision information is to include financial, non-financial, quantitative and qualitative performance measures – a balanced range of inter-related decision information.

While the observations of Kloot and Martin (2000) relate to Australian local government, they do potentially have relevance to New Zealand local government. This is particularly the case given comments of the OAG in a recent critique of performance measurement in local government entitled \textit{Matters arising from the 2006-16 Long-Term Council Community Plans} (Office of the Auditor General, 2007). While there is acknowledgement that there had been some recent improvement in performance measurement (:21), the report expressed concerns about the performance framework of local authorities as reported in their LTCCPs. This report identified three common performance measurement weaknesses in the LTCCPs. The first relates to the logical flow in performance reporting. The report identifies there were generally weak links between the activities of some local authorities and the selected performance measures and outcomes reported in their LTCCPs. The second weakness concerned the ‘levels of service and performance measures and targets’ and the inadequacy of many local authorities in providing a clear and identifiable measure to assess achievement of

\textsuperscript{10} Local Government Act 2002, schedule 10, part 3, clause 15(c)
activities and groups of activities. The third was a weakness in some local authorities regarding outcomes monitoring. It was found that almost a third of local authorities did not have a complete outcomes monitoring framework in place, these often did not have specific targets and measures, or that these were expressed very generally.

Potential explanations of these weaknesses can be derived from the obstacles for good performance measurement and reporting identified by Neale & Daken (2000). These obstacles include having: separate reporting systems for internal decision making and external reporting; limited resources to implement extensive performance measurement systems; a compliance mentality in that reporting non-financial performance externally is regarded as an exercise separate from producing information useful for managing the entity; and multiple stakeholders with varying and potentially conflicting expectations. These could all potentially explain the weaknesses identified by the OAG in 2007. For instance, separate performance measurement systems can contribute to the lack of integration of information; a compliance mentality and the existence of multiple interested stakeholders may result in performance measures that are biased towards a particular set of stakeholders. Such bias may be at the expense of the appropriateness of the performance measures in measuring outcomes. Limited resources will also play a factor in the local authorities’ ability to monitor and measure outcomes.

Many of these obstacles are captured by the concepts and propositions of institutional theory, a theory, which has been employed by many theorists and researchers to explain organisational behaviour, particularly in the public sector (Parker and Gould, 1999; Lapsley and Pallot, 2000; Brignall and Modell, 2000; Modell, 2004). The usefulness of institutional theory stems from its strong focus on organisational behaviour, and particularly the external and internal economic and socio-environmental elements that influence it. The next section will explore this theory and its application in this paper.

3. Institutional Theory

Institutional theory is a “popular and powerful explanation for both individual and organisational action” (Dacin, Goodstein, & Scott, 2002: 45). There is great diversity in the focus and assumptions within institutional theory, which has lead to the development of several strands such as Old Institutional Economics (OIE) and New Institutional Sociology (NIS), as well as attempts to amalgamate OIE and NIS into a single strand, hereafter referred to as Contemporary Institutional Theory (CIT).

OIE tends to be inward looking, assessing institutions arising as a result of the cognitive elements of organisational actors in an attempt to understand how rules, structures, and
policies evolve and become institutional to the organisation and how these influences affect the behaviour of organisational actors (Scapens, 2006). An institution is considered a “multifaceted, durable social structure, made up of symbolic elements, social activities, and material resources” (Scott, 2001: 49). In contrast, NIS researchers explore institutions at a variety of levels from intra-organisation to world systems and focus on how organisational behaviour, policies, and structures can be influenced by the society in which they operate (Meyer & Rowan, 1977; DiMaggio & Powell, 1983, 1991; Scott, 2001). CIT combines the two branches of institutional theory to form a single comprehensive theory, based on their commonalities (Scott, 2001; Ribeiro and Scapens, 2006; Modell, 2006), as potential institutions constrain the choices of organisational elements, as well as support and empower actors providing them with guidelines for how to behave in the face of uncertainty in their environment (Scott, 2001).

3.1 Technical and Institutional Environments

Within society, there are prevailing rationalized concepts of organizational work that have been institutionalized by society (Meyer & Rowan, 1977). This creates pressure on the organisation to incorporate these norms or societal expectations (institutions) into their organisation (DiMaggio & Powell, 1983). The result being that there are elements of the organisation that are not purely a consequence of seeking efficiency and effectiveness in organisational work processes (the technical environment). Rather, they are influenced by an institutional environment. This institutional environment is concerned with rules, requirements, procedures and structure, which an organisation must conform to if they are to receive support from the organisations external social environment (Scott & Meyer, 1983). Organisations need to have elements of both and must achieve a mix of technical efficiency and conformance to accepted social norms to survive, or be perceived as legitimate. This mix is different depending on the societal sector or organisational field. For example, schools and churches are subject to strong institutional, but weak technical forces, while banks face highly developed institutional and technical pressures (Carruthers 1995; Deephouse 1996; Scott 2001; Scapens 2006).

3.2 Achieving Legitimacy

The need for legitimacy “exerts an influence on organizational viability independent of its performance or other attributes or connections” (Scott 2001: 158). Legitimacy is a symbolic value displayed in a visible manner that is conferred by those controlling the entity or parts of it, or to whom the entity is accountable such as the government,
community, and/or professional groups. Organisations are required to demonstrate the use of environment-specified institutions, namely to exhibit “…culturally approved forms and activities (including strategies), receiving support from normative authorities, and having approval from legal bodies” (Scott 2001: 158). Organisational behaviour is motivated by the legitimacy status of the organisation and consequently organisations will experience pressure to incorporate the practices and procedures that are valued or have been institutionalised by the societal environment in which they operate and hence increase their chances of survival (Meyer and Rowan, 1977; DiMaggio & Powell, 1983; Deephouse, 1996; Carpenter & Feroz, 2001). The need for legitimacy also applies intra-organisationally, where one part of the organisation needs to be perceived as legitimate to receive resources from another (Carpenter & Feroz, 2001).

3.3 Demands and Pressures from the Institutional and Technical Environments

Technical forces along with institutional pressures play an important role in an organisation. Technical forces are those associated with organisational survival in the market and the need to produce goods or provide services and include global economic fluctuations, economic environmental uncertainty, competition, technology, and organisational growth and size (Granlund & Lukka, 1998). In terms of technical forces the following proposition emerges:

\[ P1: \text{There will be continuing NPM driven structural change to local authorities resulting from technical forces.} \]

In contrast, institutional pressures are related to the need to obtain legitimacy. Scott (2001: 59) argues that legitimacy is “not a commodity to be possessed or exchanged but a condition reflecting perceived consonance with relevant rules or laws, normative support, or alignment with cultural-cognitive frameworks.” Hence, there are three related, but conceptually distinguishable legitimacy-oriented bases or pillars of legitimacy: regulatory/coercive, normative, and cultural-cognitive (Scott 2001).

a. The Regulative Pillar and Associated Pressures

The regulatory or coercive aspect captures the establishment of rules, inspection of conformity to the rules and the reward and punishment systems in place to influence future behaviour and results in formal and informal forms of environmental pressures or demands (Scott, 2001; DiMaggio & Powell, 1983). These range from practices and customs driven by legislation and enforced by ‘authorised’ actors such as management, the courts or police, to shaming or shunning activities, where these may be undertaken
by actors such as the media, or the community. Social rules, procedures, practices and structures and other potential institutions, are adhered to, maintained, and reproduced because of force, fear and/or expediency, and the threat of sanctions or inducements for compliance. Conformity with these rules, procedures, practices or structures enhances an organisation’s legitimacy (DiMaggio & Powell, 1983; Scott, 2001). In terms of regulative pressures, the following proposition emerges:

\[ P2a: \text{Performance measurement will continue to be an area of heavy emphasis by key NPM players resulting in performance measurement guidelines, regulation and legislation.} \]

b. **The Cultural-Cognitive Pillar and Associated Pressures**

This cultural-cognitive pillar emphasises the cultural-cognitive elements of institutions: “the shared conceptions that constitute the nature of social reality and the frames through which meaning is made” (Scott, 2001: 57). The focus is on the shared collective reasoning of society in interpreting the external world and recognises that the internal interpretations of organisational elements are subject to external cultural frameworks (Scott, 2001). Conformity to the prevailing institutionalised social elements and legitimacy occurs because of the ‘taken-for-granted’ quality of these elements and the argument that other types of behaviour are inconceivable (Zucker, 1987; Scott, 2001). Organisations will mimic, or model themselves after organisations in their field that they perceive to be more legitimate (i.e. conforming to the social values and norms), rather than identifying for themselves what organisational elements would be best suit them. Therefore, the organisational elements adopted by the organisation are not necessarily the most efficient or effective, but those that are seen as the ‘right way’ to do things (Scott, 2001). In terms of cultural-cognitive pressures, the following proposition emerges:

\[ P2b: \text{NPM driven performance measurement change will be influenced by external cultural frameworks} \]

c. **The Normative Pillar and Associated Pressures**

The normative pillar emphasizes that the development, maintenance, and reproduction of some institutions rest on normative rules and is based on the shared norms or values of a specific group that are internalised by the individuals within the group and imposed on others. Normative pressure often manifests itself in the conformity to a set of norms and rules developed by occupational/professional groups and reinforced by the
education and/or training received and networks within the field (Abernethy & Chua, 1996). Normative induced change is achievable because these groups have the collective ability to develop and promote “…new schema, rules, models, routines and artefacts” (Scott, 2001:109; DiMaggio & Powell, 1983), and that by determining “…how things should be done; they define legitimate means to pursue value ends” (Scott 2001:54-55). Norms can be very powerful if sanctioned by government and are somewhat coercive since they represent external social pressure (Abernethy & Chua, 1996; Scott, 2001). In addition, norms can be based on shared roles and expectations that are cultural in nature. In terms of normative pressures, the following proposition emerges

P2c: NPM driven performance measurement change will be influenced by the values and norms of local authorities and professional groups.

d. Multiple Institutional Pressures or Demands

There is a possibility that more than one institutional pressures can impact on the organisation at any point in time. Hence, organisational elements may be shaped by combinations of these institutional pressures. Organisations may also respond differently depending on which is the dominant pressure applied by the institutional environment and its impact on them individually (Scott 2001; Carpenter & Feroz 2001; Dacin et al 2002). Thus the resulting organisational reaction will be a compromise between the institutional pressures within the institutional environment as well as those within the technical environment as “not all organisations in the same field are equally subject to the institutional processes at work there” (Scott, 2001: 162).

Consequently, the success and survival of an organisation is not only tied to the technical efficiency and effectiveness of its operations, but it is also to the external expectations of society or the institutional environment. Some researchers have treated organisations as being passive and attempt to explain the ‘non-choice’ behaviour of organisations in the context of taken-for-granted norms and beliefs (Oliver, 1991). However, other researchers have argued that organisations are not passive in how they respond to institutional pressures. For example, Scott (1991: 170) suggests “organizations are not passive actors being imprinted by cultural templates. Rather, just as is the case within their technical environments, organizations may be expected to exercise strategic choice”
3.4. Strategic Responses to Institutional Pressures

Oliver (1991) considers the above arguments and examines the strategic behaviour that organizations can employ in response to institutional pressure. She identifies five strategic responses to institutional environmental pressures and gives them the labels: Acquiesce, Compromise, Avoid, Defy, and Manipulate. Each of these responses and the “level of active resistance to institutional pressures” are illustrated in Table 1. Oliver (1991) argues that these strategic responses exist on a continuum from acquiescence and conformity to the manipulation of the institutions themselves. Two of these organisational responses have been widely examined: acquiescence and particularly the tactic of isomorphism; and avoidance or decoupling. There has been only limited investigation into the others.

![A continuum of managerial responses to institutional pressures. Source: adapted from Oliver (1991, p. 152)]

<table>
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<tr>
<th>Strategies</th>
<th>Tactics</th>
<th>Examples</th>
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<td>Acquiescence</td>
<td>Habit</td>
<td>Following invisible, taken-for-granted rules</td>
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<td></td>
<td>Imitate</td>
<td>Mimicking institutional models</td>
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<td></td>
<td>Comply</td>
<td>Obeying rules and accepting norms</td>
</tr>
<tr>
<td>Compromise</td>
<td>Balance</td>
<td>Balancing the expectations of multiple constituents</td>
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<td></td>
<td>Pacify</td>
<td>Placating and accommodating institutional elements</td>
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<td></td>
<td>Bargain</td>
<td>Negotiating with institutional constituents</td>
</tr>
<tr>
<td>Avoid</td>
<td>Conceal</td>
<td>Disguising non-conformity</td>
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<tr>
<td></td>
<td>Buffer</td>
<td>De-coupling structural elements</td>
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<tr>
<td></td>
<td>Escape</td>
<td>Changing goals, activities or domains</td>
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<td>Defy</td>
<td>Dismiss</td>
<td>Ignoring explicit norms and values</td>
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<td></td>
<td>Challenge</td>
<td>Contesting rules and requirements</td>
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<tr>
<td></td>
<td>Attack</td>
<td>Assaulting the sources of institutional pressure</td>
</tr>
<tr>
<td>Manipulate</td>
<td>Co-opt</td>
<td>Importing influential constituents</td>
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<td></td>
<td>Influence</td>
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<td></td>
<td>Control</td>
<td>Dominating institutional constituents and processes</td>
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Table 1: A Continuum of Strategic Responses to Institutional Pressures
(Source: Modell, 2001: 440)

a. Acquiescence and Isomorphism

The type of acquiescence that received a lot of attention in the early days of NIS was isomorphism (DiMaggio & Powell, 1983) which is the “reproduction or imitation of organisational structures, activities and routines as a response to state pressure, the
expectations of professions, or collective norms of the institutional environment” (Oliver, 1991: 149). Consequently, organisations respond by complying with what is expected of them with minimal resistance to the institutional pressures. Thus providing a possible explanation as to why organisations facing the same institutional pressures may have the same organisational structures, activities and routines. However, isomorphism is only one consequence of pressure from the institutional environment. Another is avoidance or decoupling (Scott, 2001).

b. Avoidance or Decoupling

Meyer and Rowan (1977) argue that an organisations ‘rationalized formal structures’ are shaped and influenced by the need to develop a structure that incorporates technical elements that efficiently control and co-ordinate organisational operations along with the need to meet the demands and pressures that the institutional environment places on the organisation. However, there potentially exists conflict between the technical demands and the institutional demands, thus making the development of a single formal structure difficult. In response, organisations may incorporate “societally legitimated rationalized elements in their formal structure to maximise their legitimacy and increase their resource and survival capabilities” (Meyer & Rowan, 1977:53). Therefore, potentially resulting in a gap between the ‘formal structure’ of the organisation and actual day-to-day operations. This gap is referred to as decoupling and is exhibited when the practices designed to secure external legitimacy do not influence the organisation’s internal operating systems or technical activities (Abernethy & Chua, 1996).

Decoupling the formal structure from the day-to-day activities and operations can be a strategic choice to maintain/improve the organisation’s legitimacy status (Brignall & Modell, 2000) and fits within Oliver’s (1991) strategic response to institutional pressure of ‘avoid’. Organisations will seek to avoid incorporating societal expectations directly into their actual operations by developing separate formal structures. Such a strategy allows the organisation’s actual activities to vary in reaction to practical considerations while buffering these activities from societal expectations, thus giving the illusion of stable organisational operations and simultaneously legitimating the organization with external stakeholders (Meyer & Rowan, 1977; Meyer, Scott & Deal, 1983; Carruthers, 1995; Lawton, McKeivitt & Millar, 2000).

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11 Rationalized has been interpreted to mean “stated in ways that specify the design of procedures to attain specific objectives” (Scott, 2001: 43)
Nonetheless, there is a suggestion that some decoupling may be temporary. That is, a lag in implementing what is regulatory or legislatively required. This is because it takes time for an organisation to internally operationalise the required changes to the internal operating systems and processes and their technical activities (Fowler, 2008).

c. Compromise

Where there are multiple organisational stakeholders, the pressure exerted by each is likely to influence the balance between the organisational elements adopted by the organisation (Brignall & Modell, 2000). An imbalance occurs if the organisation attempts to meet the demands of each of their external constituents as well as management, as each stakeholder group potentially demands different organisational elements be incorporated. Thus, there is a “greater demand on the organization to balance these by establishing some trade-off [or compliance] between them” (Oliver, 1991).

d. Defy and Manipulate

Oliver (1991) describes a defiant strategy as an “unequivocal rejection of institutional norms and expectations” (: 157). She suggests the costs of departure, the level of divergence from external values or the ability to demonstrate rationality and righteousness as being factors that influence the likelihood of the adoption of a defiant strategy (Oliver 1991). Manipulation is described as “the most active response to these pressures because it is intended to actively change or exert power over the content of the expectations themselves or the sources that seek to express or enforce them” (Oliver 1991:157). Thereby allowing organisations to shape what criteria its legitimacy will be measured against and thereby better control their chances of survival. In comparison to the three other strategies above, there is limited literature that explores Oliver’s strategic responses of defy and manipulate.

In terms of the three institutional pressures (regulative, cultural-cognitive and normative), there are five potential strategies (acquiescence, compromise, avoid, defy and manipulate). Figure 1 provides an overview of these institutional pressures and how an organisation potentially response to these. Based on that the following proposition related to strategic responses to institutional pressures emerges:

*P3: The local authorities will respond strategically to the external environment.*
Figure 1  The Organisation’s Technical and Institutional Environment and Pressures

The potential influence of the above five strategic responses to the three main institutional pressures as a means of securing legitimacy in the context of New Zealand local government are examined in the next section.

4. Legitimacy, the Institutional Environment and Performance Measurement Strategies in Local Government

Since the mid 1970s, organisational behaviour research has expanded its focus beyond the technical or operation optimising influences to consider the larger environmental forces that push and constrain the various social elements that make up the organisation. This research has focused on elements such as the organisation’s structure, procedures, and rule. As such, institutional theory has been utilised as a tool for explaining a wide range of accounting phenomena (Scott, 1983; Abernathy & Chua, 1996; Modell, 2001). Further, several researchers have applied, or drawn on research employing the theory, to examine performance measurement issues (for example, Abernathy & Chua, 1996; Brignall & Modell, 2000; Lawton et al, 2000; Modell, 2001 and 2004; Jansen, 2008).
A CIT view of performance measurement suggests that attention must be given to influences beyond the technical aspects of an organisation’s operations. To focus completely on efficiency or optimising influences ignores the aspects of power relationships, political bargaining, competing stakeholder interests, and institutional beliefs, rules and roles (Meyer & Rowan, 1977; Brignall & Modell, 2000). Performance measurements potentially have ceremonial worth (Meyer & Rowan, 1977). Hence, these measures may be selected and employed as a result of the desire to legitimate an organisation’s operations or their existence rather than, or in addition to, actually being a reflection of the organisation and its operations (Lawton et al, 2000). Further, researchers utilising an institutional theory approach to performance measurement issues have generally embraced Oliver’s (1991) contention that organisations react to institutional pressure with a strategic response. Modell’s (2001) study of performance management in a Norwegian Hospital indicates that legitimacy-seeking and efficiency-enhancing rationales influenced how and which performance measures were designed and used. Further, Abernathy and Chua (1996) conclude that, for a large Australian hospital, those acting on the organisation’s behalf do not merely conform to the institutional pressures without question.

*Our evidence indicates that the interests of organizational actors “matter” and do materially influence the design of an organisational control mix. Strategic choice is possible even in an environment that exhibits substantial levels of control by external sponsors (Abernethy & Chua, 1996: 596).*

Thus, the use and application of CIT for investigating performance measurement is common and as such can be applied in the New Zealand local government context.

Further, Lapsley (2008), in exploring the antecedents of NPM, adopts a multiple perspective approach. Those perspectives include management processes, mechanisms of change, and constraints. Given the focus of this paper is on performance measurement change, the perspectives of ‘mechanisms of change’ and ‘constraints’ cannot be ignored.

### 4.1 Legitimacy in a New Zealand Local Government Context

As mentioned above, legitimacy is a status conferred on an organisation by social actors and is awarded to organisations whose institutions are congruent with the values and expectations of society to ensure their survival (Meyer & Scott, 1983; Deephouse, 1996). Consequently, local authorities whose performance measures are congruent with society and the groups of actors that comprise it, will be viewed as being more legitimate. The issue that arises with local government is that organisation mortality or
survival refers to the idea that an organisation’s ability to operate can be impaired and even discontinued. However, mortality in this sense does not apply to the local authority as an entity. The LGA 2002 confers on a local authority the status of a “body corporate with perpetual succession.” Nonetheless, the concept does apply to the individuals and groups acting on behalf of the local authority – the mayor, the councillors, the CEO and other management staff. Their mortality refers to their positions of power and reputations within the community, which may be threatened if they do not conform to the technical or institutional environments.

4.2 The Conferring of Legitimacy by the Institutional Environment

In the New Zealand local authorities environment there are three main sets of constituents or groups of social actors that confer legitimacy on a local authority: auditors; local communities; and other local authorities. The first are the auditors who, among other things, assess the accuracy and appropriateness of the performance measures being reported, as well as the local authorities’ compliance with the legislation. The second, the local communities, are the primary source of revenue for the local government through rates and user charges, as well as being its customers. Hence, they are the ones affected by the outcomes of the local authority's activities and for whom the annual report is produced. They also elect the mayor and councillors to act on their behalf, and for their benefit. Additionally, they are required to be consulted when the local authority makes important decisions and sets their strategic direction. Therefore, it is to the local community to whom the local authorities are most accountable.

The final predominant group of social actors are the other local authorities and the network of local authority managers. A good example of such a network is the NZ Society of Local Government Management (SOLGM) whose current membership comprises approximately 570 members at managerial level from all local authorities in New Zealand (NZ SOLGM, 2007). Among other things, SOLGM produces and/or co-ordinates local government conferences, a business school, seminars and workshops, good practice documents, local authority publications, and holds award ceremonies. The society also provides a platform by which managers network and communicate with each other.

The institutional influence and pressure exerted by these various constituents within the local authorities’ institutional environment potentially fall under the three institutional...
pillars discussed above. The auditors influence on the local authority falls under the regulative pillar as they may exert coercive/regulative pressure to conform to their conceptions of what good performance measures are. While they do not prescribe specific performance measures, they provide guidelines and advice as to what the perceived legitimate performance measures are. This type of influence is coercive as failure to adhere to expectations of auditors is punishable by a qualified audit report.

The influence of the community may also be considered regulative/coercive, but of a less formal variety. Here, the community’s demands can induce conformity from the local authority via their capacity to revoke powers and responsibilities of those in charge. For example, they may not re-elect a mayor or councillor, or call for the resignation of management. Thus, potentially a coercive pressure induces the local authority to conform to the demands of the community, as they are dependent on conferred community support. The communities’ expectations, norms, and values may also be captured by the cultural-cognitive pillar, as during the process of determining the local authority’s community outcomes, the criteria by which the local authority will evaluate performance is simultaneously developed. Therefore, how local authorities judge and evaluate the adequacy of their organisational practices will potentially be influenced by the perceptions and beliefs of the local community. This is because, in identifying what is important to the community, boundaries are created for what may be considered legitimate performance measures. Furthermore, because those that manage local authorities are themselves part of the larger local community, they may already share the same expectations, norms and values resulting in this external cultural framework being ingrained into their design of the organisational practices and processes.

The influence of other local authorities and the associated professional groups are part of the normative pillar. The activities that groups like SOLGM undertake can potentially shape the way that local authority managers perceive their own, and others’, organisational processes and practices and, in doing so, may create organisational norms and values. Where the professional group continually reinforce these norms and values through such activities as training and education, they create an expectation for organisations to accept and abide by these norms and values. Further, the influence of peers within other local authorities and the networks between them potentially incorporate the cultural-cognitive pillar. There may be the perception between local authorities that a particular local authority’s processes and practices are more legitimate
than others. The response to this is to attempt to mimic that particular local authority’s process, practices and/or structures and integrate it into their own internal interpretational framework, for example the utilisation of the same performance measures,

4.3 Performance Measurement and Strategy

Performance measurement in public sector entities is a complex process due to the nature of the goods and services produced. This complexity can cause the associated performance measurement systems to be difficult to implement and manage (Lawton et al., 2000; Frumkim & Galaskiewicz, 2004). Performance measurement and reporting within the New Zealand local authorities has become increasingly complex and difficult. This is especially the case under the current local government legislation which requires outcomes, as well as inputs and outputs, to be measured with an emphasis being placed on long-term outcomes and the progress made in achieving those outcomes. This legislation (LGA, 2002) does not prescribe the performance measures that local authorities have to report as it confers the power of general competence in achieving the purposes, roles and obligations that local authority has. Therefore, their performance measures should reflect the potentially differing strategies of different local authorities. For similar reasons the OAG does not specify what performance measures should be reported by local government, but do provide guidance for developing good performance measures (Office of the Auditor General, 2002). The auditors may also advise the local authorities of their expectations in respect to performance measures in the course of the audit and are thereby in a position to decide what performance measures are acceptable.

The community may also potentially play a role, both directly and indirectly, in the development and selection of their local authority’s performance measures. The LGA (2002) requires that the local authority seek to secure the agreement of various interested organisations over the monitoring and reporting procedures. The community can also influence the choice and use of performance measures via the community outcome identification consultation process. Through voicing what outcomes they want, the community potentially limits the scope of performance measures that local government can select from. Ultimately, however, local authorities appear to be free to decide how they will report their performance in achieving the

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13 Local Government Act 2002, Part 6, section 92
14 Local Government Act 2002, Part 2, section 12
15 Local Government Act 2002, Part 6, section 92(2)
community outcomes. Nonetheless, this freedom and the choices made may be constrained by how these performance measures are perceived by those within local authorities and the collective social, or group reality within the local authorities’ institutional environment.

4.4 Performance Measurement Strategies in Response to Institutional Environment Demands

Where organisations lack rigorous criteria for evaluation, organisations are likely to “embrace external referents of accountability to legitimate their operations” (Frumkin & Galaskiewicz, 2004: 285). This suggests that, as there are no explicit set of performance measures that local authorities have to use and report on, they are likely to attempt to identify performance measures that are viewed as legitimate in the eyes of their institutional environment. The conferring of legitimacy from various environmental sources: the auditors (regulative); the local community (regulative & cultural-cognitive); and other local authorities & the professional groups (cultural-cognitive pillar & normative), is dependent on how the local authority responds to the pressures and demands that each of these groups place on the local authority.

As mentioned previously (Table 1), a variety of strategies ranging from acquiescence to manipulation may be undertaken in response to the institutional pressures (Oliver, 1991). Local authorities may take the path of least resistance and ‘acquiesce’ to the institutional pressures and demands as to what are legitimate performance measures. This strategy may result in performance measure isomorphism. Further, multiplicity of legitimacy sources could result alternatively or additionally in the local authority taking steps to balance the demands and pressures of the various sources resulting in a ‘compromise’ of the performance measures demanded by the various groups including managers within its internal and external institutional environment. Oliver’s (1991) ‘avoid’ strategy could manifest itself as a decoupling of performance measurement systems resulting in at least two differing performance measurement and reporting frameworks being run by the local authority. One would satisfy the demands of the external institutional environment, and another would be comprised of performance measures actually used by the local authority and satisfy the demands of the internal technical and institutional environment.

Another strategy that local authorities could employ is to be ‘defiant’ and reject institutional norms and expectations. This could manifest itself as a refusal to adhere to

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16 The proviso being that they satisfy the ‘agreement with interested parties’ requirement of the Local Government Act 2002, part 6, section 92(2).
the criteria performance measurement suggested by its auditors or, non-conformity with the guidance and best practices developed by SOLGM. Finally, a local authority could ‘manipulate’ the institutional pressures they experience. This could be achieved by manipulating how auditors evaluate the appropriateness of performance measures, the development and promotion of alternative performance-measurement frameworks and/or actively setting out to change what the community deems to be important, in terms of the outcomes that they desire.

The complexity of the internal environment as it related to the theory (section 3) has lead to the formulation of the following propositions:

P4: The local authority managers will assume an audit mentality in response to NPM.

P5: NPM will not penetrate the activities and actions of well organised professional groups in local government.

P6: NPM pressures will be circumvented by legitimating behaviour from local authorities.

P7: NPM initiatives will be confounded by lagging knowledge and systems development

Figure 2 provides a map of the local authorities internal and external institutional environment and resultant pressures in respect of performance measurement choice and performance measurement system design. In addition, Figure 2 illustrates the local authorities institutional environment and its relationship to the local authorities performance measurement framework. It demonstrates how the three institutional pressures, or demands may impact on the local authority, the local authority’s potential strategic response to these demands (as per Table 1), and the resultant conference of legitimacy.
Figure 2: The Local Authority’s Technical and Institutional Environment and Resultant Pressures
5. Research Objective, Propositions and Method

The objective of this paper is to examine the level of discretion New Zealand local authorities have in respect of performance measurement. In doing so, investigate the role played by internal and external environmental influences in shaping the performance measurement framework of local authorities and how the local authorities react to those influences. As a means of achieving this objective, informed by the preceding theoretical framework, the following propositions, presented in Table 2. This table contains a modified version of the propositions from Lapsley’s (2008: 92) Table 2 ‘Propositions on the Future of New Public Management’. It excludes consideration of the ‘management change perspective’ and proposition 6 relating incentives and rewards as the conditions that would give rise to these propositions are not evident in the literature. The table also includes additional propositions resulting from the literature presented and arguments developed in sections 3 and 4.

Table 2 Propositions on NPM Issues Likely to Impact on Local Authorities Performance Management and Performance Measurement Systems

<table>
<thead>
<tr>
<th>External environmental issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1: There will be continuing NPM driven structural change to local authorities resulting from technical forces.</td>
</tr>
<tr>
<td>P2a: Performance measurement will continue to be an area of heavy emphasis by key NPM players resulting in performance measurement guidelines, regulation and legislation.</td>
</tr>
<tr>
<td>P2b: NPM driven performance measurement change will be influenced by external cultural frameworks.</td>
</tr>
<tr>
<td>P2c: NPM driven performance measurement change will be influenced by the values and norms of local authorities and professional groups.</td>
</tr>
<tr>
<td>P3: The local authorities will respond strategically to the external environment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal environmental issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>P4: The local authority managers will assume an audit mentality in response to NPM.</td>
</tr>
<tr>
<td>P5: NPM will not penetrate the activities and actions of well organised professional groups in local government.</td>
</tr>
<tr>
<td>P6: NPM pressures will be circumvented by legitimating behaviour from local authorities.</td>
</tr>
<tr>
<td>P7: NPM initiatives will be confounded by lagging knowledge and systems development</td>
</tr>
</tbody>
</table>
The seven propositions identified in Table 2 will evolve as the paper unfolds. These propositions are examined using qualitative and quantitative data from the 2006/07 year. The research investigated the use of performance measurement in three activities that are common to almost all local authorities as well as the performance measurement/reporting on the outcomes that each of these activities related to. The specific activities were (1) parks, gardens and open spaces, (2) libraries and (3) water supply/network.

The study adopted a qualitative case study approach (see Hoque, 2005), using two local authorities in New Zealand. Field research was conducted over a two-month period (September and October 2007) and included face-to-face semi-structured interviews with various key people within each of the local authorities. The questions asked during interviews related to: the performance-measurement selection process; the factors and influences affecting that selection process; the criteria for appropriate performance measures and how this criterion was developed; and, the use of performance measures at different levels of the organisation. The interviews were transcribed and a copy was forwarded to the interviewee to check for accuracy. Organisations were assured anonymity, thus the local authorities studied are referred to as Alpha City Council (ACC) and Beta City Council (BCC). In addition, various documentation including annual work plans; monthly/quarterly management reports; Council and Committee meetings agendas, minutes, resolutions and the supporting documentation to these meetings; the annual report; and the local authorities 2006/16 LTCCP (as required under the LGA 2002) were used as a platform for discussion during the interviews and also to triangulate the interview data.


The two local authorities examined in this study selected performance measures based on a balance scorecard-type approach utilising both financial and non-financial performance measures. These performance measures were used to measure operational performance, provide information to the council quarterly, and for inclusion in the LTCCP. The performance measures selected were also part of the report process with the local authority reporting within their organisation at the operational and council level and externally to their local community and other constituents,
6.1 Performance Reporting Systems

Both local authorities operated a hierarchical based performance measurement and reporting system that comprised three levels, which were (starting from the top):

1. LTCCP/annual report cycle (public reporting);
2. quarterly reports (council reporting); and
3. operational performance measurement system (monthly reporting).

However, the number of performance measures reported at the operational level surpassed the number of performance measures at any other performance reporting level. The performance measures captured at the operating level were used by business unit managers to: ensure that the business unit is operating to the ‘work plan’; manage and monitor the staff, the contracts and the assets; and to monitor capital expenditure (CAPEX), maintenance projects, activity programmes, levels of service, usage, quality of service, compliance to the standards set, and productivity etc. Both local authorities operated a system of monthly reporting, where the business unit managers would have monthly reports prepared that outlined the performance of their respective business units or the activities they undertook. Generally, these reports were summaries of all the operational level performance measures being collected within the particular business unit. What performance measures were being reported and the emphasis on different performance measures varied between each division of the local authority.

The council reporting level captured all the quarterly reports and any other reports furnished to the council or council committees. The content of the quarterly reports for the two local authorities was significantly different. ACC required that the progress to date in achieving the LTCCP activity-level performance measures be monitored and reported, including those which could not be measured until the end of the year. There was also an emphasis on each capital and operating project, where for every project it was reported whether the project was within budget, to schedule, to standard and an indication of what stage the projects were at. There were no other operational performance measures reported. One business unit manager expressed that they felt the ACC council was not getting a ‘good picture’ of the actual performance and activities undertaken by the business unit. While there had been some scope to ‘talk’ about the performance of the business unit, it had been communicated to the council officers that

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17 In these instances, the progress reported would state ‘A year end measure’.
the councillors were generally not looking for detailed information about individual activities.

Conversely, the BCC’s quarterly reports emphasise narrative descriptions about what the business unit did during the quarter and what they planned to do next. One operational performance measure was included for each of the significant activities reported. In addition, only the financial aspects of operational and capital projects was reported, i.e. the budget, actual and the variance, though there was scope for these to be ‘talked’ about in the narrative information. Councillors could also ask the local authority officers for any additional information they wanted.

Under the LTCCP & annual reporting cycle provisions of the LGA 2002, there are two sets of performance measures required. The first are performance measures for the activities (or group of activities) that allows for a meaningful assessment of the actual levels of service provisions. The second, the performance measures that allows an assessment of the progress towards the achievement of community outcomes. The two local authorities took different approaches to reporting ‘outcome’ performance measures. ACC chose to report triennially as a stand-alone report, while BCC reports its ‘outcome’ performance measures annually as part of their annual report. The performance measures within these reports were the result of a selection process.

6.2 Performance Measurement Selection

Both local authorities operated a balanced scorecard-type performance-measurement framework to report the performance of their significant activities described in their LTCCP and annual reports. The performance dimensions measured fall into three categories: financial measures, customer satisfaction measures and a ‘level of services’ measures.

At ACC, business unit/activity managers were requested to review the performance measures they were using and submit the activity performance measures that they wanted to be reported in the LTCCP. This information was collected by a central group. It was expressed by several officers that the ACC wanted to standardise and rationalise the activity performance measures reported so that they were only reporting ‘Key Performance Indicators’ for each activity. Two categories of performance measures, financial measures and customer measures, were applied consistently to all activities, and ACC managers selected what they perceived to be the key ‘level of service’ performance measures. These performance measures were then inserted into the
proposed “Draft LTCCP” and submitted to council for approval and to the auditors to be signed off.

The auditors did not feel that ACC had enough performance measures in their ‘level of service’ category, which was contested by the councillors and officers of ACC. However, after the auditor threatened not to sign off the LTCCP unless changes were made, ACC added more performance measures into the ‘level of service’ category, and the LTCCP was subsequently signed off. The changes were made very quickly as the planned “Draft LTCCP” was due to be signed off by the Council in the next few days and as a result, many of the LTCCP performance measures added were incorporated without further input from the relevant business unit managers. These extra performance measures were derived from the performance measures utilised by other local authorities that the auditor suggested ACC refer to.

In contrast, the process for the BCC was different. Their LTCCP co-ordinator had discussions with each of the business unit/activity managers about the appropriate performance measures required to capture the levels of service provided. The financial and customer-satisfaction performance measures were applied consistently to all activities (where it was appropriate). In addition, BCC had more contact with the auditors throughout the performance-measurement selection process where everything they put forward to the committees or the councils was reviewed. They also had more one-on-one discussions with the auditors about appropriate performance measures and the criteria that the auditors would be applying. The resulting performance measures were then included in the proposed “Draft LTCCP” and submitted to the council to be signed off.

The ‘outcome’ performance measures were essentially the same for both local authorities. After the outcomes had been identified, consultation was held between the local authority officers and the relevant external groups about how the outcomes should be measured and reported. Some of the external groups that were consulted include the regional councils, the police and the district health board. The performance measures decided on in the course of these consultations were then included in the proposed “Draft LTCCP”.

After the proposed LTCCP’s were signed off, a similar process was followed by both local authorities. The document became the Council’s “Draft LTCCP” and underwent the consultative requirements as set out by the LGA 2002. The entire document, including its performance measures was opened to community submissions, which were
then considered by the local authority officers and any necessary changes made. The LCTTP was then sent to the Council for final approval and signed off. For the 2006/16 LTCCP, both councils received very few community submissions regarding performance measures.

Several of the local authority officers stated that in determining the ‘level of service’ performance measures that they reported, the major criteria/influences on this decision revolved around the information they already collected, what performance measures they had historically reported, the feasibility of measuring new items and the availability of new, or extra information. These influences applied to the LTCCP performance measures as well as the internal operational and councillor reporting performance measures. Another major criterion was relevance. The local authority officers explained they considered whom the performance measures were for and reported performance measures that were appropriate for that audience (i.e. councillors & the community who did not want overly technical performance measures reported on). There was also the tendency to emphasise the key in ‘key performance indicators’, whereby both councils had attempted to end up with a manageable number of key performance indicators for the executive management team to monitor and manage.

In determining the actual targets for the performance measures (e.g. % of customer satisfaction, or # visitors) benchmarking was a common practice. Both local authorities and their business units were regularly comparing their performance against the performance of other city councils (or libraries) as well as their own past performance. This allowed them to compare the aspects of performance that they were measuring and reporting themselves and is related to performance measurement use.

### 6.3 Performance Measurement Use

The operational performance measures are the ones most often used by the local authority officers. These are collected more regularly and designed for the measurement of operational performance. The performance measures in BCC’s quarterly reports are derived directly from the operational performance measurement system. Conversely, ACC’s quarterly performance measures mainly comprise the LTCCP activity performance measure and targets and as such, many of the performance measures are only measured annually, though where possible, the performance ‘to date’ was included (e.g. # of physical visitors at the library). Although some of ACC’s quarterly-reported performance measures were derived from the operational level performance measures, several managers identified that these were not the ones they would necessarily use to
manage the ‘efficiency and effectiveness’ of their operations. This was the same with the performance measures reported at the LTCCP/annual report level suggesting an inverse hierarchy of the usefulness of performance measures for managing efficiency and effectiveness. Each of the three hierarchical levels are discussed in more detail below starting with the lowest, the operational level.

6.3.1 Operational Performance Measures

How the selected performance measures are used appears to be determined by the nature of the performance measure and the associated business unit/activity. For example, in the water supply/networks business unit much of the work revolves around managing capital and maintenance programmes and projects; much of which is contracted out. These programmes have undergone the necessary consultation and councillor’s approval. Therefore, the performance measures predominantly focused on by the business unit/activity manager are those that monitor the progress made in these capital/maintenance projects or programmes, i.e. that the projects were being completed to budget, to schedule and to standards. Other performance measures were used to monitor the activities the business units were performing, such as the monitoring of water quality and water pressure. Nonetheless, because of the nature of the activities within the water supply unit, the operational performance measures were predominantly exception-reporting mechanisms.

The parks and gardens business units of both local authorities utilised similar performance measures, as much of their work also revolved around the completion of capital/maintenance projects. However, the local authority officers also outlined other performance measures that were used more actively than merely for exception-reporting, that is, performance measures that potentially drive operational and CAPEX decisions. For example, one of ACC’s performance measure is that “90% of residents live within a kilometre of a park/playground”. Performance measures like these were designed to ensure that the local authority meets the communities’ needs. Within the libraries business units there was more emphasis on non-exception reporting oriented performance measures. The performance measures were used to monitor trends, actively manage resources and regularly assess their operations. Performance measures such as ‘which areas of service are being used the most’ were regularly used to make decisions about the operations of the libraries and form the basis for ‘tactical objectives’ (BCC).

These operational business units within local authorities also benchmark their performance against those of other councils. ACC’s and BCC’s parks and gardens unit
regularly benchmarks themselves against a group of other local authorities on a range of performance measures stemming from ‘high level’ performance measures like those found in the LTCCP, to very low level operational performance measures such as the cost per metre of rose gardens. Both councils libraries divisions belong to groups of libraries that regularly benchmark various elements of their performance. They were also able to compare themselves against the quality and performance standards produced by the New Zealand Libraries Association Inc (LIANZA). The ACC’s water supply business unit regularly compares customer-satisfaction performance measures, but only occasionally performs formal benchmarking for its operations.

6.3.2 Council Performance Quarterly Reporting

The quarterly reports are designed to provide an overview of the operations of the local authority to the Councillors. The nature of the two Council’s quarterly reports was very different. ACC’s quarterly reports showed the progress being made towards the performance measures/targets in the LTCCP (for their significant activities) and the ‘on time, budget, standard’ indicators for all their capital projects. While the focus of BCC’s quarterly reports was on what they had done in the period. Much of the information was narrative, and there were very few operational performance measures/targets reported (generally only one for each activity). The emphasis of the performance measures in both council’s quarterly reports seemed to be on exception reporting and they were not actually utilised for operational purposes. The way the measures were used in the LTCCP’s also supports this conclusion.

6.3.3 LTCCP Performance Measures and Reporting

Many local authority officers stated the LTCCP activity performance measures were generally too ‘high level’ for day-to-day operational use and that much like those used at the council reporting level, they were designed for a different purpose – to paint a picture of the operations of the local authority. However, some LTCCP performance measures were used at operational level with many suggesting that measures of customer satisfactions were used as a check to ensure that their operations were successful. For example, BCC’s library division used the annual LTCCP customer satisfaction measures in conjunction with their own internal customer satisfaction measures to ensure the services they were providing were meeting customer’s needs. The customer satisfaction measures were also used as part of the exception-reporting framework, whereby non-achievement of the target prompted a re-evaluation of
business unit activities. Further, customer satisfaction measures were often used to support various proposals for new projects/programmes or changes to existing ones.

In regards to the service level performance measures, several local authority officers commented that the activity performance measures reported in the LTCCP/annual reports form only a partial view of the total operations and activities of the business unit. Several managers stated that while they use several of these measures, many of them were for exception reporting purposes only. Others explained that some LTCCP performance measures were not used at all. Within ACC a couple of managers felt that several of the performance measures reported in the LTCCP were merely for compliance purposes, particular those that were added to comply with the auditor’s requirements. These were seen as not useful for operating purposes or for assessing the performance of the local authority. Thus, while several of these performance measures were, or could be derived at operational performance measurement level such as ‘number hours per week that the library is open’; or ‘water supply reliability’; these measures did not have any significant impact on business unit operations.

In terms of the outcome performance measures reported in the LTCCP, while several officers thought the outcome-achievement progress indicators were interesting, they were not the performance measures used to manage the operations of the local authority at the business unit level. This was because these outcome performance measures reflected the effects of factors beyond the control of the local authority, and because of their long-term focus, they were unsuitable for the operational day-to-day use. Their higher-level focus made them not useful for operating decisions. Thus, while the achievement of outcomes was monitored and reported on, there was little evidence they were managed or the information used at an operational level in either council.

This non-use of higher level and community-based outcome performance measures at the operational level raises the issue of ‘why’. An explanation may be provided by reference to the theoretical framework (CIT) and associated propositions developed above and the consideration of the local authorities institutional and technical environments.


A major factor that drives the performance measurement selection process for the LTCCP activities & outcomes and the internal operational performance measures is the
local authorities “technical environment”. That is, the efficiency and effectiveness considerations of the organisation (Scott & Meyer, 1983) as given in proposition one:

**P1:** There will be continuing NPM driven structural change to public services for the foreseeable future.

Several managers described these considerations as a key determinant in deciding which aspects of their performance they would measure and report on. Managers did not want to unnecessarily tie up their staff/resources with measuring new or extra elements of their performance if it could be avoided or, where the costs outweighed the benefits. Another manager commented that appropriate performance measures were those that the local authority intended to be consistently used in the future and that there should be adequate resources to continue to measure the chosen aspects of performance. Managers also tried to ensure more efficient and effective management by the executive team through having a manageable number of performance measurements.

Along with influencing the performance-measurement selection process, the technical environment also played a role in determining what aspects of the local authority’s performance are measured and reported. These technical environmental elements reveal themselves as operational level performance measures. It is these measures that the local authority officer’s use to manage the efficiency and effectiveness of the business unit operations. However, operational performance measures are not generally the ones reported in the higher, organisation level performance reports of either local authority. This would suggest that structural change is still required to facilitate achieving linkages between inputs, outputs and outcomes if effectiveness measurement is to be achieved. That is, the predominant focus of operational performance measurement and measures is on internal efficiency and not tied to specific external outcomes. This analysis suggests support for P1 as change would appear to be still required to bridge the performance measurement gap between the operational and organisational levels. Thus, the technical environment considerations are not fully reflected at these levels suggesting there are other reasons related to the local authorities institutional environment for the inclusion of the higher level performance measures. This is examined next.

**8. An Analysis of the Institutional Environment, Strategic Responses and Performance Measurement**

It has been proposed in proposition two (P2) that the selection and use of performance measures by the local authorities is also influenced by demands, or pressures from their
institutional environment. Accordingly, they will select and use these performance measurement and targets strategically. These demands were regulatory, cultural-cognitive and/or normative in nature, and the strategies used in response were acquiescence, compromise or avoidance strategies as proposed by proposition 3:

\[P3\] That local authorities will respond strategically to the external environment.

This response will be moderated by, or influenced from the internal environment (P4-P7). Where support for these propositions is found, it is indicated in the succeeding discussion.

### 8.1 Regulative Institutional Pressures

Central to the regulative pillar of the local authorities’ institutional environment is the LGA 2002, which details their performance measurement requirements. Under this act local authorities must report the performance targets and other measures by which actual levels of service provision may meaningfully be assessed. A pragmatic motivation for proposition 2a:

\[P2a\]: Performance measurement will continue to be an area of heavy emphasis by key NPM players resulting in performance measurement guidelines, regulation and legislation.

Although the legislation is non-prescriptive in terms of specific performance measurement, it exerts a regulative pressure that performance targets and measures are to be reported. The auditors also exerted regulative demands on both local authorities during the LTCCP performance-measurement selection process. However, the effect this had on the local authorities and their responses were significantly different. For both local authorities, the auditors communicated they were going to emphasise the ‘level of service’ performance measures and, suggested to both, they required more of these types of performance measures to be reported than the local authorities were proposing to report. However, with ACC, this requirement was not communicated until the proposed “Draft LTCCP” was submitted to them for review, while with BCC it was expressed earlier in the performance-measurement selection process. As these requirements were not a legislative or formal requirement, it was conveyed informally through discussions with the relevant local authority officers. However, conformity was induced by a reward-punishment system, in this case, the threat to not sign-off the LTCCP, thereby hindering their ability to collect local body rates. These findings are argued to provide partial support for \(P2a\), in that auditors, as key players, have given performance measurement a heavy due to their direct involvement in the performance
reporting processes of both organisations. Further, the two very different organisational outcomes through auditor involvement is suggestive of the need for improved guidelines and/or regulation should the auditors wish to retain their independence mantle at minimum, and for performance reporting decision usefulness at maximum.

In line with proposition 3, because of the timing differences of the communicated information, the strategic response taken by each local authority was significantly different. As the auditors were present within the council over a four-week period while performance measures were being selected, BCC involved them in the selection process. During this process, the auditors indicated that they had some strict approaches that they wanted BCC to follow regarding what should, and should not be measured, and the level of detail they required. The LTCCP co-ordinator recognised that the council needed to ensure the auditors were happy with the planned performance measures. Because of the opportunities for BCC officers to discuss with their auditors their performance measures, they could balance the auditor’s regulative demands with what they wanted to report. These actions of BCC suggest support for Proposition 4:

**P4:** The local authority managers will assume an audit mentality in response to NPM.

The response of ACC to the auditors’ demands is very different to that of BCCs. This is primarily due to ACC having little consultation with their auditors and being told, at the “11th hour”, prior to the proposed ‘Draft LTCCP’ being signed off by the Council, that they would be required to increase the number of performance measures reported. This requirement to add more ‘level of service’ performance measures was issued with a threat that, if changes were not made, the LTCCP would not be signed off. ACC’s response to this was to comply with the auditors requirements and they added more ‘level of service’ performance measures over the weekend so that the LTCCP could be signed off on the Monday (Proposition 4). These measures were selected after reviewing those of another council recommended to them by their auditors as reflecting ‘best practice,’ introducing a cultural-cognitive element into the process (Proposition 2b). Many of the changes were made without the knowledge of the relevant business unit managers, many of whom later expressed much dissatisfaction with the extra performance measures selected (Proposition 6). Several managers felt that the extra performance measures added very little to the community’s ability to make a meaningful assessment of their progress. However, despite expressing their dissatisfaction, many of these performance measures were retained and reported in the next period (Proposition 5).
Nonetheless, the auditors’ requirements were not necessarily inflexible and rigid. That, instead of merely complying with their regulative demands, a local authority (like BCC) can choose to resist the demands. Resistance, at least at a level higher than acquiescence, and balance the demands of the auditors with the desired performance measurement framework. However, this ability to compromise, or balance, requires additional resources so time can be spent discussing requirements with the auditors. ACC were not afforded this time. One of ACC’s officers stated that they felt that if they had liaised with the auditors earlier, they could have come to a more satisfactory conclusion.

Of interest in the preceding analysis, is the internal environment proposition implications of propositions on the external environment. In this case, P2a issues relating to regulation drove actions that are supportive of P4, P5 and P6. However, should the management of ACC and BCC not have hade the knowledge and/or systems in place to demonstrate a lack of connection between higher level outcome performance measures suggested by the auditors and the internally existing operational level output performance measures, the P7 might have support given the preceding results and analysis.

8.2 Cultural-Cognitive Institutional Demands

Cultural-cognitive institutional demands induce conformity because of the legitimacy attached to external cultural frameworks and form the basis for proposition 2b:

\[ P2b: \text{NPM driven performance measurement change will be influenced by external cultural frameworks.} \]

In terms of performance measurement selection, this translates into referring to an external organisation’s performance measures, or their criteria for good performance measures, and incorporating these interpretations into the focal organisation’s own performance measurement system. The auditors encouraged local authorities to refer to performance measures being reported by local authorities whom the auditors perceived to reflect best practice (Proposition 4). In doing so, the auditors were advocating reference to an external cultural framework to shape internal interpretations of legitimate performance measures. The auditors’ suggestion was not unique to ACC, they also recommended that BCC refer to the same specific local authority. However, unlike ACC, BCC resisted (defied) incorporating this external framework into their performance measurement framework, claiming that their internal interpretation of legitimate performance measures was superior.
The practice of considering other local authority’s performance measurement frameworks was not purely the result of auditor suggestions. Several business unit managers and the LTCCP coordinators for ACC and BCC explained that they regularly assessed what other local authorities were doing in terms of performance measurement, and that this assessment formed part of their process for determining the performance measures they wanted to report. Nonetheless, while these other local authority’s performance measures were potentially a source for legitimate performance measures and that benchmarking against what other local authorities were doing was generally considered good practice, the performance measures of these other local authorities were not automatically incorporated into the local authority’s performance measurement framework, as demonstrated by BCC. The general response by the local authority to the cultural-cognitive external frameworks of other local authorities was to balance these with their own internal interpretations and constraints rather than letting the external framework dictate their interpretations of performance measure legitimacy (Proposition 3 and Proposition 6).

The external cultural frameworks of the community and other interested groups also influenced how performance is measured and what performance measures will be used. This is evidenced by the opening up of the entire ‘Draft LTCCP’ for public consultation and the taking of submissions. However, the submissions were not treated as a mandate for what to measure and report. Those relating to performance measurement were assessed by the local authority officers as to their reasonableness and the feasibility of collecting that information along with whether the inclusion/exclusion of the suggested performance measure would improve the overall framework. Thus, again the cultural cognitive external framework of the communities and other interested parties were balanced with the internal interpretations of the local authority (Proposition 3, 5 and Proposition 6).

The ‘Draft LTCCP’ submissions process was not the only process used. In determining outcome performance measures, local authority officers held discussions with the external groups to whom the outcomes related. For example, for community outcomes related to ‘public safety’, BCC consulted the Police. For the community outcome related to ‘community health and well-being’, ACC consulted the District Health Board. However, these discussions were not mandates that were automatically incorporated. The performance measures the specific external groups suggested were balanced with
the internal interpretations of the local authority officers and their efficiency and effectiveness (technical) considerations.

In addition to the external cultural frameworks, cultural-cognitive elements were found to exist internal to the local authority. By disaggregating the hierarchies within the local authority, the intra-organisational demands were identified. The performance measurement process begins with the business unit managers determining how best to represent their performance in the LTCCP. These are discussed with LTCCP co-ordinator, or in ACC’s case, a central group that may have their own internal interpretations. By balancing the two cultural frameworks (business managers and LTCCP group/co-ordinator), the ‘Draft LTCCP’ performance measures are derived. However, there exists another level that has potential to influence performance measurement, the councillors who have the final say over the legitimacy of the performance measures reported in the LTCCP and quarterly reports (Proposition 6). Thus, they can impose regulative-type demands based on an external cultural framework, that of the community who elected them. Therefore, before being subject to the external cultural framework of the auditors and communities and other interested groups via the consultation processes, the performance measures selected and reported have already undergone a process by which the cultural frameworks of the three different parties directly influence and determine what they should be.

As well, the community may indirectly influence the intra-organisational interpretations of the local authority. Several local authority officers stated they did not want to include performance measures in the public or council reports that were too operational or technical, as they believed this was not what the community or the councillors wanted. Outputs and results were what the business unit managers perceived the community were more interested in and in response to this, they did not include performance measures that are overly technical or operational in nature. This suggests the local authority officers were acquiescing to and incorporating the community’s criteria for legitimate performance measures into their own internal interpretations of legitimate performance measures (Proposition 3 and Proposition 6). This analysis, resulting from an examination of results in respect of \( P2b \), further highlights implications of propositions about external environmental issues have on propositions about internal environment issues identified in the preceding section 8.1. However, as those employed by the council are part of a community, their own individual external cultural framework also forms part of the internal interpretations of
the local authority and is the basis for the values and norms of the local authority officers and councillors. Hence, they potentially share the same values and norms as the communities they are a part of or serve and as a result feel an obligation to promote and adhere to community and personal values and norms. The sharing of norms and values indicates that the selection and reporting of performance measures may also be, in part, a response to normative demands (a potential Proposition 2c interaction).

8.3 Normative Institutional Pressures

Proposition 2c states:

P2c: NPM driven performance measurement change will be influenced by the values and norms of local authorities and professional groups.

There are similarities between normative and cultural-cognitive institutional demands and the potential for an overlap between the two exists. Both types of pressures refer to a set of behaviours and interpretations that are external to the local authority, but are internalised by local authority actors. However, the normative pillar emphasises demands that result from shared values and norms of groups based on their determination of how things should be done.

A normative influence on the cultural-cognitive is evident in the criteria the auditors used to assess performance measure legitimacy. Some of this criteria was published in a 2002 guidance document (Office of the Controller and Auditor-General, 2002) that could be considered an external cultural-cognitive framework. The LTCCP coordinator for BCC considered this document in their performance measurement selection process. However, the criteria were also described as common sense, i.e. the “norm” and that there was a general expectation they would be applied and conformed to. Thus, indicating the auditor’s criteria (as a representative of an auditing professional group) could also be a normative demand, that is, shared values & norms to which conformance is expected (Proposition 4).

As normative elements have been traditionally attached to professional groups (DiMaggio & Powell, 1983; Abernethy & Chua, 1996) it was further expected that the ‘best practice’ prescriptions of related professional groups, specifically SOLGM, would impact on the performance measurement framework. However, there was little evidence to support this claim. None of the business unit managers were aware of any local authority-provided guidance they could apply specifically to performance measurement
and reporting. Only one LTCCP co-ordinator had seen any guidance, though he did not place much emphasis on it.

However, other professional groups did influence the ‘parks, reserves and open spaces’ and libraries business units. These influences came in the form of benchmarking groups, professional associations and networks formed between local authority officers. These professional groups impact more significantly on the operational performance measures than the LTCCP ones. Much of the benchmarking done by the ‘parks, reserves and open spaces’ business units focused on the operational level and what to be benchmarked was decided in advance by those taking part in the exercise. Therefore, the performance measures used were influenced by the benchmarking group. A similar process was used by the ‘libraries’ benchmarking groups. Here, the operational performance measures for the libraries. However, they were also influenced by the professional group’s (LIANZA) standards of public libraries, but were not used at the LTCCP or council level as the quality standards and performance measures outlined by LIANZA were described as generally too operational and “not what councillors were looking for” (Proposition 3 and Proposition 5).

In addition, inter-organisation networks (informal benchmarking) exist between the business units undertaking similar activities. For example, ACC’s parks business unit manager explained that it was not uncommon for them to have discussions with the parks managers from different local authorities regarding their operations, including what they were measuring, in order to determine what the best practice would be and to determine “who’s at the cutting edge and who’s doing things a bit differently”.

In line with proposition 3, the response to these normative demands was generally found to be acquiescence or conformity. For benchmarking groups, this was probably because what was to be measured was agreed upon by the benchmarking group, as well as allowing for an assessment of the performance in terms of, among other things, the local authority’s efficiency and effectiveness. This provides support for Modell’s (2001) argument that the institutional and technical environments can potentially demand the same organisational elements be incorporated. A similar argument can be made for the application of the LIANZA performance measures and quality standards.
<table>
<thead>
<tr>
<th>Institutional Pressures (Scott, 2001)</th>
<th>Type of Institutional Pressure</th>
<th>Response to the Institutional Pressure (Oliver, 1991)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulative</strong> (P2a)</td>
<td>Legislation (LGA 2002)</td>
<td>Acquiescence (ACC &amp; BCC)</td>
<td>Acquiescence as auditors check legislative compliance to report performance measures relating to actual level of service provision which local authorities must comply with</td>
</tr>
<tr>
<td></td>
<td>Auditor's requirements on 'level of service' performance measure</td>
<td>Compromise (BCC)</td>
<td>While recognising that they had to conform to the requirements of the Auditors, BCC involved the auditors and held discussions with them regarding their performance measures. The result was a balance between auditor-required performance measures and BCC's desire to keep a manageable number of performance measures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acquiescence (ACC)</td>
<td>Though there was some dissension from the councillors and officers, ACC conformed with the auditors requirement to included more performance measures to the 'level of service' category of performance measures</td>
</tr>
<tr>
<td><strong>Regulative/Cultural-Cognitive</strong> (P2a/P2b)</td>
<td>Auditor's performance measurement selection criteria</td>
<td>Compromise (BCC)</td>
<td>Recognising they had to conform to the criteria of the Auditors, BCC involved the auditors and held discussions with them regarding their performance measures. This resulted in a balance between the auditors criteria and BCC's internal interpretations of what were legitimate performance measures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acquiescence (ACC)</td>
<td>When selecting auditor-required extra performance measures, ACC selected performance measures being reported by the 'best practice' local authorities</td>
</tr>
<tr>
<td><strong>Cultural-Cognitive</strong> (P2b)</td>
<td>Other local authorities performance measurement framework</td>
<td>Compromise (ACC &amp; BCC)</td>
<td>In the performance measurement selection process, both local authorities referred to other local authorities for potential legitimate performance measures. These were not automatically incorporated and were balanced with the local authorities technical environment considerations &amp; internal interpretations of performance measure legitimacy</td>
</tr>
<tr>
<td>Institutional Pressure (Scott, 2001)</td>
<td>Type of Institutional Pressure</td>
<td>Response to the Institutional Pressure (Oliver, 1991)</td>
<td>Description</td>
</tr>
<tr>
<td>------------------------------------</td>
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<td>-----------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Cultural-Cognitive (P2b)</td>
<td>Draft LTCCP submissions</td>
<td>Compromise (ACC &amp; BCC)</td>
<td>Local authorities balanced the submissions with the efficiency and effectiveness (technical) considerations and internal interpretations</td>
</tr>
<tr>
<td>Interested parties discussions (outcome measures)</td>
<td>Compromise (ACC &amp; BCC)</td>
<td>Local authorities balanced the performance measures that were discussed with the interested groups with the efficiency and effectiveness (technical) considerations and internal interpretations</td>
<td></td>
</tr>
<tr>
<td>Individuals within the Local Authority</td>
<td>Compromise (ACC &amp; BCC)</td>
<td>Within the local authority, the business unit managers and the LTCCP coordinator (or central group) balanced their individual internal interpretations of legitimate performance measures with others</td>
<td></td>
</tr>
<tr>
<td>Cultural-Cognitive/Normative (P2b/P2c)</td>
<td>Cultural framework &amp; Values and Norms of the Communities</td>
<td>Acquiescence (ACC &amp; BCC)</td>
<td>Local authorities reported performance measures that they believed were at an appropriate level for the communities; i.e. not too technical/operational in nature</td>
</tr>
<tr>
<td>Cultural framework &amp; Values and Norms of the Inter-organisational networks</td>
<td>Compromise (ACC)</td>
<td>Informal discussions with other local authority managers developed performance measures that were potentially viewed as norms</td>
<td></td>
</tr>
<tr>
<td>Auditors published guidelines</td>
<td>Acquiescence (BCC)</td>
<td>BCC’s LTCCP co-ordinator explained that while the guidance of the auditors was considered and incorporated into the performance measurement framework, the guidance was relatively common sense; a value or norm which could be expected to be applied based on the auditing groups view</td>
<td></td>
</tr>
<tr>
<td>Benchmarking Groups Recommendations</td>
<td>Acquiescence (ACC &amp; BCC)</td>
<td>The performance measures that were agreed on by the benchmark group were measured by the local authorities.</td>
<td></td>
</tr>
<tr>
<td>Other Professional groups norms &amp; values</td>
<td>Acquiescence (ACC)</td>
<td>ACC measured the operational performance measures prescribed by LIANZA so that they could benchmark themselves in terms of quality and service standards</td>
<td></td>
</tr>
</tbody>
</table>
8.4. Strategic Responses to Internal and External Institutional Pressures – Acquiesce, Compromise and Avoidance

P3: That local authorities will respond strategically to the external environment.

Table 3 above provides summary of the findings related to propositions 2a to 2c in sections 8.1 to 8.3 above relating to the institutional pressures exerted on the two local authorities and how each local authority responded. The table incorporates Scott’s (2001) three pillars and associated institutional pressures (individually or combined), and Oliver’s (1991) responses to these institutional pressures (table 1). As is shown, the dominant strategic response to the institutional pressures was to become acquiescence to demands (isomorphism) or compromise (balance) these institutional demands with the council’s own internal interpretations and technical environment considerations.

The institutional pressures as illustrated in Table 3 play a large role in the selection of performance measures. However, another strategic responses to these various institutional pressures was found to exist and related to the internal performance measurement hierarchy, specifically the three levels: operational, council quarterly reporting and LTCCP/annual reporting.

The focus of the operational performance measures and the monthly reports revolved around the efficiency and effectiveness of the operations (i.e. the technical environment). However, very few ‘technical environment’ based performance measures were found at the higher externally-focused LTCCP/annual report level. Many of the latter performance measures focused on organisational results and outputs, rather than being measures that allowed for an assessment of the efficiency or effectiveness of the operations. This general lack of the ‘technical environment’ performance measures at the LTCCP level, as explained by the local authorities was to enable conformity to, or a balancing of the institutional demands (as per Table 3). This suggests the LTCCP/annual reports have purposely been decoupled from the operational performance measurement level. Alternatively, a lack of training in linking inputs to outputs to outcomes combined with limited systems knowledge may account for this decoupling.

Meyer and Rowan (1983) and Oliver (1991) describe decoupling as a response to institutional pressures and a strategic choice based on avoidance to maintain legitimacy. This research suggests that decoupling was a result of the local authority implementing acquiescence and compromise strategies in response to the institutional demands. The local authorities did not incorporate the majority of operational performance measures
into the higher level reported performance measurement frameworks because these were not what were being demanded by the institutional environment. Therefore, the decoupling the operational performance measures from the LTCCP/annual report and council reporting performance measurement systems were actually in line with the institutional demands. As indicated in proposition 7: *NPM initiatives will be confounded by lagging knowledge and systems development*, this decoupling may be temporary or a lag, that is attributable to a delay in the local authorities operationalising the requirements of the LGA (2002). The possibility of a lag and its implications requires further research.

Nonetheless, the impact of the decoupling was minimised by the business unit managers’ emphasis on activity performance measures. They explained that by achieving their targets for their activities, they were contributing to achieving the local authorities outcomes. Thus, although the outcomes performance measures (at LTCCP/annual report level) and the operational performance measures were not directly linked, it could be argued that they were indirectly linked suggesting the possibility of loose decoupling between the two performance measurement systems (refer to analysis contained in sections 8.1 to 8.3). While these findings add support for P4, P5 and P6, they may also be confounded by P7. That is, the influence of the auditors may have been enhanced through local authority staff not having accumulated the level of knowledge and or performance systems development capacity necessary to sustain an argument that would allow the auditors to support their selection of performance measures.

### 9 Discussion and Implications for Local Authority Performance Measurement

Figure 3 presents a summary of the technical and institutional pressures found to influence the local authorities performance measurement framework and their strategic response to these pressures as explained in this section. It demonstrates that the auditors exert different kinds of institutional pressures on the local authorities and play a key role in their performance measurement frameworks. Figure 3 also shows that institutional pressures mainly impacts the upper levels of the performance measurement framework, that of the public and council (organisational) level, while the technical environment has more influence on the operational level. This leads to an internal avoidance strategy between these levels. In contrast the local authority employs an

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18 See section 8.3.4: LTCCP performance measure use, for how these performance measures were used.
acquiescence, or compromise strategic response to the institutional environmental
demands with the choice of strategy dependent contingent situation.

9.1. Summary of propositions
In relation to the seven propositions, it was found that:

<table>
<thead>
<tr>
<th>External environmental issues</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1: There will be continuing NPM driven structural change to local authorities resulting from technical forces.</td>
<td>Yes</td>
</tr>
<tr>
<td>P2a: Performance measurement will continue to be an area of heavy emphasis by key NPM players resulting in performance measurement guidelines, regulation and legislation.</td>
<td>Yes</td>
</tr>
<tr>
<td>P2b: NPM driven performance measurement change will be influenced by external cultural frameworks.</td>
<td>Yes</td>
</tr>
<tr>
<td>P2c: NPM driven performance measurement change will be influenced by the values and norms of local authorities and professional groups.</td>
<td>Yes</td>
</tr>
<tr>
<td>P3: The local authorities will respond strategically to the external environment.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal environmental issues</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>P4: The local authority managers will assume an audit mentality in response to NPM.</td>
<td>Yes</td>
</tr>
<tr>
<td>P5: NPM will not penetrate the activities and actions of well organised professional groups in local government.</td>
<td>Yes</td>
</tr>
<tr>
<td>P6: NPM pressures will be circumvented by legitimating behaviour from local authorities.</td>
<td>Yes</td>
</tr>
<tr>
<td>P7: NPM initiatives will be confounded by lagging knowledge and systems development.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

9.2. Implications
The impact that the institutional demands or pressures have on the local authorities’ performance measurement and reporting frameworks is both positive and negative. One of the positive effects of the institutional demands is that, in the absence of prescriptive performance measures, local authorities have a set of external referents or influences that guide them towards developing a legitimate performance measurement framework. This results in performance measures being reported that are potentially more relevant and useful for the local authorities constituents and other interested parties. Another positive effect was that some of the institutional environment demands became aligned with technical environment demands, and hence compromising and/or acquiescing to the institutional pressures may result in the operations of the organisation becoming more ‘efficient and effective’. On the negative side, one effect of the institutional
Figure 3: Summary of the Technical and Institutional Pressures and Local Authority Strategic Responses
demands is that conformity to these demands by compromising and/or acquiescing potentially results in performance measures being adopted that are neither very useful nor relevant for the local authority, the community, or any other interested parties. This negative effect was particularly found to exist in ACC where performance measures were adopted after referring to the external cultural framework of another local authority after a regulative demand by the auditor required ACC to add ‘extra’ performance measures.

In addition, there was evidence that indicates that the ability of the local authorities to resist the institutional demands were different for the two local authorities. The primary deciding factor appears to have been time. The amount of time that local authorities had to balance institutional demands, particularly the regulative demands, was a major factor in how they responded to these institutional demands. By having more resources and time to spend, local authorities may be able to compromise with the regulative demands. Furthermore, where local authorities have more resources and time they may be able to refer to many more external cultural frameworks (cultural-cognitive) and further explore the ‘values and norms’ held within their communities (normative), which would also place them in a better position to more actively resist or better satisfy institutional demands.

Another interesting result was that the various demands, criteria and requirements of the auditors are captured by all three institutional environmental pressures. First, they encouraged local authorities to refer to external cultural frameworks when determining their performance measures, going as far as to recommend specific local authorities they believe to reflect ‘best practice’ (cultural-cognitive). Second, they produced guidelines and criteria that were potentially viewed as common sense; i.e. shared values and norms, for which an expectation or obligation to conform to exists (cultural-cognitive & normative). Third, they operate a reward-punishment system that allows them to induce conformity with their demands (regulative).

The implication of this is that auditors potentially play an influential role in the performance measurement framework developed by the local authorities, at least at the LTCCP level. This highlights how important it is that their demands, criteria, and requirements are legitimate, as these are what local authorities assess the legitimacy of their own performance measure framework against. It also highlights the need for the auditors to realise that the recommendations they make, while they may not be intended to be binding and mandatory, may still potentially have that effect. The research also
highlights that managers emphasise activity performance measures over the outcome performance measures and that the outcome performance measures were generally decoupled from the operational performance measures. The addition of outcome reporting in the accountability requirements contained within the LGA 2002 implies there should be a shift in what local authorities focus on. While there was some recognition that they should focus on outcomes, the response has generally been to concentrate on achieving at the activity/operational level with the belief that outcomes will follow.

Lastly, this research supports the contention that the three types of institutional pressures do not necessarily operate in isolation. Some performance measures were selected because of a cumulative effect of multiple institutional pressures. However, in contrast to Oliver’s (1991) continuum it demonstrates that while organisations experienced external institutional pressures and respond in a particular way, that by also considering the intra-organisational behaviour these institutional pressures also exist internally between the individuals and hierarchies within an organisation.

10. Conclusions
The objective of this study was to investigate the role internal and external environmental influences play in shaping the performance measurement framework of local authorities and how the local authorities react to these influences. Using a CIT framework, this research proposed that performance measurement frameworks within local authorities were subject to technical and institutional environment demands or pressures, and that they strategically responded to those pressures. Although subject to the usual case study-based limitations including non-generalisability and selection and researcher bias, it was determined that both local authorities examined, operated a three level performance measurement framework consisting of an operational, a council and a public (LTCCP/annual report) performance measurement level. At the council and public reporting levels, institutional environmental demands dominated the technical environmental demands in terms of what aspects of performance would be measured and selected. A variety of institutional regulative, cultural-cognitive, and/or normative pressures and demands were identified with the general strategic response to these demands, at all levels of performance measurement, was to either conform (acquiesce) to them or balance (compromise) them with internal interpretations, technical environment considerations and other institutional pressures.
Furthermore, conflicting institutional and technical demands within the LTCCP/annual report activities performance measurement system and the strategic responses taken by the local authorities resulted in the operational performance measurement system being decoupled (or at least loosely coupled) from the council and public performance measurement systems. Nonetheless, the decoupling identified here was an effect of other strategic responses to institutional pressures, not the response itself.

The operational level of performance measurement was dominated by the technical environment demands, and the institutional pressures identified at this level promoted ‘efficiency and effectiveness’ thus aligning them with the technical environment. Additionally, the multiple institutional demands resulted in performance measures at the LTCCP/annual report & council reporting levels that were not reflective of local authority activities. Of these institutional pressures, cultural-cognitive and normative demands potentially result in performance measures that best reflect those that communities and councils are most interested in; that is, the most legitimate. Regulative demands potentially frustrate the process as they can result in performance measures being incorporated that are neither useful nor relevant to the local authority or its constituents.

A key contribution of this research has been the development and application of a CIT framework. This framework revealed that performance measurement frameworks of local authorities are subject to multiple, and sometimes conflicting institutional pressures as well as the demands of the technical environment. It also identified the potential for institutional pressures to exist internally and for the local authorities to have a range of strategic responses to them.
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McKinlay, P. 1998. Local Government Reform: What was ordered and what has been delivered. Part Two. This paper was commissioned by Local Government New Zealand.


